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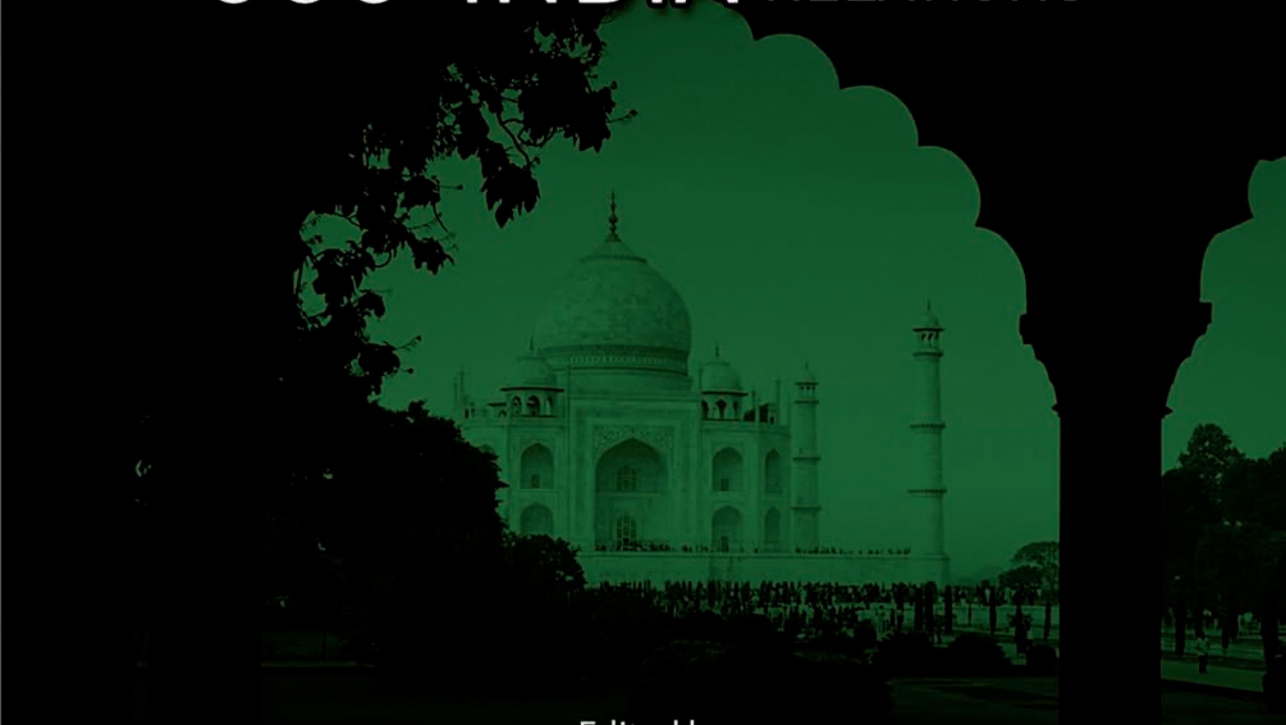
GCC-INDIA RELATIONS



Edited by

Ranjit Gupta and Christian Koch

GCC-India Relations

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By publishing this volume, the Gulf Research Center (GRC) seeks to contribute to the enrichment of the reader’s knowledge out of the Center’s strong conviction that ‘knowledge is for all.’

”

Dr. Abdulaziz O. Sager
Chairman
Gulf Research Center

About the Gulf Research Center

The Gulf Research Center (GRC) is an independent research institute founded in July 2000 by Dr. Abdulaziz Sager, a Saudi businessman, who realized, in a world of rapid political, social and economic change, the importance of pursuing politically neutral and academically sound research about the Gulf region and disseminating the knowledge obtained as widely as possible. The Center is a non-partisan think-tank, education service provider and consultancy specializing in the Gulf region. The GRC seeks to provide a better understanding of the challenges and prospects of the Gulf region.

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1

Enhancing GCC-India Ties: A Gulf Perspective

Christian Koch

In June 2009, the Gulf Research Center and the Ministry of External Affairs of India joined forces for an 18-month joint research project on the topic of 'GCC-India Relations.' The primary objective of the research team was to assess and analyze the current trends and patterns of GCC-India relations from an economic, political, security, educational, cultural, environmental and international political-economic perspective and to produce a study that set forth near- and medium-term policy prescriptions of how to improve and deepen the current multifaceted relations. During the time that the team worked together, particular emphasis was given to identify the potentials as well as challenges that exist in the Gulf-India relationship and visualize a future trajectory to devise enabling policy regimes.

The broad themes covered during the work of the project group included the following: the status of political relations in terms of the changing geopolitical spectrum and shifting foreign relations in a globalized era; security and strategic aspects given both the continuation of traditional as well as the rise of non-traditional security threats and the importance being assigned to the regional security of the Gulf region and the South Asian sub-continent; the wide spectrum of economic relations with a specific focus on enhancing trade ties, broadening investment, and dealing with the issues of labor supply; the central role being played by energy security and the related issues of environment challenges and climate change; and finally, the social and cultural component including the role of educational cooperation, the social implications of the large Indian presence in the Gulf, and the need for a new public diplomacy strategy to enhance understanding and build people-to-people contact.

Each of the above topics was dealt with in papers prepared by specialists from both the Gulf and the Indian sides and then discussed in three working group meetings held at the Gulf Research Center in Dubai in June 2009, at the Indian Council for World Affairs in New Delhi in January 2010, and at the Secretariat of the Gulf Cooperation Council in Riyadh in October 2010.

The following is a broad summary of the deliberations that took place with the emphasis here being on the perspective from the Arab Gulf states. Each of the papers prepared under the auspices of the study group is reproduced in the volume for further reference. Each of these papers contains a wealth of information and a number of policy prescriptions that are addressed to the policy officials on both sides. In order to highlight those recommendations, they are listed in a special section for easier reference. It is hoped that in this way, the GCC-India study group will have contributed in a substantive manner to developing what it considers a vital and strategically important relationship.

An Emerging Partnership

GCC-India relations have a long history and there exists a certain familiarity with one another. These historical ties provide the basis for the willingness to build strong relations between the two sides. Certainly, the GCC states are crucial to India in terms of energy supply and labor remittances while India has played a pivotal role in the transformation of the Gulf by being the source of skilled and non-skilled labor supply and high degree of technical expertise.

In more recent times, the Arab Gulf states and India have been drawn even closer together. In addition to the distinct determination to promote national development and expand economic ties, relations have been supplemented by a common desire for political stability and security in their immediate territories and in their adjoining neighborhoods. Moreover, there is the growing recognition that events in one region do have a direct impact on the other region. In this context, the tremendous changes that have impacted the globe as a whole and have eliminated borders to an unprecedented degree have also left their imprint on the status and outlook for GCC-India ties. Given their close complementarities, the

GCC states have a distinct interest in developing their relations with India by also making it a part of a wider "Look East Policy." The GCC's shift towards Asia for both economic as well as strategic reasons is logical and necessary as is the rising attention that India is paying to the Gulf. The result is that there now exists a joint interest in meeting and devising common or at least overlapping policies that can meet the challenges of the current emerging international political and economic order. Moreover, policy officials on both sides now recognize that these challenges cannot be met alone and that across-the-border cooperation must be envisioned to act as a driving force in pushing the two sides closer together.

At the same time, it must be acknowledged that the current level of cooperation between the GCC and India remains underdeveloped and insufficient. What has not been put into place is a commitment by the two sides to elevate ties to a strategic partnership. Rather, what exists at the moment is an amalgam of ad-hoc and individual uncoordinated approaches without a clear sense of direction. Recent pronouncements that both sides are keen to continue working towards bringing mutual ties to a higher level have so far not produced tangible results. Thus, despite all the commonalities and similar interests, a more concerted effort is required to overcome the obstacles that continue to persist and chart a more clear course for the future.

To outline a forward path for India-GCC relations, it is first necessary to understand where those ties currently stand. GCC-India relations certainly do not exist in a vacuum but have progressively diversified into a wide array of areas. Some of the numerous points of contacts that have been developed include the Framework Agreement for Economic Cooperation of 2004; the GCC-India Political Dialogue held on the sidelines of UN meetings; the semi-annual conference for industrialists attended by the respective ministers of trade and commerce; the GCC-India Economic Forum; and the hundreds of agreements on the bilateral front between individual GCC states and India that have been signed. As a result, there is a strong foundation for GCC-India relations from which broad-based ties can be developed further.

The basis for the relationship of course remains trade and commerce where overall volume has increased exponentially over time, specifically in recent years. The bilateral trade volume now reaches just above $120 billion and is thus at a level comparable to that between the EU and the GCC and well ahead of that between the GCC and the rest of Asia as well as America and other parts of the world. The figure itself represents a twenty-fold increase over where trade levels stood just a decade earlier. Such strong trade ties exist in addition to and not only because of the Gulf's central position in world energy exports. Commercial ties contain their own momentum outside of oil and gas. Naturally, energy ties are critical as India's rising energy demands and the Gulf's readiness to meet this demand are complementary factors also driving the two sides together. In fact, trade and investment and energy ties must be viewed as two sides of the same coin. Taken together, there are still a variety of new opportunities for better cooperation in business that need to be exploited including the further consolidation and expansion of business-to-business contacts, for example, at the level of business councils.

In addition to economic ties, recent years have also seen political and strategic ties expand and deepen given the shifts in the international arena. Some of the key developments have been the historic visit of the Custodian of the Two Holy Mosques, King Abdullah of Saudi Arabia, to India and Asia in 2006 and the reciprocal visit of Indian Prime Minister Manmohan Singh in 2010, the first of an Indian Prime Minister since 1982. During the latter visit, Saudi Arabia and India announced the intention to elevate their relations to that of a strategic partnership. In addition, there have been visits by leaders of almost all the GCC states to India in the last five years. Further, at the multilateral level, the GCC has been a consistent supporter of India being granted observer status in the Organization of Islamic Cooperation (OIC).

The determination to chart closer relations at the political and security level is defined by the emerging challenges that both sides face in the form of terrorism and extremism, the threat from non-state actors such as pirates, as well as the unsettled regional neighborhoods that continue to defy efforts to bring about greater stability. Both India and the GCC states have come to understand that they must assume greater responsibility when it comes to the security issues within their own neighborhood.

Moving Forward

Given these realities, it becomes possible then to outline areas where relations could and need to be developed. The bottom line in this regard is that while there is no doubt that relations have advanced, there is still a long way to go to improve cooperation and to make ties more tangible. In this context, GCC-India ties should no longer solely be viewed in the context of mutual benefit and individual interest but through a common approach that maximizes synergy and heightens shared benefits. Furthermore, there is a need for more structured mechanisms that will allow relations to move away from their prevailing ad hoc character with no real sense of direction or concrete set of concrete benchmarks to meet.

One key area where urgent action is required is the political front where current relations continue to lack any sense of enthusiasm or urgency. While there certainly has been an expansion of political ties in the past few years, such as the Riyadh Declaration issued during the visit of Indian Prime Minister Manmohan Singh to Saudi Arabia in 2010 and the coordination between Saudi Arabia and India in terms of the 2010 G-20 summit meeting, there still does not exist a more formal and regularized exchange of views that can be considered truly political in nature. Political ties have not received sufficient attention and they appear in fact to be relegated to a reduced status. This has direct consequences. For example, the fact that free trade area negotiations between India and the GCC have not moved forward is due as much to the complicated economic issues involved as to the lack of political will exhibited by both sides to move the negotiations to a fruitful conclusion. Therefore, it is imperative that the current stagnation and complacency when it comes to enhanced political ties be removed.

There are two inter-related questions that must be raised here. Why have political relations suffered from this lack of enthusiasm and why has there not been a more concerted effort to deepen relations at this level? For the GCC states, it remains unclear, for example, where the Arab Gulf states rank in terms of India's overall priorities with the result that there is a feeling of disconnect between official statements and actual policy. In the same context, the GCC states still see themselves as not being taken seriously as independent actors given the unclear sense of prioritization. This in turn leads to perceptions that decisions are made elsewhere when it comes to the Gulf and that the GCC states are still seen primarily as payers and not as players.

The second question relates to where the initiative to break the deadlock should come from and whether it is really acceptable that one side waits for the initiative or movement of the other as it currently appears to be the case. If one takes the two questions together, it is clear that for the GCC states, it is no longer sufficient for India to see the Gulf as an export market for its products and its labor but not to back up those national interests with a clear political strategy and commitment. For India, the importance of concentrating on providing a political dimension to the existing relationship holds within it a specific relevance given the importance that the political aspect plays for the ruling families in the Gulf region. While general economic and trade ties have grown over the years, even these ties cannot reach their full potential without the whole-hearted political backing of the respective leadership. This is even more so the case as far as the GCC states are concerned.

Enhanced political ties are absolutely essential given the fact that the international community is currently undergoing a widespread shift away from traditional centers of power to a yet-to-be determined distribution of power within the international system. Such a shift opens the door for both sides to balance their relations under a whole new set of circumstances and to calibrate their respective national interests to greater effect. From an Arab Gulf point of view, India is being viewed as a possible conduit or bridge to overcome existing and new challenges that have arisen as a result of the shifting different strategic environment. There are definite opportunities that India and the Gulf need to take advantage of.

In the above context, there is a need to consider holding annual GCC-India summit meetings rather than the individual state-to-state meetings that have been held so far. In addition, regular working groups should be established at the ministerial and political heads of department level in order to better coordinate views and move towards stronger institutional relations. Such regularized institutionalized settings will give each side the chance to assess and learn about each other's positions and construct a viable foreign and security policy.

Within the political dimension, there is also a need for a more concerted public diplomacy campaign from both India and the GCC that explains the positions of the one side vis-à-vis the other on key issues and which ensures that those positions are then adequately understood not only by the leadership but equally by the public as a whole. The fact remains that as it stands the Gulf actually knows very little about India and a similar lack of understanding about the views and developments in the Gulf exists as far as India is concerned. In this context, much better use must be made of the Arab and Indian media to enhance the level of communication and to convey messages. Another measure to be considered is stronger relations between the diplomatic institutes in the countries to enhance training opportunities and generate exchanges at the junior diplomat level. Outside of the political front, security issues and international politics loom large. On the security front, the areas of counter-terrorism, countering organized crime such as illicit drug smuggling, money laundering, human trafficking and counterfeiting are all areas that require more attention and better cooperation. Expanded military-to-military cooperation, for example, to combat piracy certainly should be discussed. Overall, there is a feeling that a strategic dialogue on maritime security that includes the vital area of energy security is required as two-thirds of India's energy needs come from the Gulf region via sea lanes. This issue should be given particular urgency given the importance of the issue for the economic well-being and survival of both sides. A strategic working group on this topic should, therefore, be set up.

In terms of regional security, no issue threatens the security and stability of the Gulf more than the potential nuclear weapons program of Iran. Close coordination is needed on this front as attempts are made to avoid a further slide into the nuclearization of the Gulf as well as its impact on adjoining regions. Cooperation on the Iran issue should also spill over into other domains and lead to better coordination in the international arena where India and the GCC have to play stronger and more determined roles. As the world continues to grapple with re-evaluating current models of economic growth, voices from India and the GCC must be considered and coordinated. Further, there should be better coordination of development assistance policies so as to ensure broader implementation and effectiveness given the GCC's role as one of the leaders in global development assistance.

Constant exchanges of views are critical to eliminate existing perceptions and chart a more structured forward-looking course for the immediate future. While there is still a feeling in the Gulf that India's foreign policy is too Pakistan-centric (for example, when it comes to the issue of Afghanistan), the Indian side's view is that the GCC states remain too reliant on the United States and that they have failed to properly diversify their foreign relations. Yet, the current strategic environment in the Gulf is one that is undergoing subtle changes and is moving from bilateral dependence to one more characterized by multilateral dependence. The United States will certainly continue to play a central role as far as regional Gulf security is concerned but there is also an increasing "internationalization" of the Gulf due to both internal considerations, i.e. the lessening of the dependence on the US by the GCC states, and external factors, i.e. the push by other states into the region. To be sure, the US security umbrella no longer provides the full comfort zones that the GCC states require and expect. Regular exchanges and meetings can provide the proper perspective and understanding for such changing circumstances.

On the economic front, one imperative is to review the status of the GCC-India free trade agreement where no noticeable progress has been achieved since 2006. The trade potentials in the GCC-India relationship could all be expanded if the trade agreement is signed as it would provide the framework for the development of a diversified trade profile and for the implementation of trade liberalization measures. The fact that only three rounds have been held in the FTA talks is a clear indication that the necessary political will to push ahead with negotiations is not present and that the need for such a framework document is not recognized. With the GCC countries literally stepping around India and developing their ties with a variety of East Asian countries, foremost among them China and South

Korea, there is a sense in the Gulf that India must take the initiative to confirm its commitment that an FTA is wanted, necessary, and mutually beneficial. Substantive negotiations can only be conducted and brought to a successful conclusion if there is a concerted push by both sides to overcome potential domestic opposition based on the recognition that a FTA is in the interests of both sides.

Outside of the FTA, the GCC states are willing to explore better commercial ties and expand investment opportunities. As mentioned earlier, key emphasis must be laid on promoting the work of the various business councils on both sides as their role has been far from effective until now. It is within the context of such institutional mechanisms that concrete proposals can be put forward and discussed. For a more extensive discussion of the economic issues and the opportunities that exist, the respective papers in this volume should be consulted.

Two other areas are worth mentioning here. Given the challenges from economic growth, sustainability and climate change effects, the GCC and India must look into better coordinating their environmental management approach and implement the necessary policies. Again, the papers in this volume discuss this matter in greater detail than is possible here. Certainly, the environmental challenges can also be approached through better education which is the second area that also remains underdeveloped. Therefore, in addition to what already exists, the establishment and funding of Indian and Gulf Studies programs on both sides and within respective national educational institutions, and more widespread and active student and teacher exchanges are essential to provide the overall India-Gulf relationship a proper foundation.

The bottom line is that it is time for the GCC and India to look for new ways to enhance their already existing and, in many areas, profitable relations. Given their complementary interests and their pragmatic approach, there is no reason that GCC-India ties cannot reach new heights. What is required is a more pronounced commitment from each side to enhance relations within the framework of an action program that sets clear goals to be achieved. It is sincerely hoped that the contribution made within the context of the GCC-India project group will enhance and promote this effort.

2

A Strategic Partnership between India and the GCC Countries: An Indian Perspective

Ranjit Gupta

Three meetings were held in a pioneering attempt to jointly study the possibilities of upgrading relations between India and the GCC countries to move further towards fulfillment of the absolutely enormous potential that remains to be unlocked. The Gulf and Public Diplomacy Divisions of India's Ministry of External Affairs and the Chairman and the Director of International Studies of the Gulf Research Center, Dubai, deserve great appreciation for making this project possible. Thanks are also due to all the participants for their diligent contributions to the project.

I am venturing to do some loud thinking about possibilities for the nature of the relationship in the future in the context of what has happened in the past, existing ground realities, and emerging challenges and new opportunities.

India shares with the GCC countries socio-cultural commonalities and compatibilities, geographical proximity, and continuous and close people-to-people interaction ever since history began. Islam came to India very soon after this great religion emerged in Arabia and today India is home to almost 160 million Muslims. Such linkages cannot be matched by any major power in the world. Despite this background, in contrast to most world powers, India has never sought domination or self-interested influence in the cultural, economic, political, natural resources or territorial domains in this region at any time. Indeed, until the discovery of oil in the region, India was among the preeminent 'givers' to the region.

West Asia and South Asia have been the theaters of non-stop conflict since the end of World War II: notwithstanding five wars imposed on India; India being made the focus of terror attacks instigated from abroad for the past three decades; India's neighbors suffering repetitive bouts of internal instability with the fallout inevitably affecting India; and, India being a more diverse country than any other in the world, India has been a model of political stability in a particularly unstable and dangerous neighborhood. Similarly, despite continuous tumult in its neighborhood such as the fallout of chronic internal instability in Palestine, Lebanon and Yemen, the six decade-old standoff between Israel and the Palestinians, the Islamic Revolution in Iran and the subsequent decade-long Iran-Iraq War, the Iraqi attack on Kuwait, and the more recent US invasion and occupation of Iraq, the GCC region has also exhibited admirable internal stability, notwithstanding its remarkable diversity marked by the huge number of foreigners of multiple nationalities living in it. The leaders of the GCC countries and India obviously have been able to strike a rapport with their peoples; this is yet another important similarity that India and the GCC countries share.

As far as the contemporary scenario is concerned, the six GCC countries collectively constitute India's largest socio-economic partner in the world as manifested by five sets of facts:

In 2009, the UAE became India's largest trade partner and also the leading destination of India's exports, with Saudi Arabia emerging as the fourth largest trading partner. India's trade (oil and non-oil) with GCC countries valued at more than $120 billion outstrips the financial volumes of trade ties that India has with any other region of the world. (India's trade with the economically dynamic Asia-Pacific Region is much talked about in India, in the region and even in the world, but India's total trade with Asean countries, China, Japan, South Korea and Taiwan put together is less than India's total trade with the six GCC countries). Though India is only the GCC's fifth largest trading partner – the other four leading trade partners of the Gulf countries (the EU, the US, China and Japan) are all major global trading entities and, therefore, their high ranking is understandable. However, India ranks relatively low among the world's leading trading nations and, therefore, this statistic of GCC trade with India underlines the enormous significance of this trade relationship for both sides which has grown 20-fold in the last decade.

Almost 6.5 million Indians live in the GCC countries; they constitute about 40 percent of the total expatriate population of GCC countries; the proportion of Indians relative to other expatriate nationalities has been steadily increasing; Indians are the largest expatriate group in each GCC country. On the one hand, this data clearly reflects a sense of confidence in India and Indians, and on the other, the diaspora factor, the fate and wellbeing of such huge numbers, alone and by itself, underlines a democratic India's very high stakes in political stability in the GCC countries.

Almost 80 percent of India's hydrocarbon imports come from the Gulf region. India's needs are rising and this proportion is certain to rise further. Since the main source and a market constantly increasing in size are geographically neighbors, more than any other source or market for either side, a mutually beneficial energy relationship is likely to remain central to India-GCC relations.

More than 50 per cent of all flight connections to and from India are between India and the six GCC countries.

At around 160 million, India probably has the world's second largest Muslim population, which is also almost 10 percent of the world's total Muslim population. These significant facts are insufficiently known in the Muslim world and even in the Gulf region. India has been the preeminent target of Pakistan-based and patronized religion-oriented terrorism. Therefore, the Islamic factor is very important and is going to loom larger in India's internal stability and external security calculus in the future. Since the Gulf region is the heartland of Islam, India's relationship with the region has to take into account this particular aspect and related sensitivities.

Thus, in a rapidly globalizing world where individual national economies are increasingly an integral part of larger regional economies, India and the GCC countries seem to be natural partners in a common economic future, and, ultimately, in a shared strategic destiny as will be readily evident from the facts I have just outlined.

This current mutually beneficial and rather satisfying relationship has evolved incrementally over the decades but in a largely ad hoc manner. It has, surprisingly, overcome factors which would normally be considered virtually unsurpassable roadblocks – the residue of the ideological impediments of the Cold War era when India and the GCC countries were on opposite sides of the geopolitical divide; the enormously negative and extremely important Pakistan factor; since 1992, the Israel factor also; and, in more recent years, the Iranian factor beginning to raise its head too. From the Indian perspective, elements of concern have been the unconditional multi-dimensional support given to Pakistan in its bilateral disputes with India; the stance adopted by Gulf countries in the OIC in relation to Kashmir and the situation of India's Muslims and the OIC's numerous, entirely one-sided resolutions and statements on these issues; and, the large scale funding from the Gulf region of various entities, old and new, in India leading to a phenomenal upsurge of locally assertive activism of these entities which has manifested itself in a manner that arouses legitimate political and security concerns in India.

All these facts exhibit that pragmatism has quietly trumped both ideology and supposed special relationships thus underlining a unique compatibility which highlights multi-spectrum mutual dependence, on the one hand, and symbiotic synergy, on the other, between GCC countries and India. All these reasons provide a compelling rationale and a very strong foundation for the creation of a true strategic partnership.

It is a natural human tendency to pay attention only when troubles occur. This mindset must be discarded. The happy fact that there are no significant contentious bilateral issues between the GCC countries and India has had a peculiar downside in that it has permitted both sides to take each other and good bilateral relationships for granted. It is time that both sides started paying much greater and focused attention not only to forestall any troubles from arising but also prudently preparing for mutually identified potential worst case scenarios which could arise due to factors beyond the control of governments. Given the nature and substantive content of India's relations with GCC countries, which I have spelt out in some detail, it should be self-evident that no other major power is directly impacted, positively or negatively, as much as India by what happens in the Gulf region and that underlines how important the region is for India. Equally, it is axiomatic, though insufficiently understood, that any large-scale instability in India could have devastating consequences in the GCC region.

We have reached a plateau. Should we be content with the present state of affairs or seek to consciously explore the building of a strategic partnership, a relationship beyond the diaspora, hydrocarbon and trade factors, a relationship which has integral stakes in each other's security, stability and prosperity? I, for one, am convinced that this is not only possible but desirable and is an eminently worthwhile objective to pursue. To put it another way, in the coming years, a stable and prosperous India will increasingly be almost a necessary condition for the stability and prosperity of the Gulf region and vice versa. Whether we like it or not, our futures are inextricably intertwined and the need for a strategic partnership seems almost ordained. It is my hope that policy planners both in India and in the Gulf region recognize the inescapable and stark truth of this reality.

Even as the socio-economic relationship has blossomed impressively, it must be acknowledged that at present the GCC countries' relationship with India in the political and security spheres exhibits a very low profile. As India's economy continues to grow at a rapid pace and as India's political influence and military profile and stature rise, India will inevitably play an ever increasing role on the global stage and become ever more relevant to meeting challenges in the Gulf region. Therefore, security is an obvious new field of cooperation. However, since political orientations are the ultimate determinants of the security policies of countries and it is well known that the US in particular, Western countries in general, and also Pakistan have been long-standing political and security allies and partners, the Gulf countries would need to convey to India in some appropriate manner that they wish to upgrade their relations with India in these spheres. In this context, let me first assert that India will not be judgmental and prescriptive in regard to either domestic political issues in or the external political orientations of GCC countries or vis-a-vis their policies regarding safeguarding their security. However, India would be hesitant in taking any initiatives related to the political and security spheres for the following reasons: because this would be a sharp departure from standard Indian policy approaches and would be uncharacteristically intrusive, not India's style. There would be distinct possibilities of misunderstandings, inevitably fanned by third parties, and there could be suspicions of India's motives and intentions. There are internal divisions within and between GCC countries which are complicating factors. For some time now India has had and will continue to have coalition governments, a fact which inhibits the ability of any government of the day in being proactively decisive in foreign policy matters. India is not very familiar with the mechanics of forging overt military and security alliance relationships. Ideally, GCC countries would have to indicate in fairly specific terms in what manner they would like the relationships in the political and security fields to develop and my gut feeling is that this process is best done on an individual country-to-country, bilateral basis rather than on a GCC-India platform. I have every reason to believe that India will respond very positively. The Delhi and Riyadh Declarations between His Majesty King Abdullah and Prime Minister Manmohan Singh, the security-related agreements with Oman and Qatar, and the increasing substantive interaction and cooperation between the navies of India and the GCC countries are propitious pointers.

In an increasingly interconnected world, and one in which non-state actors are playing potent game-changing roles, security concerns of individual countries are acquiring significant regional dimensions. The security-related implications of developments in the neighborhood shared by GCC countries and India are becoming more and more serious with each passing day. The increasingly unstable situation in the Afghanistan-Pakistan region has enormous potential to adversely impact both the GCC countries and India. We need to jointly explore methodologies of what can be done together to promote possibilities of stability and development in Afghanistan. Though it is true that India would not like to see a government in Afghanistan that is created and imposed by Pakistan, as happened from the mid 1990s, India will readily cooperate with any government in Afghanistan that evolves indigenously. India does not seek to prevent a good relationship between Afghanistan and Pakistan nor does it seek overweening influence for itself in Afghanistan. I can emphatically assert that India's primary and overriding strategic objective in Afghanistan is to see stability and prosperity in that country and, towards that end, India's involvement in Afghanistan is purely in the developmental sectors. That involvement is in fact very popular and the GCC countries need to take on board the reality that the foreign country that the people of Afghanistan have the greatest comfort factor with is India. In the past 2-3 years, GCC countries and, in particular Saudi Arabia and the UAE, have become quite active participants in the international friends of Afghanistan grouping. It may be a good idea to coordinate the aid and assistance policies of GCC countries and India. We need to frankly discuss in detail the complexion of Afghanistan following the inevitable scaling down of Western military involvement in and from the region and the possibilities of a cooperative security umbrella for Afghanistan.

Relations between India and the GCC countries have now evolved sufficiently and should be nurtured on the basis of mutual benefit and a shared destiny rather than being looked at through the prism of third countries whether they are Iran, Israel, Pakistan or even the US.

Pakistan

Unfortunately Pakistan's domestic stability, many say even viability, is an increasing concern not only for all patriotic Pakistanis but also for its immediate neighbors, and among them, first and foremost for India. I would like to categorically state with all the emphasis at my command that India considers a stable and prosperous Pakistan to be in India's vital national interests. It is time that the enormous influence that the GCC countries, in particular Saudi Arabia and the UAE, have with Pakistan, is used constructively to help its government overcome the very serious challenges posed by radical Islam. Uncertain though the outcome could be, India and the GCC countries could confidentially discuss possibilities of how this leverage can be used by the GCC countries to convince Pakistan to review its mindset vis-à-vis India. The India-Pakistan imbroglio is a subject that could also become one priority focus of Track II interaction between India and the GCC countries.

However, from an Indian perspective, any such dialogues will inevitably have an unalterable and fundamental premise – there cannot be any re-drawing of existing territorial ground realities in the disposition of portions of the erstwhile state of Jammu and Kashmir where Pakistan controls the Western part of the valley, the so-called Northern Territories, Baltistan, Gilgit etc. and the rest being under Indian jurisdiction. The normative status of Kashmir as an integral part of India is non-negotiable. In fact, in the interests of the stability of this entire region encompassing the Gulf region and the Indian sub-continent, the time has now come for the GCC countries to factor in India's Kashmir imperatives in their future policy approaches towards relations with India.

India does not consider the GCC countries' relations with Pakistan to be an impediment to its own relations with GCC countries. We also see increasing manifestations that GCC countries have now virtually decided to override the veto that they had tended to give Pakistan in the past in developing their relations with India. This is particularly welcome because that hyphenation was self-defeating.

Israel

The main rationale for India's relationship with Israel is very straightforward. No major military power of the world is as dependent on import of hi-tech modern weapons systems as India. For reasons which we do not have the time to consider in detail here, Israel has come to play a particularly significant role in this regard as the second largest military equipment supplier to India, particularly in fields directly contributing to boosting capabilities relating to India's vital national security concerns. For India the motivation for this relationship is almost completely bilateral.

I would assert that India's relationship with Israel does not have any politico-strategic implications for Indian policies towards the GCC countries and particularly towards the Palestine issue. India has traditionally been and remains a staunch supporter of the just cause of the Palestinian people. The establishment of diplomatic relations with Israel in 1992 was done after full and detailed advance consultations with Yasser Arafat. Israel cannot be abolished. All countries in the region have to come to terms with this reality, however awkward it may be.

Iran

Iran is strategically located at the crossroads of Central Asia, South Asia and West Asia and enjoys increasing influence in shaping events in these regions. There can be no meaningful security or regional stability mechanisms in the Gulf region without

Iran being involved. India has had close interaction and a traditional relationship with Iran for centuries. Iran is India's gateway to Central Asia. From an Indian perspective, India and Iran shared a common strategic perspective during the dark days of Taliban rule over Afghanistan. Iran has been an important oil supplier and is currently India's second largest source. Having said this, the fact remains that India has considerable difficulty in trying to have a cordial relationship with Iran. India is aware of the potentially destabilizing strategic implications of Iran's world view. India fully shares the concern of the GCC countries relating to Iran's nuclear program, and its voting record relating to the subject is in the public domain. In the final analysis, India's relationship with GCC countries will always be weightier.

United States

The phenomenon of the dramatic turnaround in Indo-US relations in the post-Cold War period has definitely encouraged rulers of GCC countries to develop greater warmth towards India. The evolving strategic scenario in all regions of Asia exhibits a growing recognition that the US can no longer underwrite the security of even its friends and allies by itself. The GCC countries have to embrace relationships beyond the US and clearly there will be a role for countries such as India, not as an alternative but as a supplementary partner, a situation the US is also likely to be comfortable with.

Internal security will always be a concern given the very large numbers of foreigners living and working in GCC countries. There are many aspects of this – one was the GCC countries' policy actions vis-à-vis certain nationalities living and working in GCC countries in the wake of Iraq's invasion of Kuwait. India probably became an unintended beneficiary. This gives rise to another dimension of the issue. Given the very large number of Indians in the GCC countries and the fact that India is a democracy, their welfare and security will always be a matter of great interest for India. It is remarkable that India was able to mount the world's largest evacuation taking out more than 170,000 Indians from Kuwait following the Iraqi attack on that country. Apart from that there have been no notable incidents where either the host state or the local populace or significant numbers of Indians resident there have been adversely affected in the past four decades. In the contemporary world, non-state actors have become very prominent players in disrupting security with unpredictable consequences for common people and the state. It is not possible to anticipate when and how disaster might strike. Given all these factors, it is imperative for the relevant authorities of the GCC countries and India to have frank discussions to work out detailed contingency plans for various kinds of possibilities that may arise for which there will always be considerable latent potential. In addition, religion-based politics and activism is now recognized as a particularly potent danger to all countries and societies. This aspect again is very relevant for both India and the GCC countries. These two issues need focused joint high priority attention.

It is necessary to take the current energy relationship beyond buying and selling oil, gas and petroleum products. Both sides must proactively consider granting strategic stakes in their oil and gas public sector companies and encourage the creation of joint venture companies under such strategic umbrellas to develop exploration, production, refining, manufacture and distribution of downstream products both in India and the GCC countries. The GCC countries/companies should become partners in the creation of strategic oil reservoirs in India. Over and above the oil and gas dimensions, it is necessary to embrace new and environmentally-friendly energy sources. The GCC countries are blessed with an inexhaustible abundance of sunlight, strong winds as another natural resource, and massive financial resources, while India has technological and manufacturing capabilities and provides a vast potential market. Therefore, commercial partnerships in exploiting solar energy and other non-conventional and renewable energy sources provide a particularly valuable avenue of fruitful, mutually beneficial long-term cooperation. All this is eminently possible and should be accorded focused, high priority, proactive project-oriented attention. An FTA between the GCC countries and India is eminently desirable, and for both sides it is important to allow longer-term prospects to override short -term disadvantages of one or another draft provision. Neither side should permit the vested interests of private players to override state interests. The time may also have come for a new direction for investment possibilities from GCC Sovereign Funds which exceed $1300 billion; they have suffered huge value erosion by being parked in Western countries.

These cogitations lead naturally to several fundamental questions, which each side must answer frankly to enable the creation of a realistic policy-oriented framework to take relations between India and the GCC countries to an entirely different level:

- Is a strategic partnership between India and the GCC countries desirable/needed? Why?
- What would be the main motivations of member countries of the GCC in desiring such a partnership and what would be the main motivations of India?
- What do GCC countries want from India and what does India want from the GCC countries?

- Is there a meaningful congruence between these two sets of motivations and desires?
- The Afghanistan-Pakistan border region has become the hotbed of Islamic radicalism. According to many, it is the world's most dangerous region: how the politico-security situation evolves in this region will determine the future of not only these two countries but will also have enormous internal security implications for both the GCC countries and India. Are there any shared perceptions in these contexts?
- Is an India-GCC strategic partnership feasible in the real world, given the constraints or impediments that exist even in the current reasonably satisfactory relationships? It would be useful to frankly spell out these constraints and impediments to assess and discuss the probabilities, not merely possibilities, of overcoming these hurdles.
- What would be the main elements of such a strategic partnership – this would need to be spelt out with some clarity.

For the first time, a focused exercise involving a dialogue between Indian and Gulf scholars was undertaken between June 2009 and October 2010. Since this was a pioneering venture, it is understandable that we did not get answers to these questions. However, as one meeting followed the other, there was a clear move beyond polemics and a recognition that cobwebs on both sides need to be and can be dusted off. Comfort levels increased very distinctly. One of the important by-products of this project was the interaction between this Indian core group and the Saudi Diplomatic Institute in Riyadh in October 2010 followed by a two-day seminar in New Delhi in March 2011. These were frank and friendly with sensitive issues being raised and discussed in a manner that simply would not have been possible earlier. A much more of intense three-day interaction has been slated for the latter half of the year in Saudi Arabia. Books containing presentations made will be published bringing awareness of the growing importance of India's relations with the GCC countries to a much wider audience. Another potentially very valuable by-product was the workshop on 'India and the Gulf: What Next?' at Cambridge University in July 2011 which is part of a GRC initiative of organizing annual conferences on the Gulf in collaboration with the prestigious British university. I am confident that all this will lead to continuing institutionalized interaction which would be able suggest the way forward by drawing up a set of focused, pragmatic, action-oriented, objectives-driven policy recommendations.

3

India-GCC Political Relations

Abdulkarim Al-Dekhayel

Economic relations have been the backbone of India-GCC ties. Today, the GCC is the second largest trading partner of India, after the United States. According to the Associated Chambers of Commerce and Industry (ASSOCHAM), India's total trade with GCC countries is estimated at $28 billion for the period 2007-08 and it could top $40 billion by 2010. Moreover, India is likely to become more dependent on Gulf crude oil with Indian reliance increasing to 91.6 percent by 2020.

In August 2004, India and the GCC signed a framework agreement on economic cooperation to explore the possibility of a Free Trade Area between them. Later, in November of the same year, a three-member GCC negotiating team visited India and held discussions on a broad range of issues, including the possibility of initiating negotiations towards a FTA and non-tariff barriers affecting Indian exports to the region.

Due to cordial relations with the GCC countries, India has managed to gather the support of two countries – UAE and Oman – in its bid for the permanent membership of the UN Security Council. Also India has been granted the status of a 'dialogue partner' by the GCC. India thus became the first developing country and the fourth actor after the US, the European Union and Japan to receive this privilege.

Despite mutually beneficial trade and business relations between India and GCC, political relations have been rather stagnant and they continue to lack particular enthusiasm. Political and strategic relations between India and GCC have not been smooth because of a number of reasons. These include India's growing relationship with Israel; continuous political support of Gulf countries for Pakistan on the Kashmir issue; and the Gulf countries' provision of material support to Pakistan against India in past Indo-Pakistan wars.

The Palestine Issue

Relations between India and Israel are one of the main constraints in developing broader Indo-GCC relations. Historically, India has been among the most vocal supporters of the Palestinian cause. But its problem with tackling terrorism in Kashmir and its defense needs have increased its dependence on Israel and the US, forcing it to adopt a posture of "studied neutrality" on the ongoing crisis in the Middle East.

The Arabs have been willing to overlook India's defense cooperation with Israel as they know that Delhi's defense preparedness will not affect the equation in the Middle East. However, they are expressing serious misgivings about India's new reluctance to clearly condemn Israel.

Generally speaking, Indo-Palestinian relations have been largely influenced by the independence struggle against British colonialism. After India achieved its independence in 1947, the country moved to support Palestinian self-determination. Following the partition of British India on the basis of religion into India and Pakistan, the impetus to boost ties with Muslim states around the world was a further reason for India's support for the Palestinian cause. Though it started to waver in the late 1980s and 1990s as the recognition of Israel led to diplomatic exchanges, the ultimate support for the Palestinian cause was still an underlying concern.

Beyond the recognition for Palestinian self-determination, ties have been largely dependent upon socio-cultural bonds, while economic relations were neither cold nor warm. India was the first non-Arab country to recognize the PLO's authority as "the sole legitimate representative of the Palestinian people." A PLO office was set up in the Indian capital in 1975, with full diplomatic relations established in March 1980. In return, India opened a Representative Office in Gaza in June 1996. Indian support extended to "consistent and unwavering support" on the Palestinian issue, where it shared the perception that the question of Palestine is at the core of the Arab-Israeli conflict. India has thus consistently supported the legitimate right of the Palestinian people to a State and the consequent imperative need for a just, comprehensive and lasting peace in the region based on UN Security Council Resolutions 242, 338 and 425, as well as the principle of "Land for Peace." India also supported the Madrid Conference of October 1991 and participated in the 2007 Annapolis Conference and the subsequent donor's conference.

Yet, from the GCC perspective India is not as vocal or supportive of the Palestinian issue as before and it has improved its relationship with Israel at the expense of the Palestinian cause.

The Iraqi Issue

Iraq was one of the few countries in the Middle East with which India established diplomatic relations at the embassy level immediately after its independence in 1947. Both nations signed the "Treaty of Perpetual Peace and Friendship" in 1952 and an agreement of cooperation on cultural affairs in 1954. India was among the first to recognize the Baath Party-led government, and Iraq remained neutral during the Indo-Pakistan War of 1965. However, Iraq along with other Gulf States supported Pakistan against India during the Indo-Pakistan War of 1971, which saw the creation of Bangladesh. The eight-year long Iran-Iraq War caused a steep decline in trade and commerce between the two nations.

During the 1991 Gulf War, India was opposed to the use of force against Iraq. India's ties with Baghdad suffered due to the UN sanctions on Iraq, but India soon developed trade within the Oil-for-Food program, which permitted Iraq to export oil for essential goods.

India supported the pursuit of a diplomatic approach to ensure Baghdad's full compliance with UN resolutions with respect to the inspection of its suspected chemical and biological weapons facilities. At the same time, it demanded the lifting of sanctions against Iraq, arguing that this had hurt the Iraqi people immensely. New Delhi also opposed the creation of no-fly zones arguing that the UN had not sanctioned this. India did not support the allied attack on Iraq in 2003. However, under severe pressure from the US, India did an about-turn and even permitted US warplanes to refuel in Mumbai. In the aftermath, India normalized its ties with the Al-Maliki government of Iraq in 2005, seeking to restart trade and economic cooperation. Indian businesses applied to the Coalition Provisional Authority for reconstruction projects contracts. More recently, the activities of Iraqi businesses in India have been growing rapidly.

Although there were some differences between India and the GCC countries regarding the issue of Iraq, especially during the 1990 crisis, India and most

GCC countries now hold a similar view on Iraq and the importance of building a democratic Iraq.

India and Iran

Regarding India's relations with Iran, the two countries currently have friendly relations in many areas. There are significant trade ties, particularly in crude oil imports into India and diesel exports to Iran. Iran frequently objected to Pakistan's attempts to draft anti-India resolutions at international organizations such as the OIC. India welcomed Iran's inclusion as an observer state in the SAARC regional organization. In the 1990s, India and Iran both supported the Northern Alliance in Afghanistan against the Taliban regime. They continue to collaborate in supporting the broad-based anti-Taliban government led by Hamid Karzai and backed by the United States. Iran's trade with India crossed $13 billion in 2007, an 80 percent increase in trade volume within a year. In 2008-09, Iranian oil accounted for nearly 16.5 percent of India's crude oil imports. Indian oil imports from Iran increased by 9.5 percent in 2008-09 due to which Iran emerged as India's second largest oil supplier. About 40 percent of the refined oil consumed by Iran is imported from India. In June 2009, Indian oil companies announced their plan to invest $5 billion in developing an Iranian gas field in the Gulf.

Despite such close relations and a relative convergence of interests with Iran, India voted against Iran in the International Atomic Energy Agency (IAEA) in 2005 under pressure from its Western allies. As such, one can describe the Indo-Iranian relationship as "selective cooperation." On the other side, Iran's relationship with the GCC countries and the Arabs in general with whom it shares the common religion of Islam can be characterized as one of conflict. Both India and the GCC countries have expressed support for Iran's right to have a peaceful nuclear program and, through diplomatic channels, have urged that a solution be found to the dispute between the US and Iran over Tehran's alleged nuclear arms program.

The Kashmir Issue

As mentioned earlier, the Kashmir issue was one of the reasons for uneasy relations between India and the GCC countries as the latter sided with Pakistan in this conflict. Recently, however, there has been a change in the GCC countries' stand on the Kashmir issue. The GCC countries now want the Kashmir issue to be settled through the Shimla agreement and emphasize the need for bilateral negotiations between India and Pakistan.

4

GCC-India: Security and Strategic Issues

Abdullah Alshayji

Introduction

The GCC states are collectively looking for ways to diversify and expand their pool of allies, friends and partners. One of those partners is India, which has the potential of becoming a major player and power on the international stage with its growing economy, hi-tech industry, and large young population. As an article in the *Irish Times* put it, "India is so much more than 'impossible to ignore'. This was the understated claim made for it by then foreign secretary Nirupama Rao to *The Irish Times*. Seventeen per cent of the world's population, 1.2 billion people, half of them under 24, lives in the huge, vibrant and glorious mass of contradictions that is India. Its booming economy is expected to grow by nearly 9 per cent this year, double the global average and faster than China."[1] The GCC states are aware of these facts and of India's potential and future role. As the GCC states turned their attention eastward in the last few years, this keen interest has manifested in visits by the leaders of the GCC states to Asian countries, including India and China. Among these leaders were Saudi King Abdullah and the Kuwaiti Amir Shaikh Sabah Al-Ahmed besides GCC officials.

1. *Irish Times*, October 8, 2010.

However, the contrasts that India presents can sometimes put doubts into the positive assessments of the country's growth story. The widespread poverty, corruption, poor infrastructure and inefficiency that continue to plague the country have led commentators in the GCC states to wonder how India with all its potential could squander its means and produce a dysfunctional political system rife with ineptitude, cronyism and corruption.

At the same time, India's rapid development in recent years is part of the larger growth story in Asia. According to the US National Intelligence Council's assessment *Global Trends 2025: A World Transformed*, "The international system – as constructed following the Second World War – will be almost unrecognizable by 2025 owing to the rise of emerging powers, a globalizing economy, an historic transfer of relative wealth and economic power from West to East, and the growing influence of non-state actors. By 2025, the international system will be a global multi-polar one with gaps in national power continuing to narrow between developed and developing countries. Concurrent with the shift in power among nation-states, the relative power of various non-state actors — including businesses, tribes, religious organizations, and criminal networks — is increasing. The players are changing, but so too are the scope and breadth of transnational issues important for continued global prosperity. Potentially slowing global economic growth; aging populations in the developed world; growing energy, food, and water constraints; and worries about climate change will limit and diminish what will still be a historically unprecedented age of prosperity.

In terms of size, speed, and directional flow, the transfer of global wealth and economic power now under way — roughly from West to East — is without precedent in modern history. This shift derives from two sources. First, increases in oil and commodity prices have generated windfall profits for the Gulf States and Russia. Second, lower costs combined with government policies have shifted the locus of manufacturing and some service industries to Asia. Growth projections for Brazil, Russia, India, and China indicate they will collectively match the original G-7's share of global GDP by 2040-2050."

Thus, India is a member of an increasingly multi-polar international order. Besides, being a member of the G-20, it is also a member of a relatively small club known as "BRICS" – Brazil, Russia, India, China and South Africa.

That India had a role to play in confronting a host of challenges around the world was highlighted by an Indian Ministry of External Affairs source, who said in an interview to a reporter, "Washington now sees cooperation with India on various fronts as critical, be it addressing the challenges of unraveling Pakistani state, containing the looming Chinese presence to maintain stability in Asia, reforming the United Nations or cooperating on the terror front."[2]

Among the challenges that are a source of worry to the GCC states and the region as a whole are the regional uncertainties which could have greater consequences - such as issues related to WMD, terrorism and nuclear proliferation in the Middle East which would precipitate a nuclear arms race.

Internationalizing Gulf Security

The Gulf region is an inherently unstable geopolitical region and foreign powers have always been part of the the region's security equation. The inherent problem of Gulf security is its lack of indigenous balance of power. On the Arab side of the Gulf, the state actors lack hard power and try to compensate it with soft power.

The region pits largely Arab Sunnis against Iranian Shiites. Internationalizing Gulf security as a "global public good underlying the present global energy order, the US might remain predominant in some technical, military sense but politically and symbolically could become one of many members. Increasingly, in recent years, rising naval powers like India and China have been patrolling the waters of the Arabian Sea to prevent and counter pirate attacks.

In the wake of the economic meltdown and the rise of other powers who maintain good relations with the Arabs and Iranians in the Gulf region, it is possible to see a more international involvement in the Gulf. Oil has been a crucial variable in American foreign policy in the Gulf but in a globalized economy, Asian countries that are hungry for Gulf oil will also have a role in Gulf security. The Gulf countries would like to see a more multinational deterrence and presence to create stability in the region.

While the US imports less than a third of its crude oil imports and no LNG from the Gulf, its security umbrella is a lifeline for the EU, Japan, China and India, who import 60 to 80 per cent of their oil from the region. So any supply shock from the Gulf could prove catastrophic for the world, and not just the US economy. The lingering question is: How long will these rising states – especially China, Japan, India and South Korea - acquiesce to such an arrangement and not demand a role in Gulf security to safeguard their precious commodities?

No other countries are projected to rise to the level of China, India, or Russia, and none is likely to match their individual global clout.

2. Neeta Lal, "Great Expectations," *Asia Sentinel,* October 8, 2010.

Gulf-India Cooperation and Strategic Relationships

The turn of the 21st century witnessed even more crises and challenges which threatened the security environment of the Gulf region and energy security along with the prosperity of the world economy. The fear is that such threats and challenges would not be limited to the Gulf region, but would have a spillover effect especially in terms of energy security, trade and investment and especially in Asia which imports 70 percent of its oil needs from the Gulf region.

Following the global war on terror, besides the wars for regime change in Iraq and Afghanistan, launched by the Bush administration in the post 9/11 era, and in the light of the reduced US commitments in the region, its withdrawal from Iraq, and its showdown or grand bargain with Iran, and because of the global economic crisis and the unprecedented US budget deficit, the GCC states are convinced that they need to hedge their bets, diversify their options, and follow a "Look East" policy. This policy could be strengthened further if the major countries of Asia, led by China and India, take steps in the future to safeguard their security interests, trade and investment opportunities and do not rely solely on the US to call the shots. But it takes two to tango. In this context, reference may be made to the study by the US National Intelligence Council's assessment "Global Trends 2025" which forecasts that: "Although the United States is likely to remain the single most powerful actor, the United States' relative strength - even in the military realm - will decline and US leverage will become more constrained. At the same time, the extent to which other actors - both state and non-state - will be willing or able to shoulder increased burdens is unclear. Policymakers and publics will have to cope with a growing demand for multilateral cooperation when the international system will be stressed by the incomplete transition from the old to a still forming new order."[3]

The GCC states have been under pressure to coordinate their efforts to safeguard and guarantee Gulf security in terms of the three soft power assets which they collectively possess: Energy, sovereign wealth funds, and their role as leading markets in terms of goods and weapons, besides which they employ 17 million expatriates in the six GCC states.

The GCC states collectively face a host of contemporary challenges from state and non-state actors from an unstable state in Iraq, an ambitious and emboldened nuclear-driven Iran, from Al-Qaida and its franchises and associated groups in the region and, more recently, from a threatening Houthi insurgency in Yemen on the

3. "Global Trends 2005: A Transformed World," US National Intelligence Council, November 2008.

southern flanks of the GCC states. The Houthi insurgency, in fact, has drawn Saudi Arabia as the conflict has threatened its security and in retrospect the security of the GCC states collectively. This was explicitly mentioned in the GCC summit held in Kuwait in the middle of December 2009 as they geared up for their seventh war against the Yemeni regime.

Issues of Contention between the GCC States and India

There seem to be divergent views between the GCC states and India over some contentious issues which for too long had negatively impacted the relations between the two sides, before receding in recent years. They no longer seem to impact negatively the steadily improving relationship, but nevertheless could be a stumbling block if not resolved amicably. Some of these contentious issues are bilateral, while others are strategic. Like India-Pakistan relations, the issue of Kashmir which boiled again, with US pundits describing it as "Intifada" and some even arguing why India is not a pariah state because of its heavy-handed security tactics in Kashmir. Over 70,000 Kashmiris have been killed in the conflict over the last two decades. Another cause of worry is India's growing strategic relations with Israel along with a clear shift in the Indian attitude vis-à-vis the Palestinian cause. In January 1992, India established diplomatic relations with Israel which grew in to strategic relations under Vajpayee government to benefit from the advanced Israeli nuclear know-how and technological and military weaponry with US blessing. Since then, the Palestinians and the Arabs have been disappointed with India's less enthusiastic stance on the Palestinian issue.

On the bilateral level, India is dragging its feet in signing the FTA with the GCC states, and this is an issue that must be addressed seriously by the Indians. GCC observers feel that this contentious issue could stand in the way of strategic cooperation between the two sides. The standoff over reaching a free trade agreement continues even though the two sides signed a framework agreement on economic cooperation in August 2004. The failure to conclude a free trade agreement is mainly due to Indian stonewalling. After three rounds of talks over the FTA, there seems to be little progress because of India's insistence on protecting and safeguarding its domestic chemical and petrochemical industry to give it a favorable advantage over the competition from GCC low crude oil cost which violates the principles of FTA and is objected to by the GCC. Trade between the two sides stood at $28 billion in 2007 and is projected to exceed $40 billion in 2010.

Lately, there has been a new twist in GCC-India relations which could have far-reaching consequences if not addressed in a more understanding manner by the Indians. This is on the issue of the large presence of Indian expatriates in the GCC states. What precipitated a controversy was the call by an Indian official representative at the Manama Dialogue in December 2008 who asked the GCC states to consider the Indian expatriates in the GCC states as immigrants who are entitled to have political rights and citizenship. This caused a lot of consternation and raised eyebrows in the region because of the effect such a move could have on the social and demographic composition and the fragile balance between nationals and foreigners. It is important to point out here that in three of the six GCC states (Kuwait, Qatar and UAE), foreigners outnumber nationals — by two thirds to one third in Kuwait, while nationals are less than 25 percent in both Qatar and UAE. No country in the world will tolerate or accept this huge imbalance between nationals and foreign population, which is, as one GCC minister of labor described it, "the most threatening security challenge faced by the GCC states, even worse than a war." Furthermore, although the GCC states are indebted to the expatriate population, including the Asian expats who compose the bulk of the 12 to 16 million expats in the six states, for their valuable contributions in the development of the Gulf States, the expats drain the GCC's assets. In 2005, the total money transferred by the expats to their home countries was close to $60 billion – one third of that figure or $20 billion were transferred by close to 5 million Indian expats. The share of assets transferred from the GCC states by its large expat population is mind-boggling. It is close to 25 percent of the total world money transferred annually.

On the positive side, however, the convergence of issues seems to be trumping the convergent issues. The website of the Indian Embassy in Riyadh, Saudi Arabia, points out, "The Gulf Cooperation Council (GCC) as a collective entity has tremendous significance for India. The Gulf constitutes the "immediate" neighborhood of India separated only by the Arabian Sea. India, therefore, has a vital stake in the stability, security and economic well-being of the Gulf ... The GCC has emerged as a major trading partner for India; it has vast potential as India's investment partner for the future.

"The GCC's substantial oil and gas reserves are of vital importance for India's energy needs. The GCC countries are collectively host to a large Indian expatriate community. In short, the GCC offers tremendous potential for cooperation in trade, investment, energy, manpower, etc."

Although India seems to be sticking to its eastern orientation, the GCC states welcome its growing role in security issues and in fighting piracy in the Red Sea and the Indian Ocean. This could develop in the future with the projection of capabilities by the Indian Navy which has visited some of the GCC ports in the last few years and has shown an aggressive attitude in engaging the pirates in the Gulf of Aden. This may be a prelude to a more active Indian naval role in the future as was envisioned by a former Indian Defense Minister. This was explained by the former Indian Prime Minister Atal Behari Vajpayee who advanced, in 2000, the "Indian Doctrine" to strengthen India's rise as a major regional and international actor and form strategic alliances. In November 2003, Prime Minister Vajpayee called for "fresh thinking about projecting power and influence as well as security in all directions. Thus India will seek more defense cooperation with states in the Gulf, South East Asia, central Asia." India's effort to secure a permanent seat in the UN Security Council is supported by the GCC states. Besides, India is seeking to become a member of APEC and is a dialogue partner with ASEAN. In recent years, it has sought to resolve or even put on hold its disagreements with China and has acted to neutralize Pakistan, even isolate it, and to propel its ties with the US to a more strategic level after signing the nuclear pact with Washington. In 2008, Indian Prime Minister Manmohan Singh, while on a visit to the GCC states, stated that "India viewed the Gulf as an intrinsic part of its broader neighborhood."

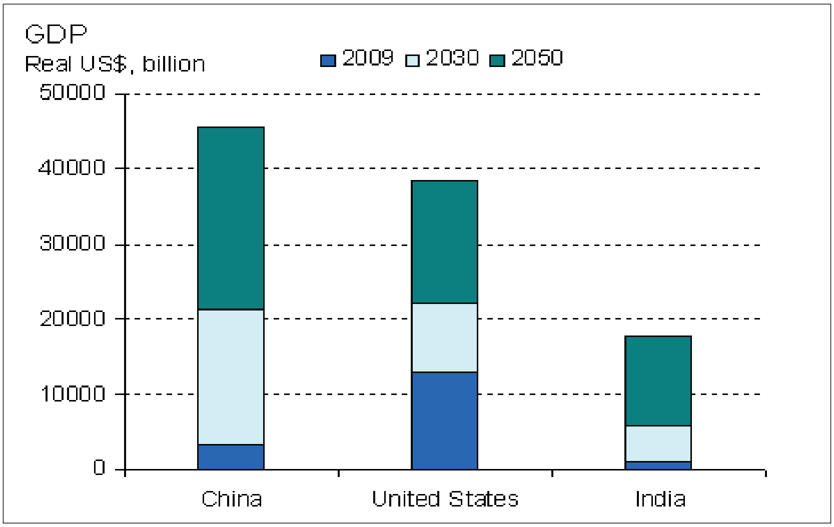
The Gulf States, who are looking to diversify their security cooperation, have no quarrels over India seeking a broader role, as they perceive the country as a rising soft power neighbor which offers great economic, trade, and investment opportunities and is a partner in the GCC's counter-terrorism efforts and in securing energy passages. In November 2008, the GCC Foreign Ministers issued a joint statement "supporting a collective joint cooperation with the major powers' navies to safeguard and protect the oil passages and maritime security against the piracy attacks in the Sea of Oman, Red Sea and the Indian Ocean."

Furthermore, India signed defense cooperation agreements with Qatar, the largest supplier of gas to India, and Oman. At the same time, the UAE is India's largest GCC trade partner, and the trade between the two countries tops $13 billion.

Strategic Relations

"From the strategic point of view, India and the GCC states share the desire for political stability and security in the region. The common political and security concerns of India and GCC states translate into efforts for peace, security and stability in the Gulf region and South Asia. The emerging common security perceptions create further opportunities for GCC-India cooperation in the future. The GCC states are going through important changes and transformation; the process of understanding and integration is coming of age. Along with it the areas for cooperation are also widening beyond investments, trade and commerce and sharing and development of human resources to security. This envisages jointly preparing to meet emerging domestic and regional challenges, foremost being the common threat from terrorism and extremism."[4]

Energy security and needs form an important component of the GCC-India strategic relationship. India, the rising superstar, is projected to be one of the three major economic powerhouses in the next 30 years. A study by Carnegie Endowment for International Peace projected that by 2050, the Indian economy will be among the top three world economies along with the US and China. The Indian economy will multiply 16 times from $1.1 trillion to $17.8 trillion by 2050. This will push India to become the third largest world economy. Underpinning the GCC-India's strategic relations is the energy factor. India imports more than 70 percent of its crude oil worth $60 billion from the GCC states annually. These figures are expected to rise to close to 90 percent of India's crude oil needs by 2030.



Source: Author's Projections

According to a study by Carnegie Endowment for International Peace entitled "The G20 in 2050" by Uri Dadush and Bennett Stancil published in November 2009: "Over the next 40 years, the G20 GDP is expected to grow at an average annual rate of 3.6 percent, rising from $38.3 trillion in 2009 to $161.5 trillion in 2050, in real U.S. dollar terms. Nearly 60 percent of this $123 trillion dollar

4. Indian Embassy Riyadh website.

expansion will come from Brazil, Russia, India, China and Mexico (BRIC+M). These five economies will grow at an average rate of 6.1 percent per year, raising their share of G20 GDP from 18.7 percent in 2009 to 49.2 percent in 2050."

What is significant is that China, India, and the United States will emerge as the world's three largest economies in 2050. Their total GDP, in real US dollar terms, will be over 70 percent more than that of the other G20 countries combined. In China and India alone, GDP is predicted to increase by nearly $60 trillion - the current world GDP - but the wide disparity in per capita GDP among these three will persist. India will rise to rival China in the future and overtake it in terms of becoming the most populous country in the world by 2050.

Conclusion

In the final analysis, from the GCC states' perspective, India could provide an added value in terms of economic and strategic opportunities. Furthermore, the GCC states feel at ease in dealing with India because it does not push a reform agenda or try to impose its values and preach political reforms or interfere in the domestic affairs of the GCC countries. It is a win-win situation for both parties which could be a good foundation to move this relationship further. Besides, the GCC states and India have a lot at stake. Both sides want to cement their strategic relationship. But India has to be cognizant of the fact that it has to meet the GCC states half way and address the contentious issues. Both sides sh ould be willing to cooperate and leverage their shared goals and interests to underpin their future relationship on a mutually beneficial formula in a changing world with multi-polar actors and with rising and falling stars and players.

That is absolutely a true diagnosis for the timid relationships between the two sides, where each is waiting for the other to make the first move, in which both sides stand to gain. But who will take the lead? That is the big question which the GCC-India Study Group should help answer by encouraging the mutually beneficial moves by both sides.

As mentioned earlier, India's former Foreign Secretary Nirupama Rao said, "India is impossible to ignore." India deserves a central role in the GCC states' future strategy as they study their options in looking east. But India has to work on its image and address all the relevant issues the GCC states have been raising. On their part, the GCC states should address India's needs and interests beyond trade and expatriate workers.

5

India and the GCC States: Political Relations, Changing Geopolitical Spectrum, and Foreign

A.K. Pasha

Introduction

Throughout recorded history, India has had close maritime trade and other relations with the Magan, Dilmun, and other civilizations which flourished in the present-day GCC states. Indian and Arab merchants settled in each other's territories. After the rise of Islam, contacts and commerce increased between the two regions. In the early 19th century, the British established control over India, and soon they extended their domination to territories that form the present-day GCC states even though some parts remained under Ottoman control. For the British, the Gulf was a key communication link between India and London. Despite European attempts to cut ties, Indians and the Gulf Arabs managed to retain some contacts. While Indian merchants have always had a presence in the region, after oil was discovered Indian workers were found in all the Gulf States. Some Arab merchants continued to stay in places like Mumbai and Calicut, but as their native states became free, most left India. The British had overwhelming influence over all Gulf States, whose rulers established close political, military and economic ties with London. The US developed close political and defense ties with Bahrain and Saudi Arabia.

After 1947, both UK and the US encouraged the Gulf States to have close ties with Pakistan mainly on the basis of its Islamic identity. However, India's support to Palestine and other Arab causes persuaded the Gulf States to consider India as a friend during the 1973 Arab oil embargo. The oil price hike led to huge revenues for the Gulf States, and this wealth drove the building of infrastructure. As the infrastructure industry started booming, Indians in large numbers found jobs in all the GCC states. Currently, this number stands at around six million.

In recent years, India's growing energy needs have propelled it to establish closer ties with the GCC states. Trade and investment are also driving relations forward. Besides, security cooperation is fast becoming important for both sides to meet growing challenges. Since the end of the Cold War, Indian governments have been working to establish close ties with the US in all fields, including defense. The GCC states, concerned about potential threats from Iran and Iraq, have established all-round close ties with the US. It is within this overall framework that India's growing ties with GCC states are assessed.

As Indo-US ties get closer, this is bound to have a positive impact on India-GCC ties. The exchange of high-level political and military visits between India and the GCC countries points to a new warmth in relations, including a willingness to enhance defense and security ties which were unthinkable until recently. Pakistan is no longer seen as a stumbling block in closer GCC-India bilateral ties. The GCC states' concern about terrorism and stability and their support to India on the Kashmir issue have been noted by India. However, India's growing proximity to the GCC states, as well as US-Iran conflictual ties, has put its ties with Iran under strain.

It is against this backdrop that this chapter explores the multifaceted GCC–India relations. The first part deals briefly with historical developments as a background to contemporary issues. The second part looks at India's bilateral relations with each of the six GCC states. The final section attempts to study the challenges India faces in the Gulf region and the new opportunities available in a region undergoing rapid transformation.

The Past in Perspective

The Gulf region, located at the crossroads of ancient trade routes and close to several great river-based civilizations, has since times immemorial been a meeting place for people not only from the neighborhood but also for those from as far away as China, Malay, Java and others. Throughout history, the Gulf region has had maritime contacts with Sind, Gujarat and large parts of the west coast of India. With the spread of Islam and Christianity, ties were consolidated with many Indians converting to Islam and Christianity. Besides, many Jews seeking to escape persecution by the Romans settled in Kerala and other places along the west coast of India. Many Zoroastrians also came and settled in India. All these groups broadly strengthened commercial ties between India and their places of origin. Though the Gulf Arabs had close trading relations with China, by far their most robust interaction was with Indians from all along the west coast. Spices and basic necessities like rice and textiles were exported to the Gulf region, and Indian traders settled all along the coast from Basra to Muscat.

It was only with the arrival of the Europeans – starting with the Portuguese who reached Calicut in 1498 – that the trade supremacy of the Gulf Arabs disappeared, except for Omani influence in East Africa. The Europeans with their bigger ships mounted with heavy guns evicted the Arab merchants and traders from many ports and cities all over Asia, even though it was the Arabs who showed them the way to all major trading centers in Asia. Later, as the British consolidated their rule in India, they also expanded their control over large parts of the Gulf region with the assistance of Indian soldiers and administrative staff, and Indian resources. Large segments of the Gulf population who thrived on lucrative trade with India and beyond were now virtually dependent on British-dominated trade and maritime links. The Gulf Arabs reverted to pearl fishing, and the British transported their principal day-to-day requirements mostly from India. Many Indian merchant families especially from Sind, Kutch, Kerala and Gujarat settled all over the Gulf region while some Arab merchants settled in India, mainly in Bombay, Gujarat and Kerala. Some people in the Gulf region now saw some Indians as collaborators with British imperialism. The British deported undesirable people (reformers and dissident ruling family members) from the Gulf region to India.

The British who had promised independence to the Arabs before and during the First World War, however, failed to keep up their promise, and it was only with the discovery of oil that the Arabs reemerged and resumed their contacts with Asia and elsewhere.

Bilateral Relations

India and Saudi Arabia

India has historical ties with Arabia. A large number of Indians used to go to Arabia to study medicine. The spread of Islam in India led to visits by Indian Muslims to pilgrimage centers such as Mecca, Medina, Karbala, and Mashad. Gradually, India's sea trade passed into the hands of the Arabs who came to dominate the Red Sea, Gulf region and the Indian Ocean. Many Indian *Hajis* stayed to trade in the Holy Land, taking local Arab wives. Some writers say that there was a famous cloth fair near Mecca that used to be the hub for the Indian textile industry to market their products to European merchants, with Arab traders as middlemen. In Jeddah, several hundred Indian families, especially Hindus, had established themselves in a separate colony retaining their distinctiveness in manners, dress and employment. According to one writer, they had taken the place of Jews who had formerly been the brokers but, having offended the Sheriff of Mecca, were driven out to Yemen. Large number of Indian ships from Calcutta, Surat and Bombay arrived in Jeddah with cargoes of cotton, textiles, silk, spices, gems and other materials. The Jeddah merchants made huge profits out of Indian goods which were later transshipped to Suez and Europe, especially to Venice and Genoa. The Portuguese, within a decade after the discovery of the Cape route by Vasco da Gama in 1498, almost monopolized the highly lucrative spice trade from India to the Red Sea and Gulf area at the expense of the interests of Muslim traders and the important sea ports of western India like Cambay and Chaul. Following the consolidation of British colonial power in India, by the middle of the 18th century Indian ships commanded by English officers were a common sight in the Red Sea/Gulf area especially in Jeddah, Aden and Muscat.

Soon after independence in 1947, India recognized Israel on September 17, 1950. This came as a surprise to many in the Arab/Islamic world in view of India's persistent opposition to the partition of Palestine. But New Delhi's unequivocal support to the Palestine cause and subsequently her diplomatic and moral support to Arab national liberation movements in Algeria, Morocco, Tunisia, South Yemen and elsewhere brought it closer even to many conservative Arab states in the area. The coming to power of Gamal Abdel Nasser in Egypt in 1952 and the emergence of secular nationalist Arab regimes in Syria, Iraq and later in Libya, South Yemen, and Algeria to a large extent helped India neutralize the Pakistani offensive over the Kashmir issue. Pakistan, by siding with the British, alienated itself in the region. Egypt went to the extent of declaring that Kashmir was an integral part of India and that "Suez was as dear to Egypt as Kashmir was to India."[1]

However, Pakistan's relentless propaganda against India over Kashmir and other issues continued. By hosting a number of Pan-Islamic conferences, together

1. A.K. Pasha, *India and OIC: Strategy and Diplomacy* (New Delhi: Centre for Peace Studies, 1995), 3, 11-12.

with its refusal to recognize Israel and the support it gave to Arab causes, Pakistan managed to establish close ties with certain Arab/Muslim states especially with Iran, Saudi Arabia, Turkey, Jordan and others. It must be emphasized that more than Islam, it was Cold War politics which enabled Pakistan to mobilize the support of certain Arab/Muslim countries; its efforts to forge a pan-Islamic alliance could not make much headway and had to be abandoned.

Among all its allies in the West Asian region, Pakistan's relations with Saudi Arabia were to prove most rewarding. When King Saud visited Pakistan in 1953, he extended Riyadh's political support to Islamabad on the Kashmir issue.

In addition, Saudi Arabia and Pakistan, together with Turkey and Iran (CENTO partners), became prominent players in the US-Israeli scheme to contain Nasser and Arab nationalist forces. Moreover, Pakistan's rabid hostility towards Arab nationalism and communism was well appreciated by the House of Saud. Thus, a Saudi-Pakistan alliance virtually came to be established in the mid-1960s.

Riyadh termed India as an aggressor in the 1965 Indo-Pak war and warned New Delhi not to take undue advantage of its close ties with the Arab/Islamic states. At the Arab Heads of States meeting in September 1965, Saudi Arabia joined with Jordan in demanding a collective Arab disapproval of the Indian stand on the war. Of course, the final communiqué did not support India or Pakistan, but Saudi criticism of India was due to the close Indo-Egyptian friendship and Nasser's support for the Indian position at several forums.[2]

Egypt's humiliating defeat in the 1967 Arab-Israel war, as also Nasser's death in September 1970, led to a decline in Egypt's influence in the region. Saudi Arabia gradually became the leading Arab state influencing the policies of several Arab states partly due to its huge financial resources. The Saudis under King Faisal quickly seized the opportunity and asserted their leadership in the area by reacting strongly to the damage done to the Al Aqsa mosque in Jerusalem (under Israeli occupation) – the third holiest shrine of Islam – on August 29, 1969 and calling for a conference of Islamic heads of state or government. An Islamic Conference to discuss the Al Aqsa issue was held in Rabat, Morocco on September 22-25, 1969. The summit was attended by 23 Arab/Islamic heads of states and the PLO as an observer. India was officially invited to participate in the conference at Saudi request but Pakistan staged a walk-out from the conference against the presence of the Indian delegation which was led by Industries Minister Fakhruddin Ali Ahmed.[3]

2. *Dawn,* September 20, 1965 cited in SAM Pasha, *Islam in Pakistan's Foreign Policy* (New Delhi: Global Media Publications, 2006), 165.

3. Pasha, *India and OIC*, 98-100.

The Rabat Summit paved the way for the establishment of the Organization of Islamic Conference (OIC) in May 1971. Thirty eight states became founding members of OIC. Saudi Arabia wields considerable influence in the OIC not only due to the location of the organization's headquarters in Jeddah but also due to its major financial contribution towards the OIC budget. A large number of Pakistani nationals work in the OIC Secretariat with some holding key positions. Pakistan, which took keen interest in organizing Islamic conferences where it would raise the Kashmir issue and denounce India alongside making a declaration of world Islamic solidarity, found a very useful partner in Saudi Arabia. With Saudi Arabia's support, it always attempted at such conferences to get the Islamic world to use its pressure in favor of its stand on Kashmir especially after the eruption of militancy in the Kashmir valley in 1989.[4]

The Bangladesh crisis and the Indo-Pak war of 1971 had a major impact on Indo-Saudi ties. Riyadh's position on the crisis at the UN was that the developments in East Pakistan were Islamabad's internal affair and that no other country had any right to interfere in the same. However, India managed to convince the Saudi rulers of New Delhi's sincere desire to live in peace with Pakistan and respect its territorial integrity. The 1972 Shimla Pact and the release of Pakistani prisoners by India helped the atmosphere, as Saudi concern about Pakistani territorial integrity had become an issue in India's bilateral ties.

In the wake of the 1973 Arab-Israeli war, Riyadh (mainly due to the oil embargo and financial resources) emerged as the undisputed leader of the Arab/Islamic states especially due to the mounting isolation of Egypt under President Sadat due to his separate peace policy with Israel under US auspices. In view of their limited military capability, which made them conscious of their vulnerability to external and internal challenges, the Saudis developed close security relations with Pakistan with the blessings of the US. Several hundred Pakistani military advisors were stationed in the Kingdom to bolster the security of the House of Saud. The US-Saudi-Pakistani triangular relationship – which worked effectively to evict the Soviets from Afghanistan to give one instance – has to be kept in mind while discussing the Kashmir issue and the OIC.

The United States was well disposed towards Pakistan's decision to volunteer military training and trained men to Riyadh. In return, Pakistan received Saudi funding for its arms purchases especially from Washington. Saudi Arabia's military

4. Pasha, *India and OIC*, 8; see also Noor Ahmed Baba, *OIC: Theory and Practice of Pan-Islamic Cooperation* (New Delhi: Sterling Publishers, 1994).

aid to Pakistan became a major irritant in relations between New Delhi and Riyadh. At the same time, Pakistan also exploited the issue of communal riots in India by propagating that Muslims were not safe in India.

The growing challenge from Khomeini's Iran, the Mecca Mosque takeover in November 1979, unrest among Saudi Shias, and the continuing Iran-Iraq War, among other issues, posed serious challenges to the House of Saud. In the wake of these events and the continuing Arab-Israeli conflict, especially the Israeli invasion of Lebanon, and the Soviet invasion of Afghanistan, the Saudis gradually realized that their close ties with Pakistan need not come in the way of establishing good ties with India.

The visit of the Indian Prime Minister Indira Gandhi to Riyadh in April 1982 ended the 26-year-long communication gap between the two states and heralded a new era in Indo-Saudi relations. Mrs. Gandhi praised the Kingdom's "constructive role" in the global arena and supported the Fahd Peace Plan on the Arab-Israeli issue describing it as "new hope, conforming to India's stand." She also sought Riyadh's cooperation to strengthen peace and stability in the South Asian region.[5]

However, Indo-Saudi relations became strained in the wake of the militancy in Kashmir (after 1989) and the 1990 Iraqi invasion of Kuwait. Saudi Arabia called for a solution to the Jammu and Kashmir issue on the basis of the UN resolutions saying that the long-standing problem had cast a shadow over Indo-Pakistani ties. Riyadh helped Pakistan build up support at the UNHRC meeting in March 1994. The Saudis, who co-sponsored the Pakistani resolution at the UNHRC on alleged human rights violations in Jammu and Kashmir by India, compelled India's Minister of State for External Affairs Salman Khurshid to say that India was not asking for special rapporteurs to be sent to investigate the condition of women in the Kingdom who were denied basic human rights. Dinesh Singh, India's External Affairs Minister, called the Saudi step at UNHRC "quite wrong," and said that the issue should not be given a "communal color. It would only create difficulties for the Muslims in India."[6]

India's close ties with Saudi Arabia's enemies were viewed with deep suspicion by the Kingdom and have, in fact, partly driven it to support Pakistan on Kashmir and other issues, hurting India indirectly and directly. The overreaction to the plague scare in 1994 by the GCC was perhaps taken at the initiative of Saudi Arabia. Prior

5. A.K. Pasha, "Indo-Saudi Relations: Past and Emerging Challenges" in *Contemporary Saudi Arabia and the Emerging Indo-Saudi Relations,* edited by Gulshan Dietl et al [New Delhi: Shipra Publications], 135.

6. Pasha, *India and OIC*, 99-100.

to that, in 1992, the GCC at Saudi initiative described the Babri Masjid demolition as a "sacrilege and an unpardonable act." The severest condemnation of India on this issue came from Saudi Arabia. The Saudi-financed Jeddah-based *Rabita-e-Alam-al-Islami*, or the League of the Islamic World, also accused the Indian government of being "fully responsible" for the destruction of the Babri Masjid.[7]

Following the end of the Cold War and the emergence of the US as sole superpower and, more importantly, due to a raging Kashmiri militancy, India slowly began to work to ensure that the Saudis took a more balanced view on relations with India and Pakistan. A directive for opening out towards the Saudis came from the top leadership. In the wake of the First Gulf War, the US was openly welcomed by the Gulf monarchies for security and stability in the region. The US has shown (as in Iraq) its determination to safeguard its interest in the Gulf, especially concerning oil and the stability of GCC family rule. New Delhi rightly assessed that in the coming years the US would be preoccupied with the security of the oil-rich GCC monarchies which are vital for its status as the sole superpower. It is in this context that we have to see the significance of Indo-Saudi ties. Soon New Delhi began to engage the US in a dialogue over security measures in the Gulf area, to achieve a breakthrough especially in assuring the Saudis and other GCC states of India's willingness to help them in concert with the US. Under this scheme of things Saudi Arabia was seen as holding the key not only to better Indo-US relations but more significantly to stability in South Asia including the resolution of the Kashmir issue and normal ties with Pakistan. The BJP-led government found the opportunity to cement that effort following the 9/11 attacks in the US, when Saudi Arabia responded to Indian overtures, realizing that both countries face the common scourge of terrorism. Since then, Riyadh has condemned all forms of extremism and terrorism, including the attack on the Indian Parliament in 2001, while making a fervent appeal for peace in the Indian subcontinent. The appeal was again made during Crown Prince Abdullah's meeting with Najma Heptullah, Deputy Chairperson of Rajya Sabha, in Jeddah in 2002. Saudi Arabia's position on Kashmir now emphasizes the bilateral process and a dialogue with Pakistan based on existing Shimla and Lahore agreements, which is in line with New Delhi's stand.[8]

In recent years, there have been several bilateral visits at the ministerial level between India and Saudi Arabia. However, the highlight in the relationship was the visit of the Saudi King Abdullah to India in January 2006. He was the chief guest at the Republic Day celebrations in New Delhi and was the first Saudi King

7. SWB/ME/1559/I, DEC 9, 1992, *Times of India*, July 14, 1992 and December 9, 1992.

8. Pasha, "Indo-Saudi Relations," 139.

to get that honor. The tradition of inviting a head of state as chief guest at the Republic Day parade every year is now considered a measure of the importance India attaches to that country, apart from serving as an opportunity to showcase the country's military might as well as secular and democratic traditions.

India and Saudi Arabia concluded a number of agreements on promoting bilateral investments, avoidance of double taxation, and security matters during the King's visit to India. Meanwhile, a high-level Saudi business delegation to India urged Indian companies and investors to take advantage of the tremendous opportunities in the Kingdom and develop strategic partnerships with Saudi companies. The two countries also signed a memorandum of understanding on meeting challenges such as crime and terrorism.

There are over 1.8 million Indian workers gainfully employed in the Kingdom who send valuable remittances in foreign exchange which form a good part of the trade bill for India. More than 100,000 Indian Muslims go on the Haj pilgrimage annually to the Kingdom besides the several thousands going on the Umra every year. The visit of King Abdullah to India gave a big boost to the tourist traffic between the two countries. Saudi visitor arrivals in India had already increased by 16 percent in 2004 to about 15,000 and they were expected to go up further by six percent. Those figures are bound to rise further as Saudis discover India as a viable destination for medical treatment, education, and sight-seeing. The official Indian airline, Air-India, now generates more than 19 percent of its revenue from the Gulf, with the Saudi sector accounting for 30 percent of that figure. Clearly, relations are likely to see an upswing in the coming years. In the broader context of rapidly improving Indo-US ties, closer Indo-Saudi ties are likely which could include security cooperation to meet common challenges. King Abdullah's visit enabled Indo-Saudi relations to be placed in a wider framework, moving beyond religion, oil, employment, and ties with Pakistan.[9]

Indian Prime Minister Dr. Manmohan Singh led a high-power delegation on a visit to Saudi Arabia from February 27 to March 1, 2010 at the invitation of King Abdullah. This was the first visit by an Indian prime minister in 28 years, and was widely covered by the Saudi press. In an editorial, the daily *Arab News* stated that high hopes rested on the renewal of what has been a historic relationship. "Saudi Arabia's trading importance to India extends beyond the fact that we supply a quarter of India's oil needs. Our non-oil exports have grown strongly in recent years. As India's spectacular economic growth continues, Saudi capital can help finance new ventures." It also said: "Clearly we have much to gain from India's

9. Ibid., 142.

burgeoning IT and high technology sector. With world-class facilities such as King Abdullah University of Science and Technology (KAUST), the opportunities for much closer cooperation, not least on advanced research, are obvious." On the issue of terrorism, it said both India and Saudi Arabia have been experiencing the scourge of terror "and are watching with concern as the region now grapples with the hydra of extremism."

In fact, security and counter-terrorism were issues that received top priority during Dr. Singh's visit to Saudi Arabia. In an interview with the *Saudi Gazette*, Prime Minister Singh said that tackling the common problem of terrorism is something for which India would seek help from Saudi Arabia. "Both King Abdullah and I reject the notion that any cause justifies wanton violence against innocent people," the prime minister was quoted as saying. "We are strong allies against the scourge of extremism and terrorism that affects global peace and security."[10]

In an address to the *Majlis-ash-Shura*, the Saudi Parliament, Dr. Singh said Pakistan needs to 'act decisively against terrorism' if it seeks to benefit from trade and commerce with India: "If there is cooperation between India and Pakistan, vast opportunities will open up for trade, travel and development that will create prosperity in both countries and in South Asia."[11]

Both India and Saudi Arabia face similar threats from common forces and feel the need to have detailed discussions on issues relating to the troubled AfPak region. According to India's former Ambassador to Saudi Arabia, Talmiz Ahmed, "Saudi Arabia is very concerned about the inability of Pakistani leadership to control extremist elements within their country. It is also concerned about what is happening in Afghanistan."

India and Saudi Arabia see terrorism as a common threat. Both countries plan to create a mechanism for real time information sharing and pooling of resources. However, Saudi Arabia is yet to come out in support of a comprehensive convention on terrorism. It still has a problem with the language and definition of what constitutes state-sponsored terrorism.

Meanwhile, India also expressed 'strong support' to a Saudi-proposed initiative aimed at ending the Arab-Israeli conflict.

During the Indian prime minister's visit to Saudi Arabia, 10 bilateral agreements were signed and the Riyadh Declaration was issued. In his address to

10. *Saudi Gazette*, February 27, 2010 and *Arab News*, February 27, 2010.

11. Visit of Dr. Manmohan Singh to Saudi Arabia, February 27-March 1, 2010, *A New Era of Strategic Partnership*, (Embassy of India: Riyadh, 2010).

the *Majlis-ash-Shura*, the prime minister said that India would grow at the rate of 9 to 10 percent for the next 25 years. "We seek Saudi investments in a range of sectors from infrastructure and manufacturing to the services and hospitality sector." Equally, Indian industry is ready to take advantage of the many opportunities that are opening up in the IT, banking, telecommunications and pharmaceutical and hydrocarbon sectors in Saudi Arabia, he added.

The two leaders reviewed the status of implementation of the historic Delhi Declaration signed in 2006 and expressed their satisfaction at the steady expansion of Saudi-India relations since then. During his visit, a pathbreaking extradition treaty was signed to enhance the existing security cooperation between the two countries. The treaty will help the authorities in apprehending criminal elements wanted to stand trial in each other's country. However, it needs to be ratified by both sides before it comes into effect.

Another agreement signed by the two countries was to facilitate transfer of sentenced prisoners to their own country. The third agreement was on cultural cooperation. A memorandum of understanding was also signed on cooperation in the peaceful use of outer space. It was signed between India's Department of Science and Technology (DST) and Saudi Arabia's King Abdulaziz City for Science and Technology (KACST). Besides, Tata Motors has agreed to supply Saudi Arabia's Hotil school buses worth $80 million. A pact was also signed between the Gulf Bureau of Research and DFL, and another between India's Centre for Development of Advanced Computing (C-DAC) and Saudi Arabia's King Saud University. Prime Minister Singh also proposed new partnerships between the two countries in the area of renewable energy through sharing of clean technologies and joint ventures.

For its part, Saudi Arabia wants to develop closer ties with Asian countries, such as India, as it seeks to diversify its oil-reliant economy and expand its oil exports to Asia amid depressed demand from the United States and Europe.[12]

Indo-Saudi Economic Ties: An Indo-Saudi joint commission to promote economic and technical collaboration was established under an economic and technical cooperation agreement signed in April 1981. The commission has been meeting regularly since 1983 in Riyadh and in New Delhi.

India's trade with Riyadh has risen steadily since 1973. In 2006-07, exports touched $2,588.18 million and imports were $13,383.90 million.[13] However, much of this adverse balance is made up by the flow of remittances from the over

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12. "India-Saudi Arabia," *Strategic Digest* (IDSA, New Delhi) 38, no.5 (May 2008): 567-573.
13. Ministry of Commerce and Industry, Government of India. (2006-07 total includes oil import worth over $11 billion).

1.8 million Indian workers in the Kingdom. Moreover, Indian companies, both public and private, have undertaken numerous lucrative projects in the Kingdom and earned huge profits. Saudi Arabia has also extended loans to India through the Saudi Development Fund. Among the projects which benefited from these low interest loans were: Srisailam and Nagarjunasagar power projects in Andhra Pradesh; Rajasthan Canal Project; Koel Karo power project in Bihar; Koraput Rayagad Railway project; Ramagundam Thermal Power Project II; and Nhava Sheva Project.

While the campaign undertaken by the Saudi Ministry of Labor to achieve full Saudization in the sectors of gold and travel and tourism has continued to test Saudi-Indian relations during the last few years, India has to look beyond, given that Riyadh is bound to further intensify its unemployment-alleviation drive. The Saudi Arabian General Investment Authority (SAGIA) has given licenses to Indian companies to set up joint ventures in different areas. Many Indian companies have also taken advantage of the 100 percent foreign ownership of companies in the Kingdom and are establishing themselves in fields such as designing, financial services, and software. Indian investment in Saudi Arabia stands at more than $2 billion, covering 500 joint ventures, and India wants Saudi Arabia to invest in agriculture, construction, manufacturing and pharmaceuticals as well as energy. Bilateral trade reached almost $28 billion in the fiscal year 2009-10.

At present, 49 Indo-Saudi joint ventures are operational in India and over 190 Indian companies – either fully owned or joint ventures – got licenses during 2006-07 to operate in the Kingdom. India's information technology software exports to the Kingdom are rapidly increasing. In April 2005, 42 investments projects from India with an investment of $411 million had been licensed by Riyadh. Further, there were 40 non-industrial projects with an investment of $56.2 million, which took Indian investments in the Kingdom to $467.2 million. India and Saudi Arabia are encouraging cross investments in the industry, mining and energy sectors.

State Bank of India has begun operations in Saudi Arabia, and a Saudi group has built a five-star, 500-room hotel in Hyderabad in Andhra Pradesh. In addition, the Saudi embassy has opened a Saudi school in New Delhi, and plans are afoot to construct a new Saudi embassy in the capital.

Saudi Arabia is the largest supplier of hydrocarbons to India. Former Indian Oil Minister Murli Deora said Riyadh is willing to increase crude supplies to India to 40 million tons from about 25.5 million tons currently to meet the country's rising energy demand. India will add 1 million barrels per day within two years to its 3.5-million bpd refining capacity which would increase Saudi crude exports by 500,000 barrels per day (bpd) over the same period, accorging to Ashok Sinha, head of Bharat Petroleum Corporation (BPCL). "Virtually all Indian oil refineries are designed to process Saudi oil," he told a business gathering. Besides, the Indian government has offered a 10 percent stake in the upcoming Paradip refinery of state-run Indian Oil Corporation to Saudi Aramco for about $650 million, an Indian government official said. "India's geographic dependence on the Gulf is likely to become amplified in the coming years due to limited prospects for enhancing domestic energy production," Riyadh-based lender Banque Saudi Fransi said in a report.[14]

Saudi Arabia's spending plans – totaling $400 billion in the five years to end-2013 – during a global economic crisis that brought economic activity elsewhere to a halt, has sparked unprecedented interest. Further, Saudi Arabia is playing a key role in the talks for a Free Trade Agreement between the GCC and India which began in January 2006.

India and the UAE

Among all the GCC states, India has enjoyed the strongest economic and political relationship with the United Arab Emirates (UAE) since its formation on December 2, 1971. The UAE is among India's top destination for exports and imports much if its oil requirements from there. The huge presence of Indian workers in the UAE makes it an even more significant country for India. With a trade turnover of $4.4 billion in 1999-2000, the UAE was India's biggest trade partner in the GCC. India's exports to UAE in the same year were $2 billion and its imports were $2.3 billion. During 2006-07, bilateral trade stood at $20,673 million and in 2007-08 it was $29,111 million. Some of it is for and from third states; Pakistan and Iran import some Indian products via Dubai. UAE was the first GCC state to provide aid to India through the Abu Dhabi Fund for Economic Development (ADFAED). Among the projects that have received this aid is the Garhwal Rishikesh Chila hydroelectric project in Uttarakhand. The UAE has about 20 joint ventures in India, mostly in the private sector especially in Gujarat and Maharashtra. The offshore and onshore oil drilling platforms plant in Maharashtra is the most significant. UAE held its first exhibition in Mumbai at the end of 2003 where contracts worth $140 million were signed. The Dubai and Sharjah Chambers of Commerce and Industry in March 2004 signed an MOU with India for investments in Indian infrastructure worth $20 billion. Software is the new field in bilateral trade. While firms like

14. "Tightening Ties: Asian Oil Demand and Pragmatism at Crux of Saudi-Indian Relations," Trade Notes: Saudi Arabia, Banque Saudi Fransi, February 27, 2010, 1-8.

Satyam and Infosys are active in the area already, many other Indian IT firms are heading to the UAE too. IT exports to UAE in 2004 were $149 million, up from $100 million in 2003. Besides, Dubai Ports International (DPI) won a $450 million contract to manage, operate and develop the Rajiv Gandhi Container Terminal in Kochi (Kerala) on a BOT basis for 38 years. This will get 33.3 percent revenue to Kochi Port Trust annually. This is DPI's second contract after a 30-year contract for the Visakhapatnam port.

On the other hand, a large number of India's public and private sector companies have taken active part in the industrialization of the UAE through contracts or joint ventures. The projects include a refinery in the Ruwais area in Abu Dhabi by Engineering Projects [India] Limited [EPI], a tube blending plant and a turnkey project by the Balmer Lawrie group, consultancy works for the Abu Dhabi National Oil Co. by ONGC, the laying of a multipurpose pipeline by Engineers India Limited (ElL), and civil construction work for the airport at Abu Dhabi by Engineering Construction Corporation (ECC). Reputed Indian companies like the Tatas, Kamanis, Dastur and others have taken up projects in the UAE. About 160 Indian companies – the largest number from any one country – are present in the Jebel Ali Free Zone. Of them, 56 are joint ventures. The Saadiyat free trade zone and other free trade zones in the UAE have been attracting a growing number of Indian companies. These include private and public sector companies that have been making huge profits which are mostly sent back to India.

On the political front, the UAE took a remarkably restrained stand on Kashmir until 1991. Following the Babri Masjid incident and the Mumbai bomb blasts, however, it shifted from its earlier position. At the OIC foreign ministers meeting in Karachi in 1994, the UAE called for guaranteeing the "national rights and the Islamic identity of Kashmiri people." The UAE minister of state for foreign affairs in his speech expressed concern over the situation in Kashmir and called for settlement of the problem. He said: "We appeal to all parties concerned to work for resolving this problem through wisdom and objectivity and we hope to see a peaceful solution that is acceptable to all parties within the framework of international resolutions and bilateral agreements that will guarantee the national rights and the Islamic identity of people there [Kashmir]."

Following the demolition of the Babri Masjid, the UAE took a series of steps to express its displeasure, including showing its reluctance to immediately receive India's Minister of State for External Affairs R.L.Bhatia, its attempts to cold-shoulder a goodwill visit by the Indian Navy, and its lack of enthusiasm to specify dates for a visit by Prime Minister Narasimha Rao. Some have linked the UAE's attitude with extradition-related issues. R.L Bhatia finally visited the UAE on May 25, 1993 where he rejected any mediation bid to resolve the Kashmir issue. He said, “People can advice on friendly basis, but we cannot accept any mediation.”[15] He also said that the Kashmir issue is a bilateral matter and India did not want any outside interference. However, the UAE gave every possible support to India in connection with the Mumbai bomb blasts. It condemned all sorts of terrorism and violence which resulted in the killing of innocent people. It agreed to work with India to curb terrorism and step up cooperation in security measures. The refuge given by UAE to Indian nationals whom the government of India wants “for crimes committed” in India has become an issue in bilateral relations. In this connection, L. K. Advani, India’s Home Minister visited UAE in July 2001 for issues related to an extradition treaty. Some in the government bureaucracy and media in India continue to portray the UAE, especially Dubai, as a haven for Indian terrorists. The negative publicity needs to be corrected as this might lead to unpleasant problems in future. In order to further improve ties, Natwar Singh visited UAE in 2004 and signed an agreement to boost economic cooperation through reviving the joint commission. Since then a number of high level visits from both sides have taken place putting the bilateral ties on a firm footing.

India and Kuwait

Iraq’s invasion of oil-rich Kuwait on August 2, 1990 posed a major challenge for India. Due to the country’s close political and economic ties with Iraq, an impression was created in the initial stages of the crisis that New Delhi was supporting Baghdad. This led to misunderstanding between Kuwait – and also with other GCC states – and India. However, India strongly disapproved the Iraqi invasion of Kuwait and called it illegal but stopped short of condemning the invasion. Since India did not openly take sides, Kuwait and other GCC states assumed India’s sympathies lay with Iraq. The Kuwait crisis affected India in many ways. New Delhi, mainly due to domestic turmoil, displayed no apparent enthusiasm to resolve the crisis. The minority government of V.P Singh appeared to be primarily concerned with the evacuation of the more than 100,000 Indian citizens from Kuwait and 25,000 in Iraq. This was also because public pressure forced the government to accord top priority to the safe evacuation of Indians. It partly explains India’s decision not to condemn the Iraqi action as it could have jeopardized the repatriation of Indians from the Gulf. India was also faced with the loss of crude oil supplies

15. *India and OIC*, 97-98.

from both Kuwait and Iraq, which compelled New Delhi to look for alternative supplies. During 1990, Kuwait had agreed to sell India about 1.5 million tons of oil while Iraq 6.25 million tons, which included about 4.5 million tons that Iraq was transferring to India on behalf of the USSR against rupee payment. Before the crisis began India had received only half the oil from the total of about 7.75 million tons and it was difficult for India to immediately procure the rest.

Moreover, increase in oil prices in the spot market from about $16-17 per barrel in July 1990 to $35 per barrel upset India's budget. According to one conservative estimate, India lost nearly $3 billion in foreign exchange alone. This includes $2.36 billion for extra import of oil, $200 million to evacuate Indians from the Gulf States and $200 million as loss of exports to these two states and also about $200 million as loss of remittances sent by Indian workers from both the countries. All of these economic compulsions pushed India to seek an IMF loan where US support was crucial.

The Indian government partly shared the fear of the West, in particular the US, that Saddam Hussein would control 50 per cent of the world's oil reserves, if he were not pushed out of Kuwait. No wonder India initially allowed the refueling of US military planes and went along with the sole superpower at the UN. In reality, isolated due to acute domestic crisis and regional and global factors , India had no worthwhile role to play in most of the UN resolutions which were passed before it became a non-permanent member of the UNSC. Under the leadership of Yugoslavia, NAM went along with the West and UN Resolutions and unfortunately India's role was marginal. Many have attacked India's approach to the Iraq-Kuwait crisis as "malleable," "deliberate ambiguity," "wait and see," "opportunism," and so on. Undoubtedly, getting back Indian workers and their welfare and safety in other Gulf States was uppermost in the minds of the policy-makers, besides securing oil supplies, but New Delhi was equally concerned over the escalation of the crisis and its probable spillover effects. On the other hand, India was committed to adhere to the UN resolutions on Iraq, but at the same time, took care not to openly condemn Iraq's aggression. This was in line with India's policy to seek friendly ties with all states in the West Asian region. Besides India had little room to maneuver in the Gulf crisis, given the resolve of the West and the GCC to contain Iraq. As a leading member of NAM, it did take some feeble initiatives, but these came too late, partly because of deep differences within the movement, especially Yugoslavia's one-sided stance.[16]

16. A.K. Pasha, "India and West Asia: Challenges and Opportunities" in *India's Foreign Policy,* edited by Anjali Ghosh et al. (Delhi: Pearson, 2009), 301-356.

It must be mentioned that India expressed serious reservations about 'the right to interference' in the internal affairs of a member nation (Iraq) on humanitarian grounds, especially in the case of Kurds and Shias in Iraq. This was with reference to UN Resolution 688 of April 5, 1991. Moreover, India is a member of the 35-nation United Nations Iraq-Kuwaiti Observer Mission (UNIKOM) to patrol the demilitarized zone (DMZ) along the Iraq-Kuwait border. India is also associated with the monitoring commissions and teams meant to supervise Iraqi payment of compensation and elimination of weapons of mass destruction. However, due to the ambiguous stand taken by India on Iraq's aggression towards Kuwait, India's ties with the Kuwaitis were strained.[17]

On the Babri Masjid issue, Kuwait's Foreign Minister Shaikh Sabah Al-Ahmed expressed the hope that India would rebuild the mosque and hand it over to the Indian Muslims. He said: "We hope that the Prime Minister Narasimha Rao who had earlier promised to rebuild the structure will stick to his resolve." In an interesting development, the Kuwaiti government blocked a decision by a community-run supermarket to dismiss Indian Hindu employees in protest against the Babri Masjid demolition. The Kuwaiti Minister of Social Affairs and Labor Jassem Mohammed al Qun ordered the Al Sabaahiya al Ahmadi Cooperative Society supermarket to rescind its December 15, 1992 decision. In a related development, in letters to the editor of Kuwait's *Arab Times*,[18] writers requested the GCC states not to recruit Indian Hindu workers and send back those who were already in the country. It was also reported that many in Kuwait were very keen to organize demonstrations and close shops in protest against India, but apparently this could not materialize in view of the Kuwaiti government's tough opposition to such activities.

India's External Affairs Minister Madhavsinh Solanki visited Kuwait in mid-February 1992, the first ministerial visit to Kuwait since the 1990-91 Iraq-Kuwait war. The visit was primarily aimed at building bridges with Kuwait. As seen earlier, relations between the two had deteriorated, and Kuwaiti leaders publicly expressed anguish and surprise at India's stand during the Kuwaiti crisis. After talks with the Kuwaiti leaders, Solanki said, Kuwait wanted India and Pakistan to resolve the Kashmir issue through peaceful negotiations in accordance with international norms. L.L. Mehrotra, Secretary in the MEA who accompanied the Minister, claimed that the visit was a "diplomatic triumph." Apparently both were impressed

17. P.S. Jayaramu, "India and the Gulf Crisis: Pro-Iraq or Pro-India" in *The Gulf in Turmoil: A Global Response* ed. A.K. Pasha (New Delhi: Lancers Books, 1992), 148-162; see also D. Jeevan Kumar, "Role of NAM" in *The Gulf in Turmoil*, 127-147.

18. *Arab Times*, February 16, 1992 and December 26, 1992.

by Kuwait's support to the Shimla agreement, and India was also satisfied with Kuwait's explanation about its criticism of India at the OlC meeting.[19]

However, in protest against the Babri Masjid demolition, a proposal was tabled in January 1994 in the Kuwaiti National Assembly by two Kuwaiti independent MPs, Khalid al Adwah (an Islamist) and Mohammed Sharar, for boycott of Indian Hindu workers and a ban on their entry and recruitment into Kuwait. The Kuwaiti government on August 15, 1994 rejected the proposal saying such a move would worsen Kuwait's relations with "friendly India" and stressed that the proposal violated political and religious norms. The state minister for cabinet affairs Abdul Aziz al Dakheel said Kuwait was not solely responsible for Muslim affairs around the world. "Defense of Muslims should be made in a collective way through Islamic organizations concerned especially the OIC," he said.[20] Dakheel also said "only a small group of Hindus were terrorizing Muslims in India and this should not be generalized. By taking a decision to ban Hindus such relations will worsen and India may take a decision to ban Kuwaitis from visiting India, he added. Dakheel stressed that Muslim countries like Pakistan, Bangladesh and Indonesia had not even thought of taking such a measure. He felt the proposal was likely to give the impression that Islam was a racial religion and thus harm the cause of Muslims rather than serving them. He felt that the adoption of the proposal would spoil Kuwait's image and its human rights record. Moreover, Kuwait is still subject to criticism on several issues, including that of human rights, Dakheel said. Acceptance of the MPs demand would also have encouraged the Islamic fundamentalists groups in Kuwait, the Minister pointed out. The Kuwaiti government's firm position in rejecting the call by the two MPs to punish the whole Indian Hindu community for the mistake of a fraction of the community is commendable and demonstrates the progressive character of the Al Sabah regime in Kuwait. Moreover, any acceptance of the MPs' demand would have weakened Kuwait's struggle against Iraq as several groups in India would have publicly called for an end to the UN sanctions against Iraq from which India had been suffering in terms of lost export opportunities and remittances and the need to find alternative sources to offset loss of oil supplies from Iraq.[21]

In the aftermath of the Gulf War, India through its skilful diplomacy succeeded in clearing the misunderstanding with most GCC states. However, ties with Kuwait

19. A.K. Pasha, "Iraq: Foreign Intervention and Regime Survival," *in Contemporary Gulf*: State, Society, Economy and Foreign Policy edited by A.K. Pasha (New Delhi: Détente Publications, 1999): 261-298.

20. *Kuwait News* (New Delhi, vol 2, October 5, 1994), 3.

21. Pasha, "Iraq: Foreign Intervention and Regime Survival."

did not attain normalcy as Kuwaiti leaders publicly expressed anguish and surprise at India's ambivalent attitude during its occupation by Iraq. The Kuwaiti Foreign Minister Shaikh Sabah Al-Ahmed during his visit to India in February 1992 had said, "We will forgive, but not forget." At a number the OIC meetings after the war, Kuwait launched a scathing attack against India and supported Pakistan's stand on holding a plebiscite in Kashmir. Even though ties between India and the GCC states improved gradually, the Kashmir and Ayodhya issues continue to bedevil relations to some extent even now.[22]

Despite Kuwait's unhappiness over India's ambiguous position during Iraq's invasion, a number of Indian firms were given contracts in the rebuilding of Kuwait. India has shown interest in Kuwait's downstream petrochemical sector whereas Kuwait has evinced interest in Indian petrochemical complexes. India has also shown interest in a gas-based fertilizer plant in view of the huge quantities of gas in Kuwait and in a refinery on the west coast of India. There is also a one billion dollar joint venture proposal between Indian Oil Corporation (IOC) and Kuwait Petroleum Corporation (KPC) to build a refinery in Orissa. A 14-member delegation from Powerloom Development and Export Promotion Council visited Kuwait in May 2001 and organized a buyer-seller meet. Shortly after in June 2001, an Indian jewellery and gold exhibition was held in Kuwait.

The Kuwait-India total trade turnover during 1999-2000 was $2.07 billion. India's exports to Kuwait were $154 million while imports were $1.91 billion. In 2005-06, bilateral trade was $975 million, and it moved up to $6,601 million in 2006-07 and further to $8,375 million, excluding oil and products, in 2007-08.

Kuwait Fund for Arab Economic Development (KFAED) has been giving economic aid to India on low interest rates since it started in 1975-76. The Fund has tried to limit the impact of political considerations on its lending operations. Most of the studies regarding operations offered have noted lack of discrimination on political grounds in loan disbursements. Kuwait has given aid to the following projects in India: Kalindi hydro-electric project; power projects I, II; Kopli hydro electric project; Anpara thermal power projects (coal handling and transport); Kerala fisheries development project; and Thal Fertilizer project.

A Bilateral Investment Protection Agreement (BIPA) was signed between India and Kuwait on November 27, 2001. A number of ministerial visits have given a boost to bilateral ties. In 2004, during the visit of Kuwaiti Foreign Minister Shaikh Mohammed Sabah Al Salem Al-Sabah to India, the two countries signed

22. A.K. Pasha, "India and the GCC" in *India and the Islamic World*, eds. Riyaz Punjabi and A.K. Pasha (New Delhi: Radiant Publishers, 1998) 41.

three agreements – an extradition treaty, a treaty on mutual legal assistance in criminal matters, and an agreement to bolster bilateral trade and economic links. In 2006, the Kuwaiti Emir visited India. Three years later, India's Vice-President M.H Ansari went on a visit to Kuwait.

Indians working in Kuwait will be a major beneficiary as Kuwait plans to scrap its sponsorship system for foreign workers, a practice that has often been described as modern-day slavery. The sponsorship system was to be scrapped in February 2011 with the launch of a labor affairs authority, Labor Minister Mohammad Al Afassi said. Under the present system, foreigners cannot enter, work, switch jobs or leave a Gulf country without the approval of a sponsor who has full control over their movements. "This will be our gift to expatriates on the occasion of Liberation Day," Al Afassi told Kuwait's *Al Rai* daily. Al Afassi has been spearheading a drive to do away with the system, Expatriate workers constitute almost two thirds of Kuwait's total population of 3.3 million, and a large number of them are Indians. Kuwait will become the second Gulf country to abolish the system after Bahrain, which decided in 2009 to end its long-standing requirement for all foreign workers to be sponsored by a citizen. Local and international organizations have often criticized the existing system and have made repeated calls for its abolition even as business communities have been lobbying in support of the sponsorship system.

India and Bahrain

Bahrain is now allowing Indians with more than 15 years experience and a healthy bank balance to reside in the country even without work permits. Bahrain was the first GCC state to drop the sponsorship requirement for business and work permits which was warmly welcomed by India. On the economic front, Indo-Bahrain trade turnover in 1999-2000 was $435 million. India's exports to Bahrain were $60 million and imports $375 million. Bilateral trade during 2005-06 was $381 million; in 2006-07, $654 million and in 2007-08, it jumped to $1081 million excluding oil and products. Bahrain's; Prime Minister Shaikh Khalifa bin Salman Al-Khalifa's visit in January 2004 – the first to India – boosted cooperation between the two countries. The two countries signed an extradition treaty, agreements on mutual legal assistance and judicial cooperation in civil, criminal and commercial matters, a bilateral investment promotion agreement and an agreement to avoid double taxation. The ICICI and SBI were given offshore banking unit licenses and a restricted full commercial bank license. The Electronic and Computer Software Export Promotion Council of India sent a 15-member delegation to Bahrain in May 2001. They signed a MoU with Bahrain Economic Development Board for development of the IT sector. Bahrain, which takes a balanced view of "UN resolutions and framework of Shimla" position, has removed UN resolutions and kept the Shimla framework in its published text in the context of Indo-Pak relations for a number of reasons.[23]

India and Qatar

Indo-Qatar trade turnover in 1989 was $38 million. By 1995, it had jumped to $130 million. Bilateral trade touched $2,397 million in 2006-07 and in 2007-08, $2,995 million. There is a wide gap in Indo-Qatari trade reflected in the growing deficit in balance of trade for India. There are about 200,000 Indian workers in Qatar who send valuable foreign exchange back home, which is quite helpful in reducing the balance of trade deficit faced by India in its trade with Qatar.

On May 16, 2001, Qatar and India discussed the import of LNG by India from Qatar at a meeting in Seoul. Petronet LNG, India's first LNG venture with a capacity of 5 million tons, received its shipment from Qatar's RasGas in January 2004 as part of a 25-year deal worth $859 million annually. Qatar's Rasgas tied up with Petronet LNG for supply of 7.5 million tons per annum of LNG for Petronet's plants at Dabhol, Maharashtra and at Cochin, Kerala. India hopes to get almost 25 percent of its gas requirements from Qatar. A two-member delegation from Indian Oil Corporation visited Qatar from June 23-25, 2001 to discuss cooperation in the areas of technical consultancy and training manpower. M/S Bharti Shipyard of Mumbai signed a contract worth $4.6 million with Halal offshore services company of Qatar in July 2001. An Indian shipbuilder, ABG Shipyard, entered into a $100 million contract with a Qatari company for four identical supply vessels.

In May 2005, Qatar's Amir Shaikh Hamad bin Khalifa Al-Thani visited India and Indian Prime Minister Manmohan Singh was in Doha on November 16, 2008 and signed a security and defense cooperation agreement. India and Qatar signed an agreement on cooperation in security and law enforcement as well as an agreement on defense cooperation in November 2008. Both agreements provide for the exchange of information and experts as well as for periodic discussions on issues of mutual interest.

India and Oman

It is only since 1970 Oman has been following an independent foreign policy under Sultan Qaboos. During the 1971 Bangladesh crisis, Oman was the only

23. A.K. Pasha, "India and West Asia."

Arab (Muslim) country that did not completely side with Pakistan. In recent times, high-level visits have taken place between the two states. Indian Prime Minister Rajiv Gandhi visited Oman in November 1985. Eight years later, Prime Minister Narasimha Rao visited Oman in June 1993. Since then all Indian PMs have visited Oman. Indian foreign ministers as well as other ministers too have visited Oman underlining the importance both sides attach to their friendship. In a rare visit abroad, Oman's Sultan Qaboos visited India in April 1997. The high-level political visits from both sides have not only given impetus to ties but have impacted all sectors.

The fundamental basis for growing Oman-India relations is the realization that both can work closely together to ensure a stable and prosperous Gulf region and South Asia which are increasingly getting inter-linked in a number of ways. Due to Oman's strategic location at the Strait of Hormuz and its proximity to the Bab-el-Mandeb, the two countries are willing to cooperate in relation to Gulf security and maritime security near the Somalia coast. Oman-India military relations are growing, and the two sides have held joint air and naval exercises.

Due to India's growing energy imports from the Gulf region and mounting turmoil over there due to wars, revolutions, and foreign interventions/presence, cooperation with Oman assumes strategic dimensions for India. In this connection, there are over 38 bilateral agreements signed between India and Oman covering most aspects of their ever-expanding bilateral relations. Oman has decided to participate in two oil refineries in India. Oman-India Fertilizer Company (Omifco) is a $1 billion project to produce 1.65 million tons of granulated urea and 0.25 m tons of surplus ammonia per year. Indo-Oman trade improved from $96 million in 1990 to $134 million in 1996. India's exports to Oman increased from $56 million to $114 million in 1996. India's imports from Oman declined from $40 million in 1990 to $20 million in 1996. Among all the six GCC states, Oman is the only state in the GCC with which India has balance of trade surplus. In 1999-2000, Indo-Oman trade turnover was $194 million. India's exports to Oman were $132 million and imports $62 million. The bilateral trade in 2005-06 was $674 million; in 2006-07, it was $1,089 million and in 2007-08, $2,071million excluding oil and products. The two-way total non-oil trade between Oman and India, which was less than $200 million in 2000, reached $4.5 million during 2009-10.

The Indian Minister of Chemicals and Fertilizers S.S. Dhindsa visited Muscat on December 4-5, 2001. During the visit, he signed key agreements relating to the Oman-India Fertilizer project in Qalhat, south of Muscat. There are a number of joint ventures which Indian companies have taken up in Oman.

A delegation from National Defense College visited Oman from May 20-25, 2001. The delegation called on the Ministers of Defense and Foreign Affairs and interacted with the Omani defense officials and visited defense institutes in Oman. Also, an Indian military delegation led by Vice Admiral M J. Singh visited Oman from October 27-31, 2001 to observe the Oman-British joint exercises and had extensive interaction with their Omani and British counterparts. Indian Defense Minister George Fernandes visited Muscat in September 2002 and the possibility of joint ventures related to defense production was explored. India and Oman signed an extradition treaty in 2004.

In 2005, both India and Oman celebrated 50 years of diplomatic relations and a number of programs were held in the two countries. India and Oman have agreed to intensify cooperation in the IT, tourism, education and HRD, health care and small and medium industries sectors. Oman is also keen to upgrade its technical and vocational skills and this offers a good opportunity for Indian investors and companies for investments. An estimated 150 Indian companies are operating in Oman covering almost all economic sectors and also making huge profits. Many new joint ventures are in the pipeline. The Indo-Oman Joint Commission Meetings have been regularly held in Muscat and New Delhi which have reviewed the entire gamut of bilateral economic relations and means of enhancing bilateral trade between the two countries. Joint Business Council Meetings have been held at Oman Chamber of Commerce organized by OCCI and Federation of Indian Chambers of Commerce and Industries (FICCI).

The pride of place in India-Oman economic relations is occupied by the $969 million Oman India Fertilizer Company at Sur. India imports its entire production of urea and ammonia which is crucial for increasing its food production to feed its growing population and for its food security. The acquisition of the Shadeed Iron and Steel plant in the port city of Sohar for $464 million and the Oman Oil Company raising its stake from 4 percent to 26 percent in the $1 billion refinery at Bina in Madhya Pradesh are a few shining examples of burgeoning economic cooperation. There has been an increase in two-way investments during the last two-three years. The Omani side has agreed in principle to aid the revival of a few closed plants of the Fertilizer Corporation of India (FCI) and Hindustan Fertilizer Corporation Ltd. (HFCL) and to the expansion of RCF (public sector unit of the Government of India) through investment by the Oman Oil Company. Oman and India have agreed, in principle, to form a senior level working group representing the Government of India, RCF, and KRIBHCO from the Indian side and Oman Oil Company from the Omani side for initiating early due diligence. It is estimated that these will bring in investments of close to $3 billion. Also, BPCL and Oman Oil Marketing Company agreed to collaborate and jointly study the possibility of setting up a lube blending plant in Oman and marketing in neighboring countries.

The India-Oman Joint Investment Fund with a seed capital of $100 million, to be increased upto $1.5 billion, has been agreed upon through a MoU signed during the Indian PM's visit in November 2008. This initiative is expected to function as a catalyst to promote a partnership between the private sectors of the two countries and enhance the trade and investment between the two countries. India has stressed on the need for the fund to be operational and augmented immediately. A number of sectors have been identified for investment cooperation such as agriculture, airports, sea ports and railways; hospitals; power, including nuclear power; renewable energy including solar and wind energy; mining; oil and gas; education and skill development; tourism; healthcare; infrastructure; and chemicals and fertilizers. Both countries agreed to pursue cooperation in the field of human resource development especially skill development in the fields of Technology, Management and Information Technology (IT) including cooperation in Small and Medium Enterprises (SME) sector.

The Omani side has expressed its keenness for setting up super-specialty hospitals in India and diagnostic facilities in the form of joint ventures. Investments in agro processing, especially in Indian SEZs, have also been discussed. Oman with its strategic location has entered into Free Trade Agreements with several countries including the US, which offers huge opportunities for Indian products to be sent to these markets apart from the GCC. Oman is keen to emulate Indian success especially in developing its small and medium industries sector.

Emerging Security Partnership

Over the years, India and Oman have also strengthened their defense and security relationship. The first major step towards defense cooperation with India was taken by Oman when Sultan Qaboos sent Sayyid Badr bin Saud bin Hareb Al Busaidi, Oman's Defense Minister, to have talks with India's Defense Minister Pranab Mukerjee in Delhi on December 6, 2005. He led a high-powered military delegation. A MoU was signed between the two defense ministries on joint military cooperation on December 7, 2005. The areas of cooperation include exchange of expertise in military training and Information Technology, utilization of military and educational courses and programs, exchange of observers attending military exercises and exchange of formal visits. The other areas of cooperation include providing assistance in identifying technical specifications of military equipment to facilitate direct agreement with manufacturing companies of both countries. The agreement also includes maintaining quality assurance by Indian Ministry of Defense for contracts signed within the framework of the MOU and collaboration in other mutually agreed spheres of defense cooperation.

To conclude the year-long celebrations to mark the 50th anniversary of India-Oman diplomatic relations, India sent the warship INS Mumbai in early March 2006. Admiral Arun Prakash, Chairman of Chiefs of Staff Committee of the Indian Armed Forces, visited Oman and held talks with senior Omani officers in Muscat. Oman's Assistant Chief of Staff Brigadier Saud Suleiman al Hobsi underlined the excellent defense relations enjoyed by Oman and India, which, he said, are going on the right track. One good example of this is the INS Mumbai's visit to Oman, apart from the exchange in training programs and joint exercises, he said. Arun Prakash outlined the potential for further cooperation between the Omani and Indian navies, citing the long maritime histories of the two countries. "The future lies in the seas - as a source of energy and mineral resources as well as for furthering trade and commerce. But the seas also hold hazards – in the form of piracy, terrorism and illegal trafficking of human beings. Both our navies should work together to confront these challenges.While seeking to improve military cooperation with Oman in the future, India has to be sensitive to Saudi Arabia and Iran, the two big powers in the Gulf region. The Indian Defense Minister Pranab Mukherjee on a visit to Oman in March 2006 said: "We want to expand defense cooperation, especially between ordnance factories and their counterparts in the field of spares and equipment." The two countries hold regular military exercises and India welcomes joint defense training programs. The visit of the Indian Prime Minister as well as Defense Minister to Oman should also be seen against the backdrop of growing ties between India and the US especially the nuclear deal and military cooperation, as also mounting US pressure on Iran over the latter's nuclear program.

India-GCC Trade Ties:

India's economic linkage with the GCC increased during the 1970s and 80s especially due to growth in oil imports. Also the oil-rich GCC states embarked on an ambitious economic development program, which created a huge demand for labor in the GCC states. India became a major source of manpower. The rapid modernization of the GCC states generated demands for goods and services for which India seized the opportunity. The five million plus Indians currently in the

GCC states send about $28 billion as remittances. Gulf Indians helped Resurgent India Bonds for raising foreign exchange. Indian banks have also mobilized deposits and investments from Gulf Indians and others. The GCC states provide a good market for India's exports. During 1999-2000, India's exports to GCC were nearly $5 billion and imports from GCC amounted to $7 billion. The bilateral two-way trade exceeded $12 billion. Information Technology exports to GCC are poised for a significant upswing. The India-GCC trade during 2005-06 was $19,580 million; in 2006-07, it touched $47,376 million and in 2007-08, $66,755 million. This does not include import of crude oil and oil products. Thus, in 2007-08, the UAE accounted for an overwhelming 66 percent of GCC's total trade with India, followed by Saudi Arabia (16 percent); Qatar (8 percent); Kuwait (5 percent), Oman (3 percent) and Bahrain (2 percent).

After returning from a successful visit to the US where an agreement on nuclear issues was signed on July 18, 2005 and a push for enhanced cooperation in other areas was made, Prime Minister Manmohan Singh instructed the Commerce and External Affairs Ministries to work on a free trade agreement with the GCC. In the early 1990s, Prime Minister P.V. Narasimha Rao had taken a strategic decision to turn the radar screen of Indian foreign policy eastwards, especially towards ASEAN countries. More than a decade later, India's "Look East" policy has paid rich dividends as its trade and economic ties with ASEAN have expanded significantly. Prime Minister Singh's instruction in early August 2005 turned India's attention westward. According to Sanjaya Baru, then media adviser to the PM, the importance of a GCC-India free trade pact lies in India incorporating Central and Western Asia within its extended neighborhood or as the Prime Minister described it, "our natural economic hinterland." But what is interesting to note is that a more compelling reason drives India's decision to give relations with GCC countries some economic teeth. Without exception all the GCC countries have unambiguously indicated that they would be interested in investing in India. One must remember that all the GCC states have close relations with the US and India's own ties with the US have seen an upswing in recent times. The Prime Minister gave clear instructions to the concerned Ministries to work with individual GCC countries for agreements similar to the agreement with Singapore which would cover services and investment. Efforts towards drawing up an Indo-GCC agreement are being made.

Future Directions in India-GCC Relations

Over the last 30 years, the Gulf region has seen several wars and continued instability. The implications flowing from the 1973 Arab-Israeli war and the oil embargo imposed by OAPEC on US and its allies to force Israel to withdraw from Arab lands captured in the 1967 war are still being felt. The Arab oil embargo lasted for nearly six months and the loss of oil supplies was estimated at 4.4 mbpd. Barely had the world recovered, oil supplies were disrupted again for about six months due to the 1979 Iranian revolution causing a loss of about 3.7 mbpd. The subsequent eight-year long Iran-Iraq war not only disrupted oil supplies from two major oil producers but also pushed oil prices from $14 to $35 per barrel. In August 1990, Iraq invaded Kuwait and the UN imposed an embargo on Iraqi oil supplies. Of course, Kuwait was able to resume its oil supplies soon after its liberation in early 1991, but the invasion, war, and UN sanctions pushed oil prices to record levels. The US expected India and the world to support its invasion of Iraq to overthrow Saddam Hussein. It repeatedly argued that Saddam Hussein was manipulating world oil prices and once he was removed there would be calm, and oil prices would stabilize. However, oil prices rose rapidly, reaching $78 in July 2006 and zooming to $148 per barrel in 2008. US policies to put pressure on Syria and Iran and the July-August 2006 Israeli invasion of Lebanon to contain Hizbollah worsened the situation. Not only have oil prices been affected, but the region is sliding towards more extremism and growing animosities which are bound to affect security and stability in the region with consequent implications for India.

The 1973 oil crisis pushed India's oil bill by over 50 percent. The Iranian Revolution and the Iran-Iraq war and the disruption of oil supplies and the oil price hike that followed also affected India's economy. Moreover, the increase in oil prices in the international spot market from about $16-17 per barrel in July 1990 to over $35 per barrel upset India's budget. According to a conservative estimate, India lost nearly $3 billion in foreign exchange alone. India's oil demand is expected to grow from 2.4 mbd in 2003 to 6 mbd in 2025. Any disruption of oil supplies or increase in oil prices due to an uncertain situation in the Gulf will adversely affect Indian economy both in the short and long term.

After 9/11 it has become obvious that some countries in the Gulf, especially Saudi Arabia, are looking to the East and they find India an attractive partner in all areas. In the emerging scenario, India needs to take a long-term view of its Gulf policy. The biggest challenge for Indian foreign policy is not only to sustain its close ties with the GCC states but also retain the traditionally close ties with Iran. In the present circumstances, India while strengthening relations with the

GCC states should extend support to such states that are willing to initiate genuine political reforms, share power with people and enhance their own legitimacy, and understand US hegemonic goals. Under the notion of the war on terror, the US is justifying its military intervention to contain terrorism. All of this is mounting pressure on the states in the region as also on India. Not only have some of the Gulf rulers become nervous due to US-incited developments but despair and discontent among the unemployed youth in the region is also mounting.

India, after having consolidated its multifaceted ties with the ASEAN countries through a balanced and pragmatic approach, is gradually focusing on deepening and widening the multifaceted relations with the GCC states. Serious attempts are being made at the highest levels to identify new areas with potential for growth. Pragmatic assessments are being made to see the existing as well as emerging challenges in a new perspective so as to visualize a future trajectory in order to devise new and innovative policies. The key factor driving this policy is India's quest for energy security. While uncertainty persists over the Iran-Pakistan-India (IPI) pipeline due to US opposition, Qatar is emerging as a reliable supplier of LNG to India. Despite the global search for oil/gas resources, the focus remains on the Gulf region to ensure adequate supplies to sustain the country's high economic growth. The Gulf region is an important foreign exchange earning zone from the standpoint of growing trade, workers' remittances, investment opportunities, and tourism but now new policy initiatives are being taken to realize the huge potential in these areas which remained unexplored. But instability in the region poses a greater threat than ever before, as India's reliance on Gulf oil is growing. It is well known that all the GCC states have security agreements with the US. Issues related to security (including maritime) and stability in the Gulf region are bringing India-GCC states-US closer. A modest beginning has been made for cooperation in the field of security with the GCC states. There is absolutely no doubt of the growing three-way convergence, and all-round close cooperation will be the new feature in the near and medium term.

The economic-commercial content in the India-GCC relationship is growing and has more potential to expand for mutual benefit. Indian leaders have been urging investors in the GCC to invest their surplus liquidity in the infrastructure sector in India. According to estimates, India needs over $500 billion for financing infrastructure building in the next five years. The new development for which support is being mobilized is that India would be working in tandem with the US in the GCC region to further promote its core interests. India and the GCC states have taken steps towards initiating negotiations for a free trade pact. India considers the

GCC region as its "natural economic hinterland." The presence of over five million Indian workers in the GCC states serves as a bridge contributing to wealth and prosperity for both India and the GCC states. Their growing remittances act as a cushion to the increasing oil prices/bill. As the job profile of Indian workers is changing, salaries are increasing and with it the need for new financial institutional cooperation. India's public and private financial institutions are seeking greater cooperation with financial institutions in GCC states so as to cater to the growing financial needs of both the peoples. Growing movement of people between the two regions has led to Air India and GCC airlines expanding their services to new places in both regions. Growing competition among airlines has led to better services and cheaper fares for passengers. As the demand for Indian workers increases, more and more recruiting agencies are coming into the picture, as getting skilled people to GCC states has become lucrative. However, problems are also multiplying like non-payment of salaries, and other restrictions, as also human rights violations. There is need for more rigorous monitoring and regulation of labor as manipulation has led to unhealthy practices. There is also growing concern in India about the religious extremist groups in the GCC states targeting Indian workers due to developments in Iraq and elsewhere in the region as also due to India's close proximity to the US and Israel and now the strain in Indo-Iranian ties.

From India's perspective, Qatar has emerged as a reliable supplier of LNG, Bahrain for financial cooperation, UAE for trade, educational and cultural contacts, Oman for naval and security cooperation, Kuwait for oil and petroleum products, trade and investments; and Saudi Arabia for (haj) pilgrimage, oil, trade and Indian workers. All the GCC states have retained their diverse ties with India.

This is not to overlook the new challenges emerging from the Gulf region. It would be fair to mention that most GCC regimes are on the defensive due to mounting internal security challenges and India implicitly has been supporting conservative Arab regimes lately. New Delhi needs cooperation from the GCC states, especially Saudi Arabia and UAE, to fight terrorism in Kashmir and other parts of India and in the larger context of peace and stability in South Asia. It remains to be seen how the GCC states use their influence over Pakistan to stop its mischievous attempts to undermine Indian interests. At the same time, India is also working closely with the few secular and democratic forces in the region as also the dominant world powers which have vast stakes in the region to maintain security and stability that is so essential to protect its vital interests. It also endeavors to prevent the spread of violence and terrorism from this volatile region (especially from Palestine, Iraq, Afghanistan, Pakistan) to India in future. Hence, there is an urgent need to enhance India's interaction with the GCC countries and cooperate with them on issues which are vital to Indian interests such as maritime and energy security. At the same time, India should not hesitate from actively encouraging the process of political change and modernization because once the Arab regimes become democratic and responsive to popular demands, their legitimacy would be enhanced and, more significantly, their dependence on outside states especially the US would come down. This may lead to reduction in outside military and political intervention. Not only will this take care of the growing anti-Americanism as reflected in the numerous religious groups that seek to take advantage of this resentment, but we can avoid Iran-like situations (1979) which impacted India for decades and others as well. The big question is: Are the GCC monarchies willing to share real power with their people/elites and have vibrant democratic structures thus reducing their dependence on the US? The other question is: will the US allow them to become truly democratic and independent of US influence?

The developments in Iraq, especially growing violence and sectarianism, are pushing the country (until recently secular) towards religious chaos and perhaps fragmentation. US pressure on Iran may lead to greater violence in Iraq. Together with the lack of infrastructure, growth of religious groups and their militias and US inability to handle the developments, the impact of developments in Iraq are likely to impact the region as a whole if not beyond. Shia-Sunni tensions are rising in the GCC states, especially in Saudi Arabia, Bahrain and Kuwait, in view of developments in Iraq. If the US or Israel attacks Iran, Tehran may retaliate by attacking oil tankers in the Gulf or Strait of Hormuz. Oil terminals and platforms may also become vulnerable thereby pushing oil prices upwards. If violence spreads in the Gulf region, Indian workers from some GCC states may have to be evacuated. India should prepare contingency plans to move the workers to nearby safe places to avoid the panic situation witnessed during 1990-91 Kuwait crisis.

Until recently, India saw the short-sighted US policies as undoubtedly generating tremendous tensions in the Gulf region but India's response has been to quietly redouble diplomatic efforts to engage the US, Arabs and other stakeholders in the Gulf region. By keeping its lines of communications open and following a wise and judicious policy at home, India must strive to reduce the number of flashpoints in the Gulf region, where accumulation of sophisticated arms, lack of democracy, growth of religious extremism, and availability of oil/gas and enormous wealth has drawn global attention to India's extended neighborhood.

6

GCC-India Relations: Economy First, What Next?

N. Janardhan

Introduction

Some refer to it as hype, and others, as a real shift – but, in reality, the evolving relationship between the Gulf Cooperation Council (GCC) countries and India lies somewhere in between.

While being rooted in the prevalent economic dynamics, this paper aims to raise ideas and draw an outline of what the future course of the relationship between the GCC and India could be beyond the economic realm. The premise is that the GCC's 'Look East' policy has to go beyond preferential trading arrangements and newfound political warmth and address emerging security dynamics that look beyond the US-centric security paradigm prevailing in the Gulf. The premise again is that the GCC countries would take India seriously only if it is willing to be involved beyond trade.

GCC-Asia Ties

In exploring these dynamics, one needs to look at the growing GCC-India relations through the prism of GCC-Asia relations and the momentum therefrom. At the root of this 'rediscovery' of ties was the recognition of the significance of Asia as an economic ally when, first, the GCC economies were robust following high oil prices and needed new avenues to invest and diversify; and, second, when Asia's oil consumption was high amid an economic boom.

The fact that the Saudi king and crown prince chose Asian countries - China, India, Malaysia, Pakistan, Japan and Singapore - for their first tours in 2006 after taking up their new offices, pointed to the recognition of Asian countries being influential in the political, economic and military spheres.

Further, Asia represents more than half the world's population and hosts about 70 percent of the world's Muslims, which adds value to the association.

The ties signal a win-win situation economically, based purely on complementarity of interests. The GCC countries used the economic boom as an opportunity to ensure that they participated in Asian growth through uninterrupted energy supply. For example, with half of Saudi crude exports going to Asia, Saudi Aramco does almost half of its business in Asia and has more offices there than anywhere else in the world.[1]

The GCC countries also realize that solutions to many of their problems-including unemployment, need for better education, economic diversification, and advancement in the field of science and technology-partly lie in linking up with Asia. As part of "a new age of Arab-Asian cooperation,"[2] for example, Saudi Arabia has included Japan, Singapore, Pakistan, India, and Malaysia as the new non-Western destinations that the Kingdom is keen to collaborate with in the higher education arena, which is the key to indigenous development.

Beyond these, there is the issue of profitability of business ventures too. Some of the Asian countries are selling their ideas with the slogan of 'more value for your money.' By suggesting that what costs $100 in the West, only costs $15 in the East, they point to the benefits for GCC investment in Asian infrastructure projects. With the GCC countries flush with liquidity, the Asian infrastructure sector, which is greatly lagging, is a sure attraction with scope for rich returns. The region stands to benefit immensely from Asia's expertise and investment readiness in key sectors such as desalination, power generation, gas exploration, minerals, air transport, airports, seaports, services and telecommunications. Further, with Asian countries expressing willingness to invest in the GCC economies, cross investment –which is a departure from the past and puts both sides on a level playing field – is bound to increase.

In this scenario, the GCC countries are against putting all eggs in one basket. Perhaps they realize that if the 19th century belonged to the British and the 20th

1. Reuters, December 23, 2009.
2. Saudi Crown Prince Sultan bin Abdulaziz's remark during a visit to Japan in May 2006.

to America, then the 21st century could well belong to Asia. Their friendship is widening with a spectrum of nations, which marks a new strategy for separate alliances in the security and economic spheres. In this context, the Look East policy must not be seen as a replacement for their ties with their traditional ally, the United States, but may be construed as an effort to restrict Washington's influence. This means that GCC-US ties are unlikely to be exclusive in future.

Not too long ago, the US was described as an undisputed 'superpower.' Now it has a new nickname "Frugal Superpower," emanating from the US leadership's propensity to introduce budget cuts, including in the foreign policy arena, which is bound to restrict its power and influence abroad.[3]

The 'shift' in the GCC approach reflects the comfort levels the countries have in dealing with Asia because there is no underlying political agenda. Asia is uninterested in linking political reforms in the region to economic ties. Having come to terms with the need for greater liberalization, the Asian countries are positioning themselves to take advantage of a globalized business environment. Their emphasis on economic reforms over political reforms and criticism of Washington's anti-terror campaign in the Middle East are definitely in sync with the views of the GCC countries.

At a broader level, the GCC's evolving shift toward Asia is logical. Asia consumed about 25 million barrels of oil per day (mbpd) in 2009, which is 30 percent of the world's demand. Asia imports around 16 mbpd, with about 12 mbpd coming from the GCC countries.[4] World oil demand is estimated to increase by about 25 percent between 2005 and 2030, with Asian consumption expected to reach about 39 mbpd by 2030. Given the developments in the GCC gas industry, the 'fuel of the future' is opening a new front for cooperation and business with Asia.[5]

Cooperation between the two sides in the oil sector is thus a key element to ensuring the security both of supply for Asian consumers and demand for GCC oil producers. The crux of the new oil diplomacy rests on promoting cooperation between oil importers and exporters. India and China are taking the lead in strengthening

3. Michael Mandelbaum of Johns Hopkins University has a new book titled *The Frugal Superpower: America's Global Leadership in a Cash-Strapped Era*. Also see, Thomas Friedman, "Superbroke, Superfrugal, Superpower?" *New York Times*, September 4, 2010.

4. Adnan Shihab-Eldin, "GCC-Asia Strategic Relation: Development, Opportunities and Challenges," Background Paper for the International Monetary Fund/World Bank Program of Seminars, Singapore, September 16-18, 2006.

5. India has sought 10 million tons of Liquefied Natural Gas (LNG) from Qatar, in addition to the 7.5 million tons of LNG already committed by Doha and offered it an equity stake in India's Petronet LNG Ltd. (Kuwait News Agency, October 6, 2006).

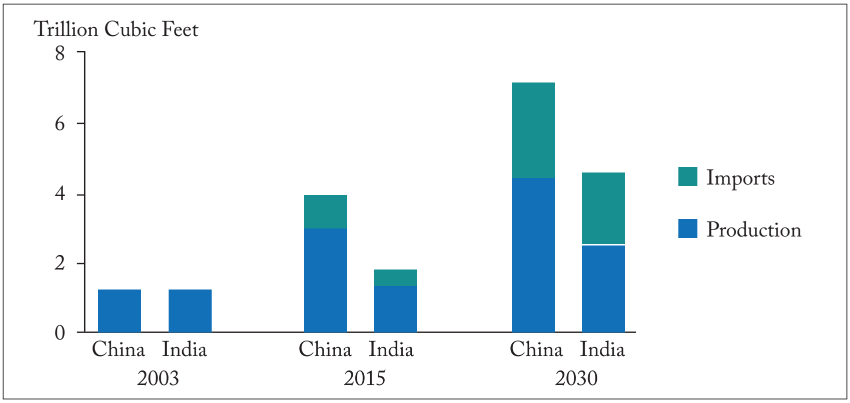
"security of supply" by building emergency oil supplies and expanding the use of renewable fuels to ward off the impact of energy being used as a political lever in international affairs. To achieve their mission, both countries are continuously searching for new reserves, augmenting supplies from traditional suppliers, and sealing acquisition deals abroad.[6]

Table 6.1: Oil consumption: Reference case (1990-2030) (Million barrels oil equivalent per day)

	History			Projections				
Region/Country	**1990**	**2005**	**2006**	**2010**	**2015**	**2020**	**2025**	**2030**
United States	17.0	20.8	20.7	19.6	20.2	20.2	20.8	21.7
OECD Europe	13.7	15.7	15.7	14.5	14.5	14.9	15.0	15.0
Japan	5.3	5.3	5.2	4.6	4.8	5.0	4.8	4.7
South Korea	1.0	2.2	2.2	2.8	2.7	2.6	2.7	2.8
China	2.3	6.7	7.2	8.5	10.0	12.1	13.8	15.3
India	1.2	2.5	2.7	2.4	3.1	3.9	4.3	4.7
Brazil	1.5	2.2	2.3	2.5	2.8	3.0	3.4	3.7
Total World	66.7	84.0	85.0	86.3	90.6	95.9	101.1	106.6

Source: Adapted from International Energy Outlook, 2009

Figure 6.1: Natural gas supply in China and India by source – 2003-2030

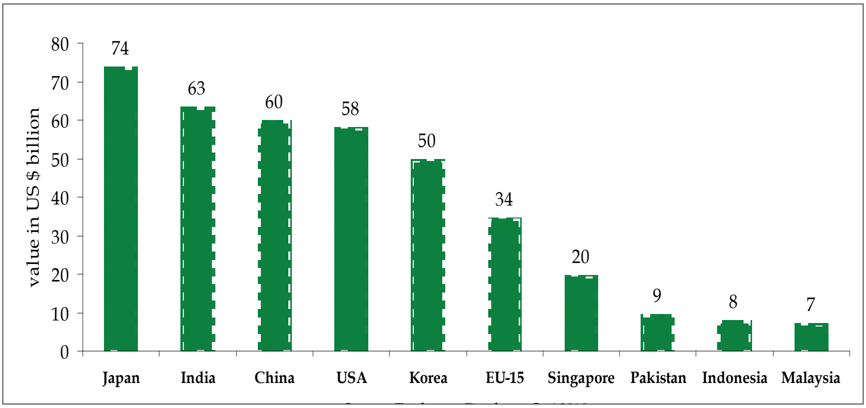


Source: International Energy Outlook, September 2008

6. For more, see N. Janardhan, "What Oils the Wheels of GCC-India Cooperation," *The Daily Star*, August 12, 2005; and Stein Tonnesson and Ashild Kolas, "Energy Security in Asia: China, India, Oil and Peace," International Peace Research Institute (Oslo), April 2006.

Further, in terms of trade, more than half of the Gulf exports go to Asian countries, while a third of the Gulf imports are from Asia. The GCC-Asia trade bill tripled between 2000 and 2005 to reach $250 billion, and increased further following high oil prices thereafter. In 2007, Asia accounted for 55 percent of the GCC's total trade of $758 billion.[7] The GCC-Asia trade networks are certain to grow as negotiations for free trade agreements with China, India, South Korea, Japan, and Pakistan, among others, bear fruit.

Figure 6.2: GCC's trade with selected countries, 2009



Source: Trademap Database, October 2010

Beyond the oil and trade dynamics is the human element. Approximately 70 percent of the GCC workforce is made up of expatriates, who send home about $40 billion in remittances annually. Of the 17 million expatriates in the region, about 70 percent are Asians.[8]

Most importantly for the GCC countries, the partnership with Asia serves as a platform to convey their determination to break the conservative stereotype attached to them in the international milieu and showcase their new relentless march on the path of reform and progress to become part of the globalized world. Further, by guaranteeing oil supplies, the GCC countries may be seeking to prompt

7. Standard Chartered Bank data cited in Stanley Reed, Dexter Roberts and Nandini Lakshman, "Trade Is Booming between Asia and Middle East," *Spiegel* (Germany), July 11, 2008.

8. Reflecting on the number of expatriates in the Gulf, Richard Bulliet's novel *The Gulf Scenario* (St. Martin's Press, New York, 1984) plotted a takeover of the GCC countries by Indians and Pakistanis. It is "simply wrong for so incredibly much money to be hogged by those few Arabs while tens of millions of Indians and Pakistanis live in poverty…The Arabs in the Gulf don't allow foreign workers to become citizens and share the wealth; they're stingy with gifts; and they flaunt their money everywhere in the world…They deserve what they get."

some of the Asian countries, especially India and China, to tilt away from Iran, which is a big competitor in the energy market.

A political motive cannot be ruled out either. While close ties with Asia could be viewed as a tool to erode Iran's ties with India, China, and Japan, the GCC may also be looking to use the influence of these countries – which have reasonably good to very good relations with Iran – to defuse the current stand-off over the nuclear issue. In a similar vein, in dealing with India without linking it to Pakistan, and warming up to China, the GCC countries have put economic pragmatism ahead of religious ideology.

A combination of the above factors and the fallout of the events of 9/11 – especially Western suspicion about the region and its financial dealings – made the GCC Chambers of Commerce and Industry call for prioritizing economic cooperation with Asian countries, which has led to a new bonhomie that has been termed 'East-East opportunity.'

So far, investment flows have not kept pace with trade ties, but that is likely to change, especially in the wake of Asia weathering the economic crisis better than the West. In 2008, only about 11 percent of foreign direct investment from the Gulf went to Asia. But by 2020 that could nearly double, while the share of Middle Eastern money flowing West could reduce by half, from three-quarters, according to McKinsey estimates.[9] It was estimated that Middle East buyers snapped up some $20-30 billion in Asian assets in 2007, with a focus on real estate and industrial companies. On the other hand, Middle Eastern countries accounted for less than one percent of $1.5 trillion of foreign direct investment in American businesses and real estate in 2006. China and India are tipped to overtake the traditional markets for Gulf investment in Europe and the United States by 2015.

According to Standard Chartered estimates, Gulf countries invested about $60 billion in Asia between 2002 and 2006. JL McGregor & Co., a Beijing-based consultancy, estimated in May 2008 that the amount of Middle East money flowing into China could reach $250 billion over the next five years.[10] In a sign of things to come, Adnan Ahmad Yousuf, head of Arab Banks Union, said: "In the coming 10 years our goals would not be (focusing) on the West, but East."[11] This view seemed to find endorsement in a November 2008 survey conducted by accounting

9. N. Janardhan, "What Oils the Wheels of GCC-India Cooperation."

10. Heather Timmons, "The Middle East is Buying into Asia," *The New York Times*, November 30, 2006; and remarks by David Hodgkinson, Group Chief Operating Officer, HSBC, at the Euromoney/DIFC Annual Conference in Dubai in November 2006.

11. *Gulf News* (UAE), September 5, 2009.

and consulting firm KPMG International, which said that Gulf investors would focus primarily on India and China over the next five years.[12]

Reality Check

Given the global economic crisis, it is worth taking a closer look at GCC wealth, which will drive ties with Asia. After earning $364 billion in 2007, the Institute of International Finance (IIF) estimates that the GCC countries would have earned about $2 trillion through oil sales in the last six years and that their public and private overseas wealth would have topped $2 trillion by the end of 2008.[13]

It is also true that the global financial crisis has impacted the region. Most Gulf oil producers were tipped to run budget deficits in 2009, both due to cuts in production as well as low prices. What would come in handy, however, are surpluses accumulated over a six-year period when oil prices rose seven-fold compared with 2002 levels. This would allow them to keep spending to sustain local economies during a global slowdown. Many of these countries have used the surpluses to diversify their economies away from oil and gas revenues, towards financial hubs, tourism, real estate, manufacturing, and petrochemicals, among others. Aided by their sovereign wealth funds, many of them have also committed to keep expanding public spending.[14]

According to a Samba Financial Group report released in November 2008, the cumulative acquisition of foreign assets by the GCC countries exceeded $900 billion in the five years ending June 2008. While half the foreign assets accumulated were in the United States, the remaining found its way into a variety of asset types in other parts of the world, including Asia.

> "The outlook for oil prices remains very uncertain, but our current expectation is that prices will average around $60 a barrel in 2009, not far below the average for 2007. A slight increase to around $75 a barrel is envisaged for 2010 as global demand begins to recover. Given this, we expect that GCC capital outflows will amount to about $430 billion between June 2008 and June 2010."[15]

12. Associated Press, November 4, 2008.
13. *Gulf News*, October 17, 2008. According to the IIF's revised figures, the combined foreign assets of GCC governments and banking institutions are estimated to have reached $1.47 trillion by the end of 2008, down from the earlier estimate of $2 trillion (*Khaleej Times*, January 4, 2009).
14. For example, some analysts suggest that the UAE could break even with oil costing between $35 and $40 a barrel. Reuters, December 19, 2008.
15. *Arab News* (Saudi Arabia), November 27, 2008. The IIF estimates the break-even oil price that will balance budgets for 2009 as follows: $36 for the UAE, $38 for Qatar, $48 for Kuwait, $51

On the Asian side, two of the largest economies have indicated that there is reason to be optimistic. While the Indian government forecasts the GDP to grow by eight percent in 2010, China is on course to grow at over nine percent. Both figures suggest that Asia is set to move forward far more positively during the next decade, compared to the West.

Thus, while 9/11 gave the initial momentum for the growth of Gulf-Asia ties, seven years later, 9/15 – the day Lehman Brothers collapsed, triggering a global financial crisis – accelerated that growth by ending the "unipolar moment."[16] In fact, the transformation of the elite G-8 into a more realistic and representative G-20 – including Saudi Arabia from the Gulf region – since the economic crisis, indicates that the shift in the balance of power towards Asia is more than mere conjecture. Before the economic crisis, the BRIC (Brazil, Russia, India and China) economies reportedly recorded an average annual growth of 10.7 percent from 2006 to 2008 and contributed one-third of the world's growth since 2000.

As things stand, contrary to the logical effects of an economic slowdown, the global crisis – according to a Goldman Sachs assessment in June 2009 – has meant that emerging markets will overtake developed economies faster than predicted earlier. While the world economy was expected to contract by 1.1 percent in 2009, the BRIC economies were tipped to grow by an average of 4.8 percent. China's economy, for example, is now expected to overtake the United States by 2027, and the BRIC countries together could overtake the G7's GDP over the same timeframe, as opposed to the initial prediction of 2050.[17]

More than Just Economics

While the economic crisis has set the stage to reinforce Gulf-Asia ties, the GCC's Look East policy in the economic realm also comes at a time of regional introspection in the political arena, which is likely to influence the long-term political economy of

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for Saudi Arabia, $73 for Oman, and $74 for Bahrain. Further, there is also no indication that spending on infrastructure for example, is about to see a major slowdown – for instance, Saudi Arabia announced plans to spend $400 billion on infrastructure projects in the next five years as the Kingdom seeks to benefit from lower construction costs amid the global financial crunch (Bloomberg, February 1, 2009). Qatar also forecast that its economy would grow by 10 percent in real terms in 2009 [*The Peninsula* (Qatar), February 3, 2009].

16. "Unipolar moment" was a term coined by US conservative columnist Charles Krauthammer.
17. N. Janardhan, "Blessing in Disguise: A Seismic Economic Shift," *Khaleej Times* (UAE), October 14, 2009; and "High Time for Gulf Economies to Strengthen Ties with Asia," *Arab News* (Saudi Arabia), May 7, 2009.

the GCC countries and shape international relations in the coming decades.[18]

The 2006 Manama Dialogue conference endorsed this possibility: "Asian states have ever deeper economic and political links in the Gulf and are likely to find that they will struggle to avoid involvement in the area's delicate politics if they are to advance their commercial aims."[19]

In a similar vein, according to Singapore's Senior Minister Goh Chok Tong:

> "Relations between the Middle East and the West have been historically difficult. But there are no deep historical, cultural, religious or ideological barriers preventing better relations between the Middle East and Asia...On the contrary, the links between our regions are ancient; the historical influences on each other profound. It was only in the last century or so, with colonialism and the Cold War, that we neglected each other. But the ancient links are now being re-established…It is in our interest that the Middle East develops and prospers. It is in the interest of Middle East countries to plug into the Asian grid."[20]

GCC-India Relations – Common Interests

Relations between the GCC countries and India have evolved greatly since the days when Bombay was a premier marketing center for pearls and dates from the region, and Indian currency and postage stamps were in circulation in the Gulf.

While oil, trade and expatriate dynamics have been driving GCC-India relations, the Indo-Pak conflict served as a political stumbling block. The hesitation of the GCC countries to fully support India stymied their cooperation. But the GCC's 21st century political stand on Kashmir appears to be clearing the decks for improvement in ties. The GCC is now in favor of a bilateral peace process – based on the existing Shimla and Lahore agreements – and accepts that a solution, as sought by Pakistan, cannot be decoupled from India's concerns relating to cross-border infiltration.

In a similar vein, in dealing with India without linking it to Pakistan, the GCC countries have put economic pragmatism ahead of religious ideology. This was particularly evident in India and Pakistan sharing the same status in the Framework Agreement on Economic Cooperation, which was signed with the GCC in 2004. The fact that India has also joined the GCC's exclusive club as a "dialogue partner" – Japan, the United States and Pakistan are the only other countries to have that privilege – further endorses this claim.

18. For more details, read N. Janardhan, "GCC-Asia Ties: Economy First; What Next?" *Khaleej Times* (UAE), January 31, 2006.
19. The 3rd Regional Security Summit: Manama Dialogue, organized by the International Institute for Strategic Studies (London), in December 2006.
20. Statement made at the first Asia-Middle East Dialogue in Singapore in 2005.

In the social realm, the time when expatriates remitted all their earnings to their home countries has passed. Recent decisions taken in Bahrain – where expatriates with more than 15 years of work experience and a healthy bank balance can now reside in the country even without work permits – and Dubai, which now allows foreigners to own real estate and even trade on the stock exchanges, mean that money that was hitherto channelled out of the country as savings will soon be reinvested in the economies of Gulf countries. Therefore, the fruits of engagement in GCC-India ties can be seen to be mutually beneficial.

Beyond the economy and politics, given that the GCC countries and India have several mutual concerns – terrorism being notable among them – maintaining closer ties becomes inevitable and, given the subcontinent's volatile security milieu and the critical developments in the Gulf, even acquires a sense of urgency.

Tracking India's Resurgence

It is important to take note of the changing perception of India and Indians in the Gulf. After being the major source of unskilled and semi-skilled workforce for decades, India is better positioned to increase its share of skilled and professional workforce in the region, which is bound to alter the composition of the Indian workforce in the region to some degree.[21] The wealth of resources India has to offer in the realm of the knowledge economy is an aspect that the GCC countries can tap into.

While characteristics such as India being the world's largest democracy, home to 150 million Muslims, fourth largest economy in the world in terms of purchasing power parity, and world's largest provider of peacekeepers are well documented, India's strategic importance is being viewed in what the country has become – the fourth largest consumer of energy by 2010, which is indicative of the economy's momentum; hi-tech plans to develop supercomputers, complete nuclear fuel cycle facilities and placement of own satellites in orbit; replicating IT success in biotechnology, biogenetics and pharmaceuticals; and more importantly, a strategic partner of the United States, which is willing to share nuclear technology for civilian use and even share roles in joint space missions. It is now evident to the GCC countries that the beneficiaries of India's knowledge economy include the United

21. India now annually produces more engineers than the European Union. The Indian embassy in Abu Dhabi estimates that currently 25 percent of the Indian working population can be categorized as unskilled, 50 percent as semi-skilled/skilled, and the remaining as professionals and businessmen.

States and Europe, and this may help India play a bigger role in the region's service industry. Further, the expanding private sector in the region has given Indians a level playing field with Western expatriates and an opportunity to showcase their professional skills more effectively.

Prominent Gulf Arabs are taking note of changes in India and voicing their opinion. Comparing Indian youth who have been finding easy employment in the services sector, especially in the outsourcing field, in the last few years, Khaled Al-Maeena, Editor-in-Chief of Jeddah-based *Arab News*, wrote:

> "In the same period, I wonder how many of our young people found jobs. I also wonder how many of our young people have a good command of English and the necessary IT skills. I am afraid of the answer, and I am really afraid of finding out how many of our young people have good work ethics."[22]

Similarly, Bahrain-based analyst Abdullah Madani said:

> "(The Gulf's) recognition of India's advancement in numerous vital areas and its political willingness to learn and benefit from India…is a new Gulf rhetoric, given the prevailing preconceived idea in the region that India is no more than a backward nation that is only capable of supplying poor quality goods and unskilled labour. In fact, there is now a sound base for the two sides to establish a long-term strategic partnership."[23]

The visit of King Abdullah of Saudi Arabia to India in 2006 – the first by a Saudi head of state in 60 years – contributed positively to India's image and served as an acknowledgement that the Gulf is also taking note of India's renewed interest in the region.

Security Dynamics

While the current ties are rooted in economic dynamics, there is bound to be an impact on the political, international, and security spheres in the future. The need for alternate strategies and the possibility of Asia, particularly India, playing a role in them arises as a result of changing developments on both sides.

There is an increasing call for the Gulf region to act independently, take stock of the situation, and design future security arrangements, without leaving everything for the US to formulate. It is true that though the GCC's ties with both Asia and Europe are expanding, there is no other international actor capable of replacing the

22. "14,000 Jobs and a Bitter Lesson in Skills," *Gulf News*, February 23, 2004.
23. "The GCC Finally Takes a Note of the Indian Giant," *Gulf News*, September 5, 2004.

US in the short- or medium-term future of the region. While some Asian countries have expressed their concerns about the regional security environment, none has yet shown any concrete sign of investing in the hard security mechanisms that the Gulf requires. This, however, could change during the next couple of decades.

GCC Perspective

The GCC countries are increasingly finding themselves in a fix because of their disagreements with their traditional security guarantor, the United States, on many aspects of recent US policy. They are increasingly convinced that events in the region, especially in Iran and Iraq, are spinning out of control, even beyond the US's scope of influence. Given the added pressure of the region's leadership being unable to provide the necessary vision, two schools of thought prevail in the region: one urging less international involvement in the region's affairs, and the other, more.

Those who argue that the way out of the dilemma is the withdrawal of external powers from the Gulf feel that these powers have precipitated the crises rather than contributing positively. They feel that the region may be better off dealing with the crises by itself and that the Gulf has become so complacent that it is unwilling to evolve indigenous mechanisms for conflict prevention and resolution and has been shying away from confidence-building measures with potential rivals. Therefore, the new mantra elucidated by the GCC countries is that "a lasting Gulf security system can only function if it is based on a regional initiative."

But the situation on the ground is not really conducive to the complete removal of external forces. The GCC countries "neither practice nor engage in any sort of cooperative security exchange," and there is a sense of distrust even among the members of this homogenous bloc.[24] As a result, an indigenous alternative and viable security architecture is highly unlikely.

In such a situation, the alternative is further internationalization of the region. The dominant view is that the United States is a spent force – not militarily or economically, but politically. "What remains is a facade of a relationship."[25] The

24. Some examples include serious differences between Saudi Arabia and Bahrain over the latter signing the free trade agreement with the United States, which resulted in the Saudi crown prince boycotting the December 2004 GCC Summit in Manama; and the rift between Saudi Arabia and Qatar over Al Jazeera's coverage of political events in the Gulf, which has manifested in several forms, including the US shifting from the Prince Sultan Air Base in Saudi Arabia to Al Udaid in Qatar starting 2002, and unconfirmed Saudi objection to a Qatar-UAE (Dolphin) gas project in 2006.

25. Christian Koch, "Gulf Region Makes Strategic Shift in New Global System," *Arab News* (Saudi Arabia), October 22, 2006; and "Gulf Needs More, Not Less, External Involvement," *Gulf in the*

GCC countries realize that they require American military power for protection in a volatile region. "For the moment, they would rather have the US in their back pocket despite all its problematic policies than have Iran breathe down their neck."[26]

This school argues that all the US approaches in the region – relying on Iran and Saudi Arabia as part of the twin-pillar policy in the 1970s; propping up Iraq to counter Iran as part of the balance of power in the 1980s; and invasion of Iraq in 2003 – have failed to guarantee the desired level of security. Yet, the US pursues a balance-of-power approach by playing one country against another in the bloc. As a result, the GCC countries are willing to consider close political, economic and social ties with other countries to counter the prevailing notion that only (US) military power counts.

Two examples from the Saudi experience illustrate these changes. Frustrated by the impasse in the Arab-Israeli conflict even before September 11, 2001, then Crown Prince Abdullah instructed the Saudi ambassador to the US to deliver the following message to Washington: "Starting from today, you're from Uruguay, as they say. You (Americans) go your way, I (Saudi Arabia) go my way. From now on, we will protect our national interests, regardless of where America's interests lie in the region."[27]

In a more diplomatic suggestion, Saudi Foreign Minister Saud Al-Faisal told the Gulf Dialogue meeting in Bahrain in December 2004 that guarantees for Gulf security cannot be provided unilaterally "even by the only superpower in the world." The region requires guarantees "provided by the collective will of the international community."

In other assertions, Bahrain's Minister of State for Foreign Affairs Mohammad Abdul Ghaffar emphasized the need for "a more durable security order to place GCC members as main pillars of defence," arguing that this defense "should be configured similarly to NATO with joint command between GCC members."[28] Similarly, Qatar's Amir Shaikh Hamad bin Khalifa Al-Thani told the General Debate of the United Nations General Assembly in September 2007 that "the major conflicts in the world have become too big for one single power to handle them on its own."[29]

Media (UAE), January 27, 2006.

26. Ibid.
27. "Saudi Leader's Anger Revealed Shaky Ties," *Washington Post*, February 10, 2002.
28. Kuwait News Agency, May 10, 2007.
29. "Qatar Asserts Importance of Cooperation among OIC Member States," Qatar News Agency, October 2, 2007.

The events leading to these and similar reactions in the region have forced the GCC countries to build ties with a host of other countries, particularly in Europe and Asia. They are exploring the idea of incorporating several international actors who could act as security guarantors of a regional security arrangement. Some of the Asian and European countries being eyed have one factor in common: they are "regional plus" powers; their political weight goes well beyond their geographical borders, though not as far as to give them a global reach or global ambitions. This gives them a perfect stake in developing a multi-polar world that can resist any single nation's efforts to achieve dominance.[30]

While cultivating the new relationship, the region is linking its economic interests and security needs. And, apart from the Gulf's importance as a major energy supplier, Europe and Asia are showing signs of relating the relevance of the region to transnational security issues such as proliferation of weapons, crime, drugs and terrorism, and their impact on their domestic scenarios. Thus, the fact that the Arab Gulf countries are even willing to consider alternatives is the "real strategic shift occurring in the region."[31]

Indian Perspective

Some of the developments in India and some statements issued there also suggest that the possibility of its role in the security architecture in the Gulf will be more than just rhetoric in the long run.

While energy security is certainly a factor, India is also willing to showcase its power and influence in the region. This expanded security perspective is driven by necessity, ambition and opportunity. The desire to lead coincides with India's rise as a major power with continental aspirations. Former premier Atal Behari Vajpayee and current Prime Minister Dr. Manmohan Singh urged that India should look beyond the immediate neighborhood. Singh said, "The Gulf region is a part of our natural economic hinterland. We must pursue closer economic relations with all neighbours in our wider Asian neighbourhood."[32]

After Pakistan, China, Russia, and the US, the Gulf is the focus to ensure against any maritime or landward threat to it from the region, serve as a base to pursue India's interests, confront terrorism and extremism, as well as tap the

30. See Jonathan Steele, "India's Revival Means It Can Pick and Choose Its Friends," *Guardian* (UK), February 24, 2006.

31. For more on these issues, see Koch, "Gulf Region Makes Strategic Shift in New Global System," and "Gulf Needs More, Not Less, External Involvement."

32. "PM Keen on Building Strong Ties with Gulf States," sify.com (India), August 7, 2005.

investment potential. By focusing on the Gulf and restoring traditional linkages with the immediate and extended neighborhood, India is seeking to address its "four deficits" in the historical, security, economic, and global decision-making realms.[33]

India is now talking about "soft power" and diplomacy – the security of the Gulf countries, as well as the wider Middle East, is of "paramount concern."

> "Linkages with illicit trafficking in narcotics, as well as in small arms have enhanced the destructive potential, and lethal reach of the terrorists. The fight against terrorism has to be long-term, sustained and comprehensive. It cannot be ad hoc, selective or compartmentalised in terms of region or religion."[34]

India is keen on cooperation with the Gulf countries to ensure safety and security of sea-lanes and of communications; safety and freedom of navigation in the shipping lanes and trade routes; combat religious extremism, transnational terrorism, narcotics trafficking, and proliferation of weapons in the region; and achieve peace in the subcontinent, given Pakistan's bond with the region.

> "The key focus in our external relations today is ensuring the stability and security of the region, comprising the arc of nations from the Gulf to East Asia… India's decision to enter into cooperative strategic relationship with China fully mirrors this approach."[35]

The latest military capacity-building plan dates to 2001. On a visit to Washington, then external affairs minister Jaswant Singh said:

> "For a long time, India has not been seen in its true dimensions. How many people know that Indonesia is only 65 miles from the southernmost Indian island? Or that but for Pakistan-occupied Kashmir, Tajikistan is just 27 miles from India. That we had a border with Iran in 1947? Or that the legal tender of Kuwait was the rupee? So when we talk about Indonesia or central Asia or the Gulf, it is because of our interest and our sphere of influence."[36]

33. Excerpt from a statement by former Indian defense minister Pranab Mukherjee at the Carnegie Endowment for International Peace, Washington, D.C., June 27, 2005.
34. Statement made by then India's special envoy to the Middle East Chinmaya Gharekhan at the second Gulf Security Conference in Manama, December 2-3, 2005.
35. These views by India's National Security Adviser M.K. Narayanan were part of his presentation titled "China and India: The Asian Rising Powers Debate – An Indian Perspective," at the third Global Strategic Review Conference of the International Institute for Strategic Studies in Geneva, September 18, 2005.
36. "India's Place in the US Strategic Order," Research Unit for Political Economy (Mumbai), December. 2005.

With this in mind, the government launched in November 2003 "a 20-year programme to become a world power whose influence is felt across the Indian Ocean, the Arabian Gulf, and all of Asia."[37]

In order to highlight its potential and achieve its objectives, the Indian armed forces are undertaking a major build-up of conventional arms, creating ways of delivering nuclear weapons and defending against them, planning construction of warships, enhancing military logistics in Central Asia and negotiating with the US for an Asian version of NATO. All these come in the wake of India's existing maritime security involvement involving Asian, African, European and Gulf countries (Oman and Qatar), as well as Russia and the United States. Further, the Indian Coast Guard and Navy have been active in anti-piracy, disaster relief, and environmental management and response operations, as seen in the wake of the 2004 tsunami.

India's desire to play an independent role in the Indian Ocean and the Gulf is also an extension of the notion of maritime primacy that it inherited from the British Raj. Several decades after obtaining independence from the British, India is now at an advanced stage of foreign and security policy change and its efforts to gain maritime primacy are part of this change. Its new stress on regionalism rooted in economic integration has made India look favorably at the entire Indian Ocean littoral, including the Gulf.

As economic growth helps India makes rapid progress, it is beginning to lean towards greater strategic realism. The idea of an extensive ring of national security involving the Indian Ocean littoral and the Gulf, the principle that India must play a more prominent role in the region, and a readiness to deploy the necessary resources for such tasks are now very much a part of the Indian strategic thinking.[38]

A key role in this program is that of the Indian Navy. Since the late 1990s, India has aimed at "transforming itself from a 'brown water' coastal defense force to a formidable 'blue water' fleet."[39] Technically, a 'blue water' navy is one that can operate over 320 km from its shore. Politically, a blue water navy is a long-range

37. India's defense expenditure has more than doubled from $11.6 billion in 1998-99 to $26.4 billion for 2008-09. More details on India's military plans are available in "India's Place in the US Strategic Order," Research Unit for Political Economy (Mumbai), December 2005.

38. Some of these views were expressed by C. Raja Mohan in a paper on "India's Strategic Challenges in the Indian Ocean and the Gulf," at a workshop on "India's Growing Role in the Gulf – Implications for the Region and the United States," organized by Nixon Center, Washington, D.C., and Gulf Research Center, Dubai, in November 2008.

39. *The Indian Express*, December 5, 2006.

extension of the state's presence – "legitimate use…of a Blue Water navy is power projection which is necessary" for a "power like India."

Further, "an economically resurgent India has vast and varied maritime interests" necessitating "sea control in all three dimensions in the distant reaches…the will to project our power overseas...to safeguard our emerging vital interests overseas…to build adequate sealift and airlift capability to have a credible and sustainable trans-national capability…vital interest to us lies in the expanse of the seas."[40]

In October 2003, then navy chief Admiral Madhvendra Singh said: "Fulfilling India's dream to have a full-fledged blue-water navy would need at least three aircraft carriers, 20 more frigates, 20 more destroyers with helicopters, and large numbers of missile corvettes, and anti-submarine warfare corvettes."[41] The Indian Navy's acquisitions program was then worth $20 billion. The plan included acquiring or constructing a submarine that could launch nuclear missiles, aircraft carriers, and long-range missiles with a reach of over 2,500 km.

Indicating that its plan is on course, India launched its first nuclear-powered submarine in July 2009, thus becoming only the sixth country in the world to do so. It will undergo trials over the next few years before being deployed and will be capable of launching missiles over a distance of 700 km.[42]

The Navy's aim is not just to patrol the seas, but have the capacity to create and "deploy battalion-sized forces at various strategic points... [on] short notice, and disperse them quickly from the landing or dropping zone before any adequate enemy response."[43] The inference is that the expansion program envisions possible intervention in countries in India's "sphere of influence."

These plans were reflected in the Indian government's Maritime Doctrine in 2004. According to a US War College study:

> "Whereas (India's) earlier doctrine focused on inward-looking strategies, the new doctrine attempts to deal with conflict with (an) extra-regional power and protecting persons of Indian origin and interest abroad."[44]

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40. For more, read David Scott, "India's Drive for a 'Blue Water' Navy," *Journal of Military and Strategic Studies* 10, no. 2 (Winter 2007-08).
41. Stephen Blank, "India's Grand Strategic Vision Gets Grander," www.atimes.com, December 25, 2003.
42. BBC, July 26, 2009.
43. "India's Place in the US Strategic Order," Research Unit for Political Economy (Mumbai), Dec. 2005.
44. This would perhaps bring the Gulf on the radar screen. For more on GCC-India tactical dimensions, see Khadija Arafah Muhammad Amin, "Need for Strategic Cooperation," *GCC-India Research Bulletin* (Gulf Research Center, Dubai), January 2006.

Maintaining that the 'challenge' lies in India becoming a maritime power, former Indian Navy chief Admiral Arun Prakash promised in August 2006 a fully balanced, technologically fighting fit force in the next decade.

> "…With fantastic support by the indigenous shipbuilding infrastructure and other acquisitions, within the next 10 years, the Indian Navy would be a fully-balanced, technologically fighting fit, all-purpose maritime force to be reckoned with…The challenge, therefore, lies in India becoming a maritime power. No one can stop India from becoming a maritime power…Though our maritime interests are now all over, anything that happens between the east coast of Africa and the Malacca Straits is of immediate concern to India. We have the business to know what is happening in this part of the Indian Ocean. So, this is the immediate footprint of the Indian Navy…All our maritime strategies, plans, and growth takes into account the matrix of economic interests and military threats. All that the force is planning is done keeping in view the bigger role of the country in world affairs in the 21st century and safeguarding all the vital interests of India….There's total consensus on this issue and we are not going back from this approach to Indian maritime strategies or planning. China and Pakistan are only a small part of it, nothing more…"[45]

The naval build-up can be gauged from the 8,000-acre Seabird naval base near Goa, which would bring together warships, aircraft carriers and long-range aircraft, among others, capable of impacting an area that stretches from Aden to the Malacca Strait. Further, Israeli-built Heron UAVs in Kochi would give India a surveillance capability that is unrivalled in the region.

It may be pointed out that Alfred Thayer Mahan, an American naval officer and historian from the 19th and 20th centuries, said that "whoever controls the Indian Ocean dominates Asia. This ocean is the key to the seven seas in the 21st century, the destiny of the world will be decided in these waters."[46]

Aware of the need for greater collective security cooperation in the region, the Indian Navy organized the Indian Ocean Naval Symposium (IONS) in February 2007. The IONS is expected to be a regular feature which would allow sustained interaction among the naval chiefs of the countries belonging to the Indian Ocean rim to develop "cooperative, consultative and inclusive" mechanisms that would address threats to Indian Ocean security.

In view of its growing responsibilities, the Indian Navy deployed the long-range Russian-built Klub missile on INS Tabar. This "smart missile" was also capable of striking land targets located far away from the sea. Further, all new naval ships

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45. "Navy Chief Promises Technologically Fighting Fit Force," *Indo-Asian News Service*, August 8, 2006.

46. Indian Navy chief Arun Prakash, www.rediff.com (India), February 28, 2005.

and those slated to be upgraded would be fitted with the latest Russian Brahmos anti-ship missiles.[47]

Thus, India's naval plans and assertions have led some to ask, with concern, if it is turning the Indian Ocean into India's ocean.[48]

Between 2005 and 2007, 40 Indian naval ships visited the Gulf region, with 11 of them docking in Fujairah, UAE, the largest oil bunkering station in the world.[49] And, on the first-ever visit by an Indian prime minister to Qatar in November 2008, New Delhi signed an agreement relating to defense, which would "lay out a structure for joint maritime security and training as well as exchange of visits."[50] In fact, an Indian official was quoted as saying, "We will go to the rescue of Qatar if Qatar requires it, in whatever form it takes…(But) India will not station troops in any foreign country. We don't want to fight other people's wars in foreign countries."[51]

In addition, the Indian Air Force (IAF) is also undertaking modernization based on the four pillars of "see, reach, hit and protect" in order to be prepared for a "multi-faceted, multi-dimensional, multi-front war." As a result, India is set to spend over $25 billion to induct 250 advanced stealth fifth-generation fighter aircraft, which would be co-developed with Russia, in what will be the country's biggest-ever defense project. This is likely to happen from 2017 onwards. According to Air Chief Marshal P.V. Naik, "Our approach is capability-based, not adversary-specific." He added that India's strategic interests stretched "from Hormuz Strait to Malacca Strait and beyond."[52]

Current and Future Catalysts

Hastening the involvement of the Indian Navy in the Indian Ocean is the menace of Somali pirates, who attempted nearly 100 hijackings in the Gulf of Aden and Indian Ocean during 2008, a 75 percent increase over 2007.[53] In just a month during November and December 2008, the Indian Navy was involved in rescuing at least three hijacked vessels in the vicinity of the Yemeni port. In all three instances,

47. *The Hindu* (India), November 12, 2008.
48. For more, see "US, China, India Flex Muscle over Energy-critical Sea Lanes," *Freerepublic.com*, June 10, 2006.
49. *The Hindu*, December 23, 2007.
50. *The Hindu*, November 12, 2008.
51. *The Asian Age* (India), November 12, 2008.
52. *Times of India*, October 5, 2010.
53. Bloomberg, November 24, 2008.

armed choppers with marine commandos were pressed into operation.[54] Further, in order to protect its container vessels from pirates, India sent one warship to the region's waters and announced that it was willing to deploy up to four such vessels.

Factors that Could Condition India's Role

While all these dynamics present a case for a possible Indian role in the international affairs of the Gulf, the following are some factors that could either promote or hinder such a role:

India-Iran Ties

India has been under pressure from a certain section of the intellectual community in the GCC countries to choose between the GCC and Iran while deciding on Tehran's nuclear policy and the threat it poses to the region. New Delhi's policy towards Tehran, especially on the nuclear issue, will shape the GCC's approach towards India. It is being argued that while India gets 16 percent of its oil supply from Iran, nearly 45 percent of India's oil imports come from GCC countries.

As a counter-argument, India could point to its own attempts to avert the prospect of a nuclear-armed Iran – it has opposed Iran's nuclear proliferation and voted against it at the International Atomic Energy Agency (IAEA) on more than one occasion; the Riyadh declaration signed in January 2010 during Prime Minister Dr Manmohan Singh's visit to Saudi Arabia asked Iran to "remove regional and international doubts about its nuclear weapons programme"; and, India has endorsed the Arab call for a nuclear weapons-free Middle East.[55]

It is also important to point out that India-Iran ties are unlikely to get derailed, especially since India views Iran as being part of its "proximate neighborhood" and considers it as a strategic partner in keeping the lid on the rogue elements in Pakistan and Afghanistan. In particular, Iran offers India alternative geographic access to Afghanistan and Central Asia since Pakistan has refused to allow overland trade and transit. India is part of a joint effort to expand the Chabahar port in Iran and construct the Chabahar-Faraj-Bam railway line and the Zaranj-Delaram Road Project in Afghanistan which will act as a North-South transport corridor of strategic importance to both India and Iran.

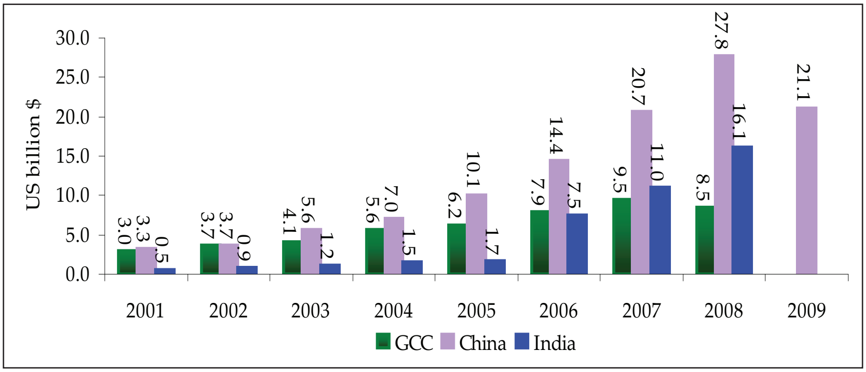
Thus, despite tensions between India's long-term geopolitical interest in a

54. Indo-Asian News Service (New Delhi), December 13, 2008.

55. For more, see Raja Karthikeya, "India's Iran Calculus," *Foreign Policy* (Washington), September 24, 2010.

strong strategic partnership with Iran and the short-term difficulties of building such a relationship because of Tehran's internal circumstances and external relations, it is unlikely that India-Iran ties will weaken.[56]

Figure 6.3: GCC, China and India's trade with Iran



Note: 2009 data for GCC and India not available.

Source: International Trade Centre, TradeMap Database (accessed on 13 July 2010).

GCC-Iran Ties

Similarly, in the event of GCC-Iran ties improving, Washington's role would naturally diminish, clearing the decks for a more proactive Asian role in the region. In the opposite case, the GCC countries would still not want to rely just on the US to safeguard their interests.

Given the Obama administration's inclination to review Washington's approach towards Tehran, the GCC countries are in a dilemma – neither do they want to be seen as encouraging a US-Iran conflict, nor do they want to let Iran have a free rein with regard to the development of the nuclear program, both of which are detrimental to their interests. The GCC countries are also worried about the possibility of a grand bargain between Iran and the US in order to stabilize Iraq, which would further compromise their interests, apart from raising fears of growing Shiite influence in the region.

In an atmosphere of hostility and deep-rooted suspicion, however, there have been an unusually high number of reciprocal political visits by Iranian and GCC leaders during the last few years. The GCC countries have also responded positively by setting up a committee to look into tapping the economic potential through a

56. A global survey conducted by the BBC World Service in 2006 found that Iran topped the list of nations which considered India a positive influence in the world, with an overwhelming 71 percent of respondents from Iran giving New Delhi a thumbs up.

free trade agreement proposed by Iran, as well as into ways of advancing political cooperation.[57]

US-Iran Ties

It is still likely that US-Iran ties would improve under the Obama administration. Some suggest that the future of US-Iran ties will determine whether or not Asia will have a security role in the Gulf. With US-Iran war and peace plans in limbo, one could also argue that both scenarios open doors for India. If any 'grand bargain' materializes between Iran and Washington, it will encourage the GCC countries to look eastward to protect their interests. However, if the tension persists, the GCC countries would be encouraged to explore alternatives by involving India, among others.

US Approach towards China and India

While Yemen could be giving China the chance to make its presence felt in the military dimension of the Gulf region, some view the current US concern with Yemen as being about the "control of Aden and the Malacca Straits (which) will put the United States in an unassailable position in the 'great game' of the Indian Ocean and the Malacca Straits (which are) literally the jugular veins of the Chinese economy";[58] a quarter of the world's sea-borne trade passes through the area, including 80 percent of China's oil and gas.

Of particular relevance is the US concern about the rise of Chinese sea power. This was evident in the US comments in late 2010 about the South China Sea, where China conducted live-fire drills and made territorial claims against various Southeast Asian countries. The US is aware that China has the world's second-largest naval service.

If China meets its target of 78 submarines by 2020 as planned, it would be on par with the US Navy's submarine fleet in terms of numbers. "The geographical heart of America's hard-power competition with China will be the South China Sea...(which) grants Beijing access to the Indian Ocean via the Strait of Malacca, and thus to the Middle East and Gulf."[59]

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57. For more details, see Meena Janardhan, "GCC Countries Complicate US' Iran Plans," Inter Press Service (Rome), April 16, 2007.

58. M.K. Bhadrakumar, "Obama's Yemeni Odyssey Targets China," www.atimes.com, January 9, 2010.

59. Robert D. Kaplan, "While US is Distracted, China Develops Sea Power," *Washington Post,* September 26, 2010.

Further, while Washington would desire "a unipolar world and a multipolar Asia, China would prefer a multipolar world and a China-centric unipolar Asia."[60] On the other hand, India – which is growing closer to the United States and which Washington wants to use to counter Beijing – "would like to see a multipolar world and a multipolar Asia," thus intensifying the Beijing-New Delhi competition.[61]

How the US will reconcile with a new world–which has an emergent India and China – that is not "anti-US, but approaches it as if it were a post-US world" is important.[62] While economic growth enables countries to play around with existing structures to protect their interests, too many in the US appear to be looking at dangers, rather than the opportunities presented by the Asian giants. The US could be making a mountain out of a molehill while expressing long-term fears about China's intentions in the Gulf security architecture, and possibly India's in the future.

US-India versus China

How successful will the US effort to woo India in order to counter China be and how will India's growing ties with the US be viewed by the GCC countries, especially at a time when the mood is not in favor of the United States and its policies?

Exemplified by the civilian nuclear deal and enhanced military cooperation, the relationship between India and the United States has undergone radical transformation during the last decade. However, it is still unclear if it is a natural alliance or a relationship of convenience marked by divergences in their individual interests and objectives. One such example relates to Iran. While Washington expects India to be part of the US plan to isolate Iran, New Delhi has asserted time and again that Tehran is an important strategic ally. The Iran factor reinforces India's policy of maintaining an independent foreign policy, without affecting its ties with the United States. However, it is still unclear if New Delhi's quest for better ties with Washington has taken into account the declining popularity of the United States in the Gulf and the potential impact of this in terms of the India-Gulf equation, especially under the Democratic administration of Barack Obama.

For now, the common concerns related to energy security, protection of sea-lanes, maritime policing, and counter terrorism and the importance of strategic

60. "India as a Strategic Factor in 21st Century Geopolitics" (lecture by Ambassador Ranjit Gupta, Gulf Research Center, Dubai, March 2008).

61. Ibid.

62. Fareed Zakaria, "The Future of American Power: How America Can Survive the Rise of the Rest," *Foreign Affairs* (May/June 2008).

coordination on these issues are likely to make the two countries engage constructively in the Gulf. Further, since India's desire to play an influential role in the Gulf is yet to translate into reality, the United States is not particularly concerned. At the same time, the United States may be willing to accommodate India more than it really wants in order to counter China's influence in the region. Whether or not this will lead to a mutually-acceptable sharing of burden between the two in the Gulf in the long term is a matter of conjecture and one that will depend on "the prospects of the United States shifting towards the concept of 'offshore' balancing in theaters of vital national concern to it."[63]

India-China Ties

As the search intensifies for energy and raw materials to feed their growing economies, China and India have been wooing Africa and they have also sought closer relations with the GCC countries even as their naval presence expands to protect the supply routes in the Indian Ocean. The discourse on a potential Sino-Indian rivalry in the Gulf region in future is gaining pace. Though Sino-Indian ties have steadily improved, there are several issues that keep their relations on tenterhooks.[64] In spite of the overall challenges, it is important to stop viewing the Sino-Indian developments in mere China-versus-India terms and to take an optimistic China-plus-India approach that guarantees a win-win situation. As the global economic balance shifts towards Asia, India and China could engage in cooperative as well as competitive, and not necessarily confrontational engagement.

While competition is inevitable, there is nothing stopping the two countries from cooperating and avoiding confrontation. Their cooperative relationship has significant implications not only for the future of the two countries, but also for the Gulf region, the Asian continent, and the world at large. Both countries have extremely good ties with the GCC countries, Iran, and Israel. Apart from intensifying economic ties, they can serve as honest peace brokers between the capitals of the GCC countries on the one side, and Tehran and Tel Aviv on the other.

Thus, depending on whether you are an optimist, pessimist or fatalist, one could view China-India ties moving towards cooperation, competition or confrontation.[65]

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63. Raja Mohan, "India's Strategic Challenges."
64. India's deep suspicion about China is evident in Jaswant Singh's, "The Great Game's New Players," Project Syndicate, September 24, 2010.
65. N. Janardhan, "Chindia: Cooperate, Compete or Confront?" *Khaleej Times*, June 18, 2008.

Conclusion

Notwithstanding the historic ties between the GCC and India, which have been sustained by the current oil, trade and expatriate dynamics, the way forward for a robust bilateral relationship rests on developing a paradigm that hinges on strategic political, economic, and security dimensions as well. With several factors contributing to the 'rediscovery' of the relationship, it is time to convert the 'opportunity' into a 'strategy.'

In acknowledging that the existing cooperation is not proportional to their historical ties, geographical proximity, and deep-rooted interactions between their peoples, the two sides have indicated that they are ready to move away from oil and rhetoric and not allow political and ideological differences to constrain economic ties. The common political and security concerns could translate into efforts for peace and stability in the Gulf region and South Asia. Emerging perceptions create further opportunities for GCC-India cooperation in the future. While the GCC countries are going through important changes, the process of understanding and integration needs to intensify beyond the traditional issues. This involves joint efforts to meet domestic and regional challenges.

Aiding the process is the political guard in India. As part of the Congress Party-led coalition government's stated policy of reverting to more traditional ties with the Arab world, as opposed to the Bharatiya Janata Party-led government's perceived close relations with Israel, the ideological barrier has and should incrementally make way for constructive dialogue and a relationship based on trust.

With India viewing the Gulf, South Asia and Central Asia as "strategically interactive and interrelated regions", it is time for the GCC to reciprocate in a commensurate way. Given the prevailing anti-West sentiment among Arabs, it is the appropriate time for upgrading GCC-India ties.

A GCC-India relationship based purely on selling and buying of oil is untenable in the long run. The GCC countries need to take note of the fact that India's basket of energy suppliers is widening. It is not impossible that India may follow the United States, which gets more oil from Africa than the Middle East, or China which has been getting more crude supplies from Angola than Saudi Arabia for some time. The Indian quest to expand its sources of energy has even touched nuclear frontiers. Further, while the GCC countries may be uncomfortable with India's ties with Israel and Iran, there is no doubt that New Delhi will not compromise its strategic interests and downgrade its relationship with Tel Aviv and Tehran to accommodate the GCC countries' reservations. Instead, the GCC countries could use the India-Iran bonhomie to their advantage. Since India has maintained good relations with Iran, including signing a military cooperation agreement in 2003, improved GCC-India ties could be used as a tool to engage New Delhi in the role of an honest broker in GCC-Iran relations.

The GCC countries and India share a common desire for peace, stability and security in the region and value the independence, sovereignty and territorial integrity of the countries concerned. However, in the process of moving forward, the real challenge is how to turn the Indian military strength into a factor of regional security. The dilemmas in the Gulf region could ease if the GCC countries and India evolve new ideas of collective security that go beyond the restrictive paradigms of the past. But by suggesting that it is willing to play a proactive role by sharing its experience in combating terrorism, maritime security and military training, New Delhi may also be indicating just how far it is willing to go, which, in fact, is not far enough for the long-term security concerns of the Gulf countries.

However, the issues discussed here raise several questions:

- Will India stick to involvement only on soft security issues?
- Even if India is interested in a wider role, how effective will it be?
- Will India's involvement mirror the US approach or will it be distinct and non-controversial?
- Will India's response to possible internal (Al-Qaeda) and external threats in the region be different, especially since it enjoys good ties with Iran, which is construed as a threat to the GCC countries?
- Will public opinion on both sides be a factor, especially since India is increasing military cooperation with the United States?
- Who should take the lead – India or the GCC countries – toward developing a collective security mechanism, and should the US be a part of this?
- More crucially, are the GCC countries looking 'out of the box' for their security and or is the US making a mountain out of a molehill while expressing long-term fears about China's intentions in the regional security architecture, and possibly India's in the future?

7

Strengthening GCC-India Security Ties

Mustafa Alani

Security cooperation between states is one of the most sensitive issues, and it mostly features at an advanced stage of bilateral cooperation in inter-state relations. Security cooperation could be part of confidence-building measures (CBM) or a product of a successful CBM policy in most cases driven by mutual need and mutual benefits.

Security cooperation between states can be divided into three main areas:

- Counter-terrorism cooperation
- Cooperation to counter organized crime
- Military cooperation

Security cooperation must be based on the following principles:

- Mutual respect for each other's territorial integrity, sovereignty and political independence
- Non-aggression and peaceful co-existence
- Abstention from intervention or interference in each other's internal affairs
- Equality and mutual benefit
- Respect for international obligations

Factors Influencing GCC-India Security Cooperation

Absence of territorial disputes

Due to the geographical distance between India and the GCC states, relations between them have been free from territorial disputes, which are considered to be a major source of tension and conflict in international relations. Indeed, this fact has made political and security cooperation more achievable as both sides perceive such cooperation as serving their national interests.

Third Party Factors Hindering the Development of GCC-India Relations

The India-Pakistan rivalry factor

For many years, the conflicts between India and Pakistan and their rivalry and competition over a number of issues (Kashmir is only one of them) constituted a major obstacle to the improvement of the Gulf/GCC states relations with India. In effect, Pakistan had placed an unofficial veto on most Islamic states to prevent any improvement of relations with India until the disputed issues were resolved according to Pakistani terms. This had an effect on a number of Arab and Islamic states, including most of the Gulf Arab states. They took the Pakistan veto into consideration and limited their political relations with India to a certain level. In the early 1990s, following the end of the Cold War, the triangular relations between India-Pakistan-Gulf States witnessed a major change. Arab states in general and the Gulf States in particular no longer considered the Pakistani veto nor did they regard the settlement of the Kashmir problem as a factor in their relations with India.

In the Gulf States' strategic considerations, relations with India became as valuable as their relations with Pakistan; consequently, the influence of the traditional Pakistan veto largely diminished as GCC states began to readjust their regional and international policies in accordance with their national interests. The GCC states had realized the need to adopt a neutral stand in their relations with both states.

Kashmir factor

Relations between India and the Arab-Islamic world have been negatively influenced by the India-Pakistan conflict over Kashmir. Until recently, most Muslims considered the Kashmir problem as an Islamic issue which required the Islamic world's solidarity with Pakistan's policy.

However, now moral, political, and financial support to the Pakistan/Kashmir insurgent groups (liberation movements) has been diluted or completely stopped. Public sympathy for the Kashmiri groups has lessened and Arab public opinion, by and large, has become disinterested in the developments in Kashmir. Post 2001, Arab public support to the Kashmir militant groups has almost disappeared. This could be attributed to a shift in the public's attention to other major and more immediate issues. Besides, following the regional governments' drive to prevent the financing of terrorist groups and the implementation of the UN Security Council resolutions on combating terrorist activities, financial support for Kashmir militant groups has dried up.

However, public pressure has been evident, from time to time, on other issues mainly related to the treatment and the rights of the Muslim minority in India, as in the case of the Arab and Muslim protests in the aftermath of the destruction of the Babri Masjid in Ayodhya in 1992 and the Charar-e-Sharif in Kashmir in 1995. Despite this, the fact remains that Arab public opinion has never adopted an anti-India attitude. Currently, all GCC states seemed to have come to the conclusion that a diplomatic solution is the best and possibly the only option for the settlement of the Kashmir problem.

The Israeli factor

The conclusion of the Egypt-Israel peace agreement (the Camp David Accord of 1987) and later the Palestinian-Israel peace accord (Oslo Accord of 1992) and the Jordan-Israel peace agreement (Wadi Araba agreement of 1994) had an indirect, but important impact on Arab-India relations. The initiation of the Arab-Israel peace process removed a major obstacle hindering the development of India's relations with many Arab countries. In fact, it changed the nature of the triangular relations between the Arab states, India and Israel. As a result of Arab states making peace with Israel, pressure on India to end its relations with Israel has been reduced or has disappeared. In the post-Camp David era, India can maintain good relations with both parties (Arab states and Israel). Arab pressure on India now relates to a different issue – the Arab demand is that India should use its good relations with Israel to influence Israeli attitude toward the peace process.

The Iran factor

Prior to the Islamic revolution in Iran in 1978, India's ties with Tehran were not a major factor influencing India-GCC relations. Following the Islamic revolution and the Iran-Iraq war (1980-1988), India's policy toward Iran became an issue of interest in the GCC states. India's neutral stand was accepted by some GCC states while others found it an irritant. However, this part of India's regional policy has become an issue of the past. Now the international community's dispute with Iran over the actual nature and the true objectives of Tehran's nuclear program, which emerged after the year 2003, has become an important issue in India-GCC relations.

India's position in the IAEA and its support in September 2005 and February 2006 for the Agency's board of governors' resolution to transfer the Iran nuclear file to the UN Security Council was seen by the GCC states as a positive move. The GCC states consider the issue of Iran emerging as a nuclear military power as a strategic nightmare and expect Indian understanding and support to prevent such a possibility.

However, the GCC states do not wish to see hostile relations between India and Iran, as they do not see this as serving their interests. Further, they do not wish to see an Indian-Iranian alliance in action against Pakistan.

Practical Steps toward GCC-India Security Cooperation

Cooperation in Counter-terrorism

There are a number of factors encouraging cooperation in counter-terrorism. Geography is a major factor in this respect. India's geographical proximity to the Gulf region and the high level of people movement as well as commercial activities between the two regions could generate a potential threat, such as:

1) Terrorist elements moving from the sub-continent to attack targets inside the GCC states. These could be national or Western targets, and could include targets related to Indian interests in the Gulf region.
2) Terrorist elements moving from the GCC states to the sub-continent, to participate in terrorist activities or to escape security pressures within the Gulf region.
3) Financial support to terrorist groups from the Gulf region; the source of the funds, which in most cases is collected illegally or by deception, could be Gulf nationals or sub-continent nationals residing in the GCC states. Fundraising could include money laundering activities on behalf of terrorist groups.

Cooperation in Countering Organized Crime

Countering organized crime could represent a major area of security cooperation and include efforts to combat:

Illicit drugs production and smuggling

Human trafficking

Money laundering

Counterfeiting

The high level of movement of people and commercial goods and the easy sea and air access between the sub-continent and the Gulf region has facilitated the activities of organized crime groups. India and the Gulf States have been used as a transit point for people and goods smuggled from southeast Asia to the African and then to the European markets, or in some cases, to the Gulf States themselves.

Cooperation in Maritime Security

Cooperation in maritime security is important for the GCC states, as they are major oil and gas exporters to India and the rest of the world, and for India as a major consumer of Gulf energy products. A strong link exists between energy security (security of oil/gas production in the producing states) and maritime security (security of seaborne transportation of oil/gas exports to consumer states). The challenges to maritime security lie in a number of actual or potential sources of threat, including:

1) Certain states' conduct

2) Piracy activities and other forms of organized criminal activities

3) Terrorist activities

Conclusion

There is a need to strengthen cooperation in the three areas of counter-terrorism, combating organized crime, and maritime security and establish a legal framework for such cooperation. In this context, the possibility of an agreement which can lead to the establishment of an operational structure to promote intelligence gathering in cases of concern for both parties may be examined. Such a structure could be supported by effective arrangements for timely exchange of intelligence information and a mechanism to coordinate at the operational level to secure concrete results.

8

Security Cooperation between the GCC and India: Issues and Possibilities – A Practitioner's View

Leela K. Ponappa

Introduction

As the first decade of the 21st century comes to a close, a combination of known and emerging factors are determining the security interests of India and the GCC countries. These factors feature great complexities, diverse threats, and internal and external issues. They pose challenges to the governments concerned with regard to both domestic policies and the pursuit of peace and stability in the external environment. This paper will briefly review the security scenario and issues involved, identify the common interests of the countries concerned, lay out the possibilities for substantive security cooperation between the GCC countries and India, and suggest some specific areas and feasible measures for the development of such cooperation.

A basic and initial assumption is that all the countries involved in this discourse – India and the GCC countries – are *status quo* powers, committed to the consolidation of peace and stability for the development of their respective societies through whatever politico-economic model they choose to adopt within the current international environment. The dialogue that has taken place thus far under the India-GCC research project has delved into political, economic and strategic issues, analyzing past developments and their bearing on some current perceptions. Moving forward now, towards the potential for that oft-repeated term, a strategic partnership, a second assumption is that all the participating countries accept the need to structure and sustain a stronger relationship between the GCC countries and India beyond the present level on its own merits and to give substance to any such partnership. The content of such partnership and the extent to which the GCC countries and India decide to work together over the short to medium term will determine the quality of the outcome. This is more easily done in the domains of political, social or economic relationships; the area of security requires a greater extent of mutual commitment on sensitive issues and encompasses all other aspects of the relationships. A third assumption is that the GCC and India seek security for their countries and peoples, that the posture is defensive and does not seek geopolitical domination. A fourth assumption is that participating countries will focus on security interests, clearly identified, in order to explore the extent to which these can in due course shape the diplomatic and political discourse instead of the other way around.

The Scenario

India and the Gulf are amidst a fast changing, very complex geopolitical scenario which could have far reaching implications for both.

Internally, India and the GCC are involved with serious issues of state consolidation, requiring the judicious handling of socio-political change and challenges at home. The youth factor plays a key role in all the countries, given the very large percentages of people below 25 years in India and the GCC. As the forces of globalization swirl around both regions, the aspirations, ambitions, and demands of these young people will need to be met.

In India, with a population of over a billion, the policies of democratic inclusiveness exist on a scale never attempted before in history. An essential part of these policies is the welfare of minorities and their participation in national life as part of the mainstream, with the same rights and obligations as any Indian citizen together with special dispensations. India's minorities include about 150 million Muslims and over 20 million Christians, rich in diversity, traditions and scholarship. All Indians today are dealing with contemporary socio-economic challenges while seeking to retain the essential elements of their identity, within a society marked by openness and an economy that is growing at 8 percent. India has a comprehensive perception of national security as set out in the mandate of the National Security Council in 1999.

In the GCC, there is a keen consciousness of the need to develop economic autonomy beyond the benefits of oil, through diversification and capacity building. The focus on education, and on science and technology, in order to enable young people to grow into positions of decision making and leadership is both noticeable and impressive; so also the conviction of the GCC's leaders to find their own solutions to regional issues and problems wherever possible.

The well-known linkages between the GCC countries and India encompass trade, energy, and a growing role for investment and joint ventures, education and social exchanges. A mutuality of interests exists not just because of the current economic dimensions of oil, gas and the demographic reality of the presence of some six million Indian nationals in the Gulf; India-Gulf historical links are based on relationships that existed long before oil was found in this region and these ties will be sustained in the future regardless of developments concerning energy. Equally, however, today and for the foreseeable future, the vital importance of energy security in its various dimensions to the GCC countries and India is self-evident, with regard to the growth and stability of production, transportation and market development. The mutually supportive role between India and the Gulf with regard to the sourcing of oil and gas, the market which India provides, and the multifarious services which Indian expatriates deliver in the market of the GCC countries, underpin the irrefutable logic of geography, and the linkages through the Arabian Sea, the Gulf of Oman, the Gulf of Aden, the Red Sea and the Gulf itself. India and the GCC countries have traded with each other for centuries and our people have moved, interacted and influenced each other in both directions.

Clearly, there are mutual stakes and a mutual interest for the GCC and India, in a stable and enhanced relationship. But is there a case for a strategic partnership, based on mutual security interests? It is significant that the end of World War I and World War II each left in their aftermath a host of problems based on the politics of partition, some of them intractable, which continue to pose challenges today.

It can be said that the security scenario in the Gulf is currently centred around the oil economy; the situation in Iraq; the uncertainties about Iran – the internal situation, its external relationships with its neighbors, the direction of its nuclear program; new challenges to the safety of sea lines of communication (SLOCs) with the growth of piracy out of Somalia and elsewhere, alongside 21st century concerns about cyber security. Also, the role of external players is a key element, given the overarching position of the US acting in its own interests and in partnership with countries of the region at various times. Other external players include not just members of the western alliance like Britain and France but increasingly, China. Developments in Yemen have been of concern. GCC countries have their collective and individual positions and responses, taking into account the diverse views of its members.

There is, further, the shadow of developments in Afghanistan and Pakistan, notably the activities of terrorist groups based on fundamentalist, extremist thinking that the only way is their way and that indiscriminate internal and cross-border violence is a legitimate means to achieve their ends, against states and against civil society. These groups, some with known state support in Pakistan, are anti-*status quo*ists and pose a direct threat to governments and to innocent people.

India's security scenario encompasses internal and external aspects in a volatile neighborhood. India's domestic policies, regardless of the government in office, have consistently focused on increasing opportunities for its people through noteworthy advances in all fields of agriculture, industry and services by drawing on science and technology. There are huge challenges and opportunities, and India faces these with a sense of realism together with confidence about its ability to deal with them through the democratic process. India has extensive land borders of over 14,000 km and a coastline of over 7,000 km. Countries in India's volatile neighborhood are grappling with the forces of change: Nepal is yet to draw up its constitution after a decade of internal Maoist upheaval and the internal situation in unstable; Bangladesh is making great developmental strides while coming to terms with the genocide and war crimes that preceded its liberation and combating terrorism; Myanmar is politically deadlocked and Sri Lanka is dealing with a massive problem of rehabilitating internally displaced people after the end of the military conflict with the LTTE, even while the need for a political settlement which meets the aspirations of all sections of Sri Lankan society including the Tamil minority within the framework of Sri Lanka's unity, sovereignty and territorial integrity, assumes renewed urgency. Pakistan is caught up in combating its own internal contradictions, with terrorism, first developed as an instrument of Pakistan state policy against India, then against the US and ISAF forces in Afghanistan, now harming Pakistan itself. Afghanistan continues to bear the brunt of the ongoing military operations. India's largest neighbor, China, while being its biggest trading partner, also causes concern in Asia because of its growing assertiveness in its traditional areas of influence and beyond.

The most serious threat to India emanates from cross-border terrorism, which

India has experienced for over two decades. The GCC countries too understand the seriousness of the threat, which misuses the name of religion in the pursuit of illegitimate power and seeks to influence impressionable youth. Terrorism needs to be treated as a WMD, with all the controls and multilateral instrumentalities involved. The risk of a nexus between terrorists and nuclear proliferators cannot be underestimated.

The Issues

The following security issues can accordingly be deduced for GCC-India security cooperation:

- The maritime dimension including security of SLOCs for trade; coastal security; environmental management
- Emerging changes in the international system involving traditional areas, energy security, security of financial institutions and structures
- Terrorism and extremism including the pan-Asian and global dimensions involving Central Asia, China, Africa, Europe, North America
- Narcotics, international crime
- The approach to non-state actors
- The situation in Iraq
- Iran
- The Shia-Sunni divide
- Developments in Afghanistan and Pakistan and their impact on the security situation in India and the Gulf
- Border issues and management; migration
- The nuclear dimension: civilian use of nuclear power
- Critical infrastructure protection
- Disaster management
- Capacity development
- Intelligence sharing

It can be argued that on each of these issues, the GCC countries and India have their own national, bilateral, regional and multilateral arrangements and that while there is extensive bilateral contact, there is no case for further cooperation since perceptions are different. This argument bears examination.

There are without doubt great divergences between the GCC countries and India – as indeed there are among the GCC countries themselves. India and the GCC are intrinsically different in many areas such as the very nature of their societies and governments, or the role played by public opinion, political parties and the media. There are, however, equally many factors that unite them. For millennia, these two regions have had the closest of relations because of the larger forces of geography, of mutual appreciation, respect and dependence, a shared sense of identity during and after the colonial era and now, the aspiration of shaping their world according to their own terms of reference instead of being dictated to by others. Contemporary developments have created new and more intensive ties: with the financial crisis of 2008, all countries have had to revisit earlier assumptions about the safety of banking institutions in developed countries and look to other areas or newer institutions to safeguard their assets. India's economy – its financial markets, its manufacturing sector, its food production and agricultural diversification – weathered the financial crisis while maintaining growth at 5 percent or more at the worst of times. India has traditionally provided high returns on investments and the GCC countries have found new opportunities here. The scourge of terrorism has affected India and the GCC countries, and both have devised legislative, administrative, judicial and enforcement responses to combat this menace. With the world's second largest Shia community resident in India, sectarian issues including the Shia-Sunni divide are of common concern. India has had close ties over centuries with Iran and Iraq. Like the GCC, India does not wish to see Iran acquire a nuclear weapon. Like the GCC, India favours the return of stability to Iraq.

The unregulated flow of funds between the Gulf and India has been of concern to both sides because of the implications for the financing of extremist groups and the possibilities of a repeat of Mumbai-style attacks elsewhere in the world, including, possibly, the GCC countries. The body of legislation developed to deal with terrorism and Gulf programs for the rehabilitation of surrendered extremists could be gainfully shared, as could operational intelligence which ensures that a terrorist has no place to hide.

As a country with a growing civilian nuclear program and considerable scientific and technological expertise, India has opened its training institutions to interested partners. India has institutionalised its disaster management capabilities and was the first country to provide assistance to its neighbors including Indonesia and Sri Lanka after the tsunami of 2004. The National Disaster Management Authority has put out guidelines for natural and man-made disasters and has actively undertaken relief operations. Coastal security and infrastructure protection is a major priority area for the GCC and India. India's basic approach is that it needs to develop its own capabilities, and this resonates with the stated interests and concerns of the GCC countries as they structure their own responses to their security environment. The mutuality of interest in ideas, concepts and practice is self-evident, as is the growing linkage between the armed forces of India and the GCC countries on a bilateral basis, in the areas of training, military exchanges and naval facilitation.

Specific Measures

The pace of a strategic partnership cannot be rushed or hastened; each party needs to have a comfort level, based on the confidence that the relationship will work for the mutual benefit.

The GCC countries and India are poised to take their security relationship forward, if they choose to do so, to a fresh stage based on a serious attempt to address common areas of interest and concern. While some measures are already under implementation, at a bilateral level, a coordinated series of additional steps involving the GCC as a whole could lead to a greater degree of convergence than has existed so far. Broadly, this could involve engagement at the conceptual level, sharing of experience, and operational cooperation in a calibrated manner, including the following:

- Expanding the diplomatic discourse to security and strategic issues in a structured manner
- Intensified dialogue at the Track II level on many of the issues identified previously, addressing differences candidly, with a view to bringing clarity and understanding to the realities and security implications involved, as against set views or stereotypes
- Joint study of legislation on security issues including terrorism, narcotics, international crime
- Sharing of operational experience on maritime security issues, e.g., about the Arab Maritime Task Force set up after the Riyadh Declaration of June 2009 and the scope for cooperation with the Indian Navy and Coast Guard; coastal security; environmental and disaster management
- Joint exercises and drills
- Workshops on cyber security, disaster management
- Military and other training of common interest, including development of new modules
- Sharing of operational intelligence on terrorist activity
- Executive and legal cooperation in dealing with terrorists and criminals

India and the GCC countries are in the process of exploring the scope for increased security cooperation even as the weight of global strategic interests shifts towards Asia. India's own thinking on security cooperation has developed to a point where it engages with its partners with confidence on the basis of mutual clarity and respect, within the realm of what is feasible and sustainable. The GCC countries too perceive the need to strengthen their regional linkages in an evolving security environment. It should be possible for India and the GCC to shape a security dialogue and structured cooperation in a manner that would prepare the ground for a much better level of mutual understanding, confidence, and support on the basis of an action plan within an agreed time frame of two to five years.

9

Iran's Assertion and India as a Factor of Stability in the Gulf: Some Policy Options

Atul Aneja

Introduction

India can play a key role in imparting stability to the Gulf, which is currently threatened by Iran's nuclear program. Iran is arguably engaged in a sustained drive to acquire nuclear weapon capability, if not striving to emerge as a full-fledged atomic weapon power. Iran's nuclear aspirations have sharply escalated tensions, especially with the Arab Gulf States, who apprehend that once it is armed with nuclear weapons, Tehran would acquire the wherewithal to cause extensive regional destabilization. In the perception of the six countries belonging to the Gulf Cooperation Council (GCC), the regional balance of power would shift decisively in favor of Iran, in case it succeeds in developing nuclear weapons.

India can play a substantial part in keeping a lid on the growing tensions in the Gulf. But in order to succeed, it would have to significantly and simultaneously advance its mutually exclusive engagement with Iran and the six countries belonging to the GCC, namely Saudi Arabia, Bahrain, Kuwait, Qatar, the United Arab Emirates (UAE) and Oman. India would also need extensive cooperation from the GCC countries, which need not construe the possible growth in India's ties with Iran as a dilution of New Delhi's strong commitment either to them individually or the GCC group as a whole. It is only by developing its leverages with Iran through deeper, but selective engagement that India can influence Tehran and emerge as a credible player in promoting stability in the Gulf.

Why Should India Engage Iran?

There are three compelling reasons for India to anchor a stable relationship with Iran. Iran is vital for promoting India's interests in Afghanistan. Without the Iranian transit corridor extending from Chabahar northwards, India cannot have physical access to Afghanistan.[1]

Both Iran and India also have a shared interest in keeping out the Taliban as well as the influence of Pakistan's military and intelligence services in Afghanistan. Besides, Afghanistan is the gateway to Central Asia. In the future, the Chabahar route and its extension into Afghanistan and beyond will offer good opportunities for promoting India's trade with landlocked Central Asia and promises to open out new frontiers for investments.

Second, Iran is an important element in India's energy security matrix. Apart from its importance as a provider of oil, Iran offers Indian companies long-term opportunities to invest in its oil and gas sector.

Third, China has emerged as a major factor in India's drive to further develop its relationship with Iran. China has already established a thriving relationship with Iran in the energy and military fields, which include the development of Iran's arsenal of missiles.[2] The Sino-Iranian partnership in these two areas, energy and military hardware, at a time when the West, led by the United States, has been engaged in isolating Iran, has significantly reinforced political ties between Beijing and Tehran. While India can live with a close Sino-Iranian relationship in the oil and gas sector or in the military hardware field, it cannot afford to ignore the trajectory of the China-Iran political ties. For India, it would spell disaster if China's *political influence* over Tehran becomes so pervasive that it begins to undermine India's core interests in Iran. For instance, India would find it unacceptable if Tehran, persuaded by China, degrades the involvement of Indian oil gas companies willing to invest

1. Indo-Asian News Service, "With Pakistan on Mind, India, Afghanistan Open Crucial Road," January 23, 2009.
2. Carrie Liu Currier and Manochehr Dorraj, "In Arms We Trust: the Economic and Strategic Factors Motivating China-Iran Relations," *Journal of Chinese Political Science*, Association of Chinese Political Studies (2009): 51.

in Iran. Similarly, India would be justifiably alarmed if China managed to persuade Iran to dilute its partnership with New Delhi in Afghanistan. India's concerns are likely to heighten because there is a possibility that China might in the future wish to integrate the energy infrastructure of Iran and Central Asia to procure its supply of hydrocarbons.

It needs to be remembered that China is in the process of constructing its West-East pipeline network.[3] This is a combination of four pipelines which will supply around 40 billion cubic meters (BCM) of gas to China's huge manufacturing hubs that have been established along its east coast. This network would source the bulk of this energy from the Caspian Sea area, with Turkmenistan as the chief supplier.[4] However, with Iran sharing a common border with Turkmenistan, it is quite possible that in the future, Iran would be able to send its gas bound for China by building and integrating its own gas pipeline network with that of Central Asia. The development of a huge energy network that integrates Iranian and Central Asia gas suppliers will substantially heighten Chinese strategic stakes in the Iran/Central Asia energy corridor. This is bound to qualitatively improve the China-Iran political relationship, which would become an added factor of concern to India.

Consequently, in response to China's growing influence, India has to forge a sufficiently strong relationship with Iran, which makes New Delhi-Tehran ties immune to foreign influences that might otherwise impede its core interests.

India has a good chance of achieving success if it becomes a high value purchaser of Iranian natural gas, exported through a major trans-national pipeline. Since the Iran-Pakistan-India (IPI) gas pipeline is still an unrealistic proposition mainly on account of instability in Pakistan and India's discomfort in engaging with Pakistan after the Mumbai terror attacks of November 2008, India and Iran are looking to establishing an alternative energy supply route. The proposal by a private consortium South Asia Gas Enterprise (SAGE) to transfer Iranian gas to Oman, and thereafter transit it further by a deep sea route to India's West coast appears to have been well received within the Indian establishment.[5] Once this arrangement is in place, Indo-Iranian ties would have acquired a strategic anchor, enabling India to acquire deeper political influence in Iran.

3. "China Proposes Construction of 2nd West-East Gas Pipeline," People's Daily Online, March 11, 2006.

4. Marat Gurt, "China Extends Influence into C. Asia with Pipeline," Reuters, December 14, 2009.

5. Peter Lee, "The Natural Gas Game," Counterpunch, February 19-21, 2010, available at http://www.counterpunch.org/lee02192010.html

India and the GCC – Going beyond Baby Steps

India and the GCC share vital common interests in at least five major areas. Given the range of their shared interests, the India-GCC relationship is still in its infancy. Nevertheless, there remains a big opportunity for both sides to hugely develop their relationship in the coming years and steer it in the direction of achieving its full potential.

First, the GCC plays a key role in meeting India's energy security requirements, as the bulk of India's energy supplies are sourced from the Gulf countries. India's energy relationship with the GCC is also growing and becoming more sophisticated. Both sides have begun to seriously explore possibilities of joint ventures in the upstream and downstream sectors, especially for the establishment of refineries, as well as for setting up petrochemical plants.[6] With China and India developing at a rapid pace, both countries provide the GCC states with an assured market. The growing Asian demand, where India plays an important part, has been a significant factor in maintaining steady oil prices, despite a serious ongoing economic slowdown, which has badly hit the Western economies.

Second, India is a major supplier of human resources to the Gulf countries. The GCC countries benefit from the relatively inexpensive supply of Indian manpower, which boosts their economies immensely. Besides, the majority of Indian migrant workers are apolitical, and this is a factor which has helped the host countries to maintain their internal security. For India, its overseas workers have made significant contributions to the country's overall foreign exchange earnings.

Third, the GCC is an important market for Indian goods. Given its well developed infrastructure and suitable geographic location, the GCC also provides an ideal platform, for transshipping Indian goods to markets in South Asia, Central Asia, Europe and Africa.

Fourth, India's focus on developing its infrastructure provides the GCC countries an enormous opportunity for investments. The GCC countries have the petrodollars which can be channelized in infrastructure funds that are being created for the development of India's ports, airports, roads, urban transport networks, and power generation. It is estimated that India needs investments up to $514 billion by 2012, to develop its infrastructure.[7]

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6. Delhi Declaration signed by King Abdullah bin Abdulaziz Al-Saud of the Kingdom of Saudi Arabia and Indian Prime Minister Dr. Manmohan Singh, January 27, 2006, available at http://www.cgijeddah.com/cgijed/KingsVisit/DD.pdf

7. Mukesh Jagota and Abhrajit Gangopadhyay, "Infrastructure Investments Key to Sustain India's Growth," *The Wall Street Journal*, February 10, 2010, available at http://online.wsj.com/article/

Fifth, India and the GCC have a vital shared interest in promoting regional stability. India, given its regional stakes, fully shares the GCC's concerns regarding the Iranian nuclear program. Iran's success in developing nuclear weapons would potentially destabilize the region. Once armed with these weapons, Iran would have the capacity to establish itself as a regional hegemon. It would acquire the leverage, which it currently does not have, to disrupt energy supplies from the Strait of Hormuz. As a result, it would be empowered to play havoc in the international oil markets. In other words, a nuclear Iran would have the capacity to rock the international economy significantly.

Iran, armed with nuclear weapons, would also have the capacity to threaten the region's onshore and offshore oil fields, effectively challenging the US Central Command's mandate of safeguarding the region's oil and gas infrastructure.

Besides, a nuclear Iran would be in a much better position to maneuver Shia minorities in Bahrain, Kuwait and Saudi Arabia's oil-rich and Shia-dominated Al Ahsa region. Its ability to assert itself in neighboring Iraq, Syria and Lebanon as well as Afghanistan would also be greatly enhanced. Sooner than later, it is possible that the pragmatic Americans would accommodate Iran as a nuclear weapon state – a move, if it materializes would be a huge blow to the regional importance, standing and influence of the GCC countries. It would imply recognition by Washington of Iran's status, along with that of Israel, as a premium regional power in the Middle East. In light of the Iranian threat, how can India and the GCC work together to prevent the destabilization of the Gulf? India can play a major role in maintaining a regional balance of power by adopting a string of measures.

Indian Naval Deployments in the Gulf:

First and foremost, India and the Gulf countries can consider and plan for active Indian naval deployments in the region. While it can be safely assumed that the Americans would take the responsibility for safeguarding the region's key oil fields, as well as the main channel through which the oil tankers heading for the Strait of Hormuz pass, the Indian navy can be expected to perform an independent, but complementary role. Thus, the Indian navy can be involved in safeguarding some designated, off-shore oil installations in the Gulf. The navy can, in partnership with its hosts, also address such issues as search and rescue, environmental emergencies, human trafficking and piracy.

In order to activate a credible naval partnership, the GCC countries would need to discuss in detail with their Indian counterparts, allocation of dedicated berthing

SB10001424052748704140104575056660448949740.html facilities for Indian warships in the Gulf harbors. In addition, the infrastructure for refueling and maintenance of Indian warships also needs to be allocated or developed afresh. Warship maintenance facilities might also have to be created to service ships belonging to India and the GCC countries.

Sharing Operational Experience at Sea and in Air:

India and the GCC would be required to upgrade the level of their naval contacts and exercises to counter some of their common threats at sea. They may also need to add an aviation dimension to their relationship. Given the threats from the air, India and the GCC would need to undertake air exercises in the context of safeguarding some of the region's identified vital installations, especially those serving the hydrocarbon sector. It needs to be emphasized that all Indian military cooperation with the GCC should be defensive in nature and built around the doctrine of self-defense in order to remain sustainable.

Military Research and Development:

Joint development of military hardware, with India's Defence Research and Development Organisation (DRDO) as a nodal partner, can emerge as an exciting area for future collaboration. Development of air defense missiles, radars and military communications could emerge as possible areas of interest. Such an effort with India's partnership may help the GCC countries to beef up their conventional military deterrent vis-a-vis Iran, which is well equipped to target them from the air. The GCC countries can also look at cooperating with India on naval warship design, an area in which the Indian Navy has acquired considerable expertise over the years.

Exploring the Possibility of Maintaining any Common Russian Origin Equipment:

The two sides can look at working together to maintain any common Russian-origin military equipment they have. Saudi Arabia, for instance, is looking at importing Russian origin T-90 tanks, which India possesses in large numbers and has vast experience of maintaining. There is also a market in the GCC countries for Russian military helicopters, which India has been flying for years.

Space Cooperation:

India and its GCC partners can start looking boldly at collaborations in space, including satellite development and space-based navigation systems. Saudi Arabia is already collaborating with Russia to develop the Glonaas satellite navigation system.[8] A similar tie-up with India involving the entire GCC is an attractive option.

Security Dialogue:

The GCC needs to establish a security dialogue on the lines of the Asean Regional Forum (ARF), where apart from India, countries such as Iran, Russia, China and the United States are also invited. While an India-GCC industrial summit is held periodically, there is a greater need to diversify multi-level institutional coordination between the two sides. For starters, an Indo-GCC joint commission can be established covering a broad canvas of areas, such as oil and gas as well as information technology and space. Institutional linkages between the GCC and Indian intelligence services may also need to be strengthened both to tackle trans-national crimes such as terrorism as well as for training purposes.

Because of its dual engagement with Iran and the GCC countries, and based on its rejection of Iran as a nuclear weapon power, there is immense and untapped scope for India's assertion, in partnership with the Arab Gulf States, as one of the key pillars of stability in the region.

8. Kapila Subhash, "Saudi Arabia: The Strategic Shift towards Russia?" South Asia Analysis Group, May 29, 2008.

10

GCC-India Economic Relations: Prospects and Policy Priorities

*Samir Pradhan**

Introduction

Economic relations between the GCC and India are millennial. The earliest trading activities between the Tigris and Euphrates and the Indus Valley took place along the Gulf coast. The civilizational links strengthened when the British Raj established protectorates along the Arabian Gulf coast and administered from Delhi in the 18th century in order to protect their vital trade route.

However, large movements of manpower and goods from the Indian sub-continent took place in the 1970s with the increase in the price of oil and consequent economic development in the Gulf. As a result, the commercial interaction between these two regions intensified both in scope and depth to reach the current phase of vibrant ties.

The GCC and India are on the cusp of economic renaissance. Bilateral economic relations are firmly entrenched in a new strategic geoeconomic tapestry involving energy and petro-dollar investment flowing east from the Gulf and cheap consumer goods, knowledge-driven technologies and migrant labor, flowing west from India. This new economic symbiosis is gaining prominence in the contemporary post

*Views expressed here are personal, not to be attributed to the author's official affiliation.

crisis world economic order due to the structural comparative advantages of both the regions. Looking forward, it is certain that the economic fortunes of the two regions will be mutually reinforcing due to increasing economic interdependence. However, there are compelling issues and policy inertia that impede intensive growth of bilateral relations.

Therefore, it is imperative to examine closely the status of GCC's economic relations with India and explore potential synergies and constraints for a broadbased sustainable economic engagement. This is the main objective of this paper. Special effort has been made to derive plausible policy priorities that can help in devising an analytical construct which could enable the strengthening of GCC's robust economic relations with India in the near and medium term.

Recent Macroeconomic Context

The phenomenal economic rise of the GCC bloc and India is one of the hallmarks of the present century. The GCC's enormous financial liquidity combined with India's high growth rates has given these two regions substantial bargaining power in world financial markets. It is not just their increasing global role, however, but also the growing ways in which they complement each other that are reshaping their relations.

Since 2003, the GCC and India have embarked on a higher growth trajectory, making them the two fastest growing regions globally. This dynamism is broad-based and is a sub regional phenomenon. Among the contributing factors to the dynamism are the ability of India to mobilize domestic resources and structural transformation in favor of services and industry; and the GCC's oil-fuelled economic boom and accelerated economic diversification with mega investments in cluster industries, particularly in metal and petrochemical byproducts and services sector.

Table 10.1: Broad macroeconomic indicators, GCC and India, 2009

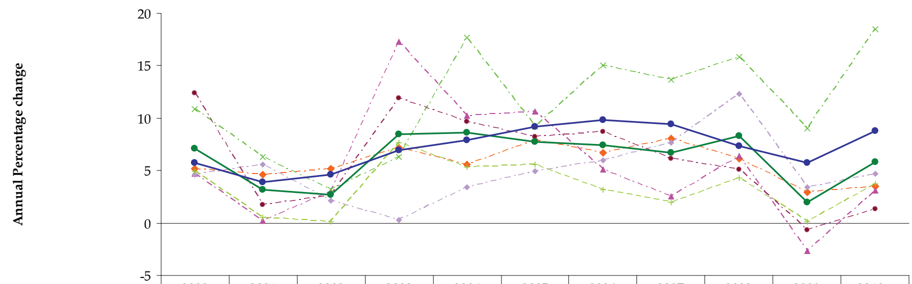
	GCC	India
Population, total (million)	39.2	1,186.3
Population growth	3.8	1.3
Surface area (sq. km/thousands)	2,572.3	3,287.3
Nominal GDP (US$ billion)	868.4	1,206.7
GDP per capita (current US$)	3,3194.2	1,017.2

Table 10.1 (continued)

Real GDP growth	2.0	5.7
Current account (billion $)	56.9	-28.7
Inflation	2.1	9.1
Total Exports of Goods & Services (billion $)	531.2	189.0
Total Imports of Goods & Services (billion $)	435.2	307.7
FDI inflow (billion $)	51.0	34.6
FDI outflow (billion $)	20.3	14.9

Source: IMF Data Mapper, September 2010; UNCTAD World Investment Report, 2010

Figure 10.1: Real GDP growth rates of GCC and India, 2000-2010



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010p
Bahrain	5.2	4.6	5.2	7.2	5.6	7.9	6.7	8.1	6.1	2.9	3.5
Kuwait	4.7	0.2	3	17.3	10.2	10.6	5.1	2.5	6.4	-2.7	3.1
Oman	4.6	5.6	2.1	0.3	3.4	4.9	6	7.7	12.3	3.4	4.7
Qatar	10.9	6.3	3.2	6.3	17.7	9.2	15	13.7	15.8	9.0	18.5
Saudi Arabia	4.9	0.5	0.1	7.7	5.3	5.6	3.2	2.0	4.3	0.1	3.7
UAE	12.4	1.7	2.6	11.9	9.7	8.2	8.7	6.1	5.1	-0.7	1.3
GCC average	7.1	3.2	2.7	8.5	8.7	7.7	7.5	6.7	8.3	2.0	5.8
India	5.7	3.9	4.6	6.9	7.9	9.2	9.8	9.4	7.3	5.7	8.8

Note: p stands for projected. Source: IMF Data Mapper, September 2010

Bilateral Trade: Trends and Composition

The GCC's trade with India has a history dating back to the Silk Road days. While trade along the Silk Road sank into oblivion due to the downfall of the Roman Empire, trade between the Gulf and India remained brisk to an extent that the Indian Rupee was widely circulated as currency in the Gulf countries from medieval times onwards. Especially in the early and mid 20th century, the Indian Rupee was widely adopted as legal tender in the Gulf countries and even adopted as local currency in the form of the Gulf Rupee between 1959 and 1966.

Enhancing trade cooperation requires a proper understanding of the level and trends in bilateral trade. It is also essential to assess the relative importance of India as an important trading partner and its significance in GCC's global trade. An important aspect in this context is to examine the fluctuations in the volume and composition of bilateral trade flows over a period of time. An analysis of trade composition and understanding of the nature of trade facilitation measures, comparative advantage, and potential for trade expansion are also necessary for devising a trade-augmenting bilateral policy framework.

Over the last decade, trade relations between the two regions have developed by leaps and bounds. India was one of the major trading partners for the GCC, accounting for 7 percent of GCC's world trade in 2009 (see Table 10.2). In fact, in the year 2009, India was the UAE's largest trade partner, while the UAE was the number one trade partner for Indian exports, and the second trade partner with regard to Indian imports, second only to China.

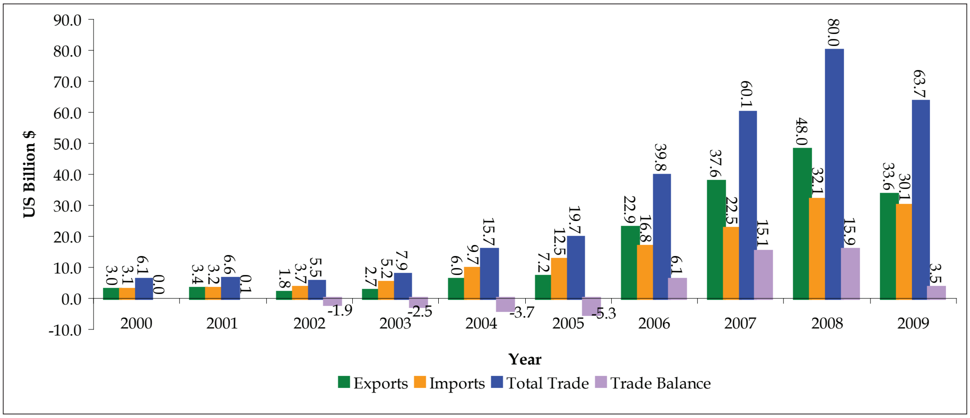
Table 10.2: GCC's major trading partners, 2009 (share in percent)

Country	Export	Import	Trade
China	5%	11%	8%
EU 25	3%	19%	10%
India	6%	8%	7%
Japan	20%	8%	15%
US	1%	7%	3%

Source: UN COMTRADE Database, 2010

In the years 2005-2009, trade volume between the GCC and India increased more than three-fold, and much of the incremental demand for Gulf exports going forward – not just for oil and gas but also for petrochemicals, base metals and services such as finance and tourism – is coming from India. In 2008, GCC-India trade stood at a staggering $80 billion, but due to the financial crisis, it declined to $64 billion in the year 2009 (see Figure 10.2).

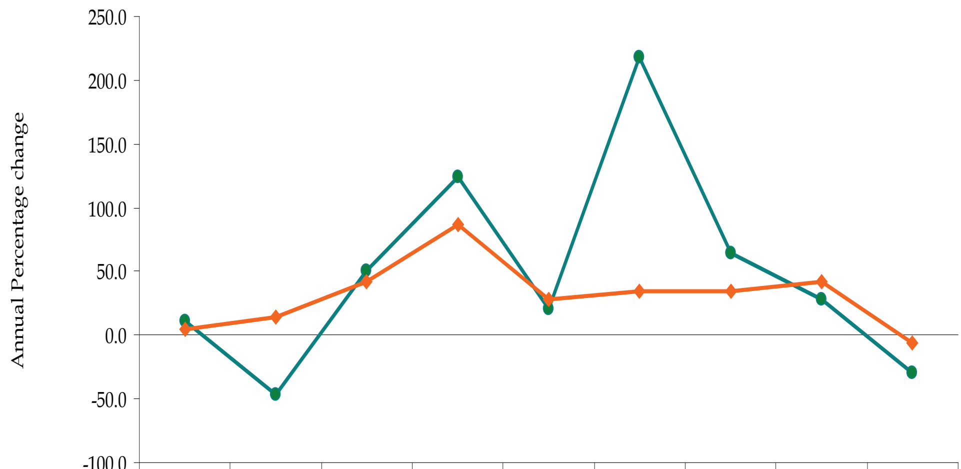
Figure 10.2: GCC-India trade indicators, 2000-2009



Source: Author's calculation from IMF DoTS Database, Septemnber 2010

GCC's bilateral trade with India has been growing at a high rate in more recent years, with the exception of the year 2009, which witnessed negative growth in both exports and imports (see Figure 10.3). This is not unusual, given the secular decline in global trade due to the economic recession and its cataclysmic real economic effects.

Figure 10.3: Growth in GCC's trade with India, 2001-2009



	2001	2002	2003	2004	2005	2006	2007	2008	2009
Exports	11.1	-46.8	49.9	124.0	20.6	217.8	63.9	27.5	-29.9
Imports	4.7	14.5	41.8	86.5	28.5	34.7	34.1	42.2	-6.1

Year

Source: Author's calculation from IMF DoTS Database, September 2010

An analysis of the composition of GCC's exports to India based on comparable data from ITC/UNCTAD/WTO suggests that five sectors at HS 2-digit level account for an average share of 75 per cent of exports from GCC over the period 2005-2009. These products belong to Chapters 27 (mineral fuels etc.), 71 (pearls, precious stones), 29 (organic chemicals), 39 (plastics & articles thereof) and 31 (fertilizers). This implies that GCC's export basket is characterized by high concentration in a limited number of sectors.

Table 10.3: Top 20 items in GCC-India trade, 2009 (value in million USD)

GCC's Exports to India		
Product code	Product label at 6-digit	**Value**
'TOTAL	All products	**40071**
'270900	Petroleum oils and oils obtained from bituminous minerals, crude	**20724**
'271111	Natural gas, liquefied	**1547**
'271113	Butanes, liquefied	**674**
'271011	Aviation spirit	**637**
'310210	Urea,wthr/nt in aqueous solution in packages weighing more than 10 kg	**609**
'271019	Light petroleum distillates nes	**311**
'290531	Ethylene glycol (ethanediol)	**300**
'281410	Anhydrous ammonia	**246**
'271112	Propane, liquefied	**236**
'290250	Styrene	**227**
'271119	Petroleum gases and other gaseous hydrocarbons nes, liquefied	**194**
'390120	Polyethylene having a specific gravity of 0.94 or more	**172**
'390110	Polyethylene having a specific gravity of less than 0.94	**171**
'390210	Polypropylene	**128**
'999999	Commodities not elsewhere specified	**127**
'290511	Methanol (methyl alcohol)	**107**
'760200	Waste and scrap, aluminum	**81**
'381700	Mixed alkylbenzenes and mixed alkylnaphthalenes produced by the alkyla	**75**
'250300	Sulphur, except sublimated, precipitated, colloidal	**72**
'760110	Aluminum unwrought, not alloyed	**62**

Source: TradeMap, September 2010

Table 10.3 (continued)

GCC's Imports from India		
Product code	Product label at 6-digit	**Value**
'TOTAL	All products	**23256**
'100630	Rice, semi-milled or wholly milled, whether or not polished or glazed	**899**
'271019	Light petroleum distillates nes	**813**
'271011	Aviation spirit	**409**
'851712	Telephones for cellular networks mobile telephones or for other wireless	**256**
'290220	Benzene	**170**
'740311	Copper cathodes and sections of cathodes unwrought	**169**
'843069	Construction equipment, not selfpropelled nes	**148**
'020230	Bovine cuts boneless, frozen	**136**
'848180	Taps, cocks, valves and similar appliances, nes	**64**
'080450	Guavas, mangoes and mangosteens, fresh or dried	**63**
'740811	Wire of refined copper of which the max cross sectional dimension > 6mm	**61**
'730690	Tubes, pipe & hollow profiles, iron or steel, welded, nes	**53**
'711319	Articles of jewellry&pt therof of/o prec met w/n platd/clad w prec met	**44**
'730511	Pipe,line,i/s,longitudinally subm arc wld,int/ext cc sect,dia >406.4mm	**43**
'841480	Air or gas compressors, hoods	**38**
'230400	Soya-bean oil-cake&oth solid residues,whether or not ground or pellet	**36**
'730820	Towers and lattice masts, iron or steel	**33**
'080132	Cashew nuts, without shell, fresh or dried	**31**
'540710	Woven fab of high tenacity fi yarns of nylon oth polyamides/polyesters	**30**
'251110	Natural barium sulphate (barytes)	**30**

Similarly, GCC's imports from India suggest that five sectors at HS 2-digit sectors account for 47 per cent of imports. These are 71-Pearls, precious stones, metals, coins, etc; 10- Cereals; 27- Mineral fuels, oils, distillation products, etc; 85- Electrical, electronic equipment; and 84- Nuclear reactors, boilers, machinery, etc. The rest is accounted for by a whole range of sectors with medium and low shares. This implies that GCC's import basket is not only characterized by high concentration but also by thinly spread shares across a wide range of sectors (see Tables in Appendix). In other words, the trade profile is not diversified and is also heavily concentrated to limited items.

Importantly, higher prices of oil and gas have significantly improved GCC's terms of trade. GCC's export prices to India have almost doubled during the period 2000-08, spurred by the rise in prices for fuel commodities, while import prices rose by 25-30 percent. The GCC's non-oil export to India is small, but slowly diversifying in recent years, and manufactured goods and machinery-related exports are increasing.

Table 10.4: GCC countries: Products with high Revealed Comparative Advantages (RCA)

Sl. No	Code, Product name	RCA	Share to total GCC exports, %
1	583 Polymerization and copolymerization	2.46	12.1
2	764 Telecommunications equipment	0.69	6.3
3	562 Fertilizers,manufactured	3.37	2.4
4	752 Automatic data processing machines	0.18	0.9
5	274 Sulphur and unroasted iron pyrites	9.46	0.9
6	665 Glassware	2.05	0.8
7	759 Parts of and accessories suitable	0.02	0.7
8	691 Structures & parts of struc.;iron	0.38	0.7
9	582 Condensation, polycondensation &	0.63	0.7
10	642 Paper and paperboard,cut to size	0.42	0.6
11	661 Lime, cement, and fabricated construct	0.22	0.5
12	533 Pigments,paints,varnishes & related	0.53	0.5
13	776 Thermionic,cold & photo-cathode …	1.33	0.3
14	692 Metal containers for storage	0.35	0.3
15	273 Stone,sand and gravel	1.46	0.3
16	111 Non alcoholic beverages, n.e.s.	0.41	0.2
17	664 Glass	0.18	0.2
18	423 Fixed vegetable oils,soft,crude	0.37	0.2
19	694 Nails,screws,nuts,bolts etc.of iron	0.32	0.2
20	635 Wood manufactures, n.e.s.	0.61	0.2

Source: UN Comtrade database, 2009

It is also important to note that trade between the two regions is largely based on export-import complementarities, suggesting increasing economic interdependence and convergence in the future. Huge trade potential exists between the GCC and India. Table 10.3 depicts the top 20 items in GCC-India bilateral trade in the year 2009.

Looking at the GCC's export basket, it seems that India does not present many opportunities in product categories other than crude materials. However, there still seems to be room for more exports, especially in chemicals, paper, skins, and stone, sand, and gravel. Simultaneously, in the GCC countries, Indian products appear to be more complementary. Competition seems to be more prevalent in industries that the GCC countries succeed in internationally. Table 10.4 shows products from the GCC with highest revealed comparative advantages which have higher potentials for export to India.

Energy is the most dominant item in GCC-India trade. The two regions constitute the strategic building blocks of the current global energy regime as major producers and consumers of energy. There are major areas of common interest in the future of global energy supply and demand, the structure of international oil and gas markets, price developments, technology and legislation. There are also opportunities for cooperation and cross investment between national oil companies, which is one example of changing international oil and gas diplomacy.

India has emerged as a major consumer of energy, and energy security is vital to the nation for maintaining the current high rates of GDP growth. India's consumption of oil is expected to grow from the 2005 level of 2.5 million barrels per day to about 3.1 million barrels per day by 2010. Domestic production meets only 33 per cent of India's oil consumption.

India has ambitious plans for augmenting domestic power generation through a mix of development strategies. It seeks to pursue strong diplomatic initiatives to import energy from outside sources. With India's petroleum consumption pattern switching to more environment-friendly natural gas, there is huge demand for natural gas in the recent years. A number of LNG projects are currently in place in India to meet the increasing demand from the transport sector and industrial sector and for power generation. In 2004, India for the first time imported LNG from Qatar for its Dahej plant in the state of Gujarat. Notwithstanding the moratorium on new LNG projects in Qatar, it pledged to increase supplies to India during Prime Minister Manmohan Singh's visit in 2008.

One important aspect of energy interdependence between the two regions is the fact that while higher economic growth has resulted in increasing imports of crude oil by India from the GCC region, due to the robust refining sector in India, exports of petroleum products to the GCC market, and UAE in particular, are on the rise in the last few years (see Table 10.5). India boasts of the world's largest and most sophisticated grassroots refinery at Jamnagar in Gujarat, operated by private energy giant Reliance Ltd. Thus, given the future trends of increasing energy trade between the two regions, there is huge potential for cooperation in the energy sector in order to address the vulnerabilities of energy security.

Table 10.5 : GCC-India energy trade, 2004-2008

GCC Exports to India		Values in Thousand USD				
HS-6 digit Product Level		2005	2006	2007	2008	2009
'270900	Petroleum oils and oils obtained from bituminous minerals, crude	9,041,490	11,493,532	959,951	**28,661,978**	20,723,695
'271111	Natural gas, liquefied	597,537	781,293	1,598,300	1,363,399	1,546,534
'271113	Butanes, liquefied	176,965	517,445	770,555	1,004,783	674,289
'271011	Aviation spirit	416,429	372,970	758,765	2,895,636	637,107
'271019	Light petroleum distillates nes	5,086	39,666	83,405	1,069,554	310,586
'271112	Propane, liquefied	723,239	245,442	304,465	463,757	235,788
'271119	Petroleum gases and other gaseous hydrocarbons nes, liquefied	0	42,649	173,005	415,144	194,063
'271390	Residues of petroleum oils/of oils obtaind from bitumin minerals nes	6,727	121	38	286	242
'271099	Petroleum oils and products nes	5,701	488	503	52	63
Total petroleum & gas exports		10,973,174	13,493,606	4,648,987	35,874,589	24,322,367

Table 10.5 (continued)

GCC Imports from India		Values in Thousand USD				
HS-6 digit Product Level		2005	2006	2007	2008	2009
‘271019	Light petroleum distillates nes	14,329	3,055	27,161	1,437,278	813,163
‘271011	Aviation spirit	11,913	137	15,363	193,641	409,338
‘271312	Petroleum coke, calcined	33,388	0	35,121	104,890	4,018
‘271210	Petroleum jelly	1,111	474	18,68	3,610	761
‘271099	Petroleum oils and products nes	178	14	340	345	1
‘270900	Petroleum oils and oils obtained from bituminous minerals, crude	815	0	0	485	0
‘271119	Petroleum gases and other gaseous hydrocarbons nes, liquefied	65	73	65	0	0
Total petroleum and Gas import		61,799	3,753	79,918	1,740,249	1,227,281

Source: TradeMap database, September 2010

Re-export Hub and Opportunities for Trade with other Regions

Another important characteristic of GCC-India trade is the volume of re-exports. The share of products that are imported and re-exported is extremely high in some GCC countries, representing, for example, 85 percent of manufactured exports in the UAE and 56 percent in Qatar. These are goods that originate in third countries, but are routed through GCC ports, particularly Dubai. Three-quarters of total re-exports in the GCC countries concern machinery and transport equipment. This confirms the increasingly important role of "regional hubs" like Dubai or Abu Dhabi. In fact, in 2009, India replaced Iran as the largest re-export destination for Dubai.

Trade in Services

Over the last decade, India's services exports have more than quadrupled and, simultaneously, the services industry in the GCC is also booming with large-scale developments and projects catering to economic diversification. Although the GCC countries are net service importers, some of them are increasingly becoming competitive in certain service components. Growing opportunities are thus associated with growing complementarities in the services sector.

Table 10.6 : Trade in services, GCC and India

	GCC			India		
	US Dollars at current prices and current exchange rates in millions					
Year	Exports	Imports	Net Trade	Exports	Imports	Net Trade
2000	10520.7	245,60.97	-14040.3	16683.7	19186.7	-2503
2001	11286.1	21716.15	-10430.1	17337	20098.9	-2761.9
2002	11605.6	23041.24	-11435.6	19478.2	21039.2	-1561
2003	14709.7	26814.49	-12104.8	23901.7	24877.9	-976.2
2004	17712.5	34662.37	-16949.9	38280.9	35640.8	2640.1
2005	24448.5	42950.61	-18502.1	55830.9	47988.8	7842.1
2006	30144.5	55288.04	-25143.6	75,354.2	63537	11,817.2
2007	34956.1	59793.7	-24837.6	89,746	77,200	12,546

Source: UNCTAD database, 2010

Services trade, more than trade in goods, is the core of development strategies in some GCC countries. Saudi Arabia and the UAE have invested heavily in services to further diversify their economy and exports, and tourism often dominates. In fact, the GCC countries plan to invest about $3 trillion in leisure and tourism (and indirectly into infrastructure) by 2020. In Dubai, tourism now contributes more than oil to the emirate's GDP. Countries are also diversifying service exports. Dubai promotes exports in ICT and media services through its Internet City and Media City.

Since the competitiveness of firms and countries depends on their access to low-cost and high-quality services, including telecommunications, financial, transport, and logistics and distribution, the performance of service industries is heavily influenced by policies that affect market competition, including restrictions on entry and participation by foreign providers. In this regard, there is plenty of scope for bilateral cooperation between GCC and India, as India is a matured service exporter with high comparative advantages.

Current Trade Policy and Major Issues of Concern

The GCC faces formidable trade barriers in India. There are high ad valorem tariffs imposed on GCC exports by India, while the GCC applies a nominal 5 percent tariff and in most items less than 2.5 percent on its imports from India. (See tables in Appendix). India has opened up significantly over the past decade, but simple averages of most favored nation duties continue at about 18 percent. India's import regime is characterized by pronounced disparities in bound versus applied rates. According to the WTO, India's average bound rate tariff is 48.6 percent, while its applied tariff for FY2007 was 14.5 percent across all goods. Over the past several years, the government has steadily reduced MFN tariffs applied to non-agricultural goods, including a reduction in the applied duty on most industrial products from 15 percent in FY2005-06 to 12.5 percent in FY2006-07, and to 10 percent in FY2007-08. However, the government of India's budget for 2008-2009 maintained the applied duty at 10 percent. In order to boost the local manufacturing sector, the general rate of central excise duty for domestic products (CENVAT) and "additional duty" for imported goods was reduced from 16 percent to 14 percent for most items. In December 2008, the government of India further reduced excise duties on most products from 14 percent to 10 percent. In February 2009, as part of an economic stimulus package, the government again cut the excise duty on most products to 8 percent. As the countervailing duty on imports is equivalent to the excise tax, the total duty assessment for imported products will also be reduced. Despite these cuts, India's average applied tariff on industrial goods remains high, mainly due to significantly high tariff peaks on a number of products. In November 2008, India increased tariffs on certain steel products to 5 percent.

Notwithstanding lower applied tariffs in nonagricultural goods, India has bound only 71.6 percent of its non-agricultural tariff lines. While many Indian applied tariff rates are lower, they still represent a significant barrier to trade. Further, given the fact that there are large disparities between bound and applied rates, GCC exporters face greater uncertainty because India has the ability to raise its applied rates to bound levels in an effort to manage prices and supply. For example, in April 2008, the government of India, in an effort to curb inflation, reduced applied duties on crude edible oils and corn to zero, refined oils to 7.5 percent, and on butter from 40 percent to 30 percent. However, in November 2008, the government raised crude soy oil duties back to 20 percent. Tariffs on processed foods (e.g., chocolate and confectionery, frozen french fries, cookies, and savory snacks) remain high. Moreover, in 2008, India put an export ban on non-Basmati rice which is a staple food for a large number of Indian expatriates in the Gulf.

The Indian government publishes applied tariff and other customs duty rates applicable to imports, but there is no official, centralized publication or searchable database setting forth applied tariff and other customs duty rates. To determine the applied tariff or other customs duty rate applicable to a particular product, importers must consult separate customs and excise tax schedules and cross reference these schedules with any applicable customs or excise notification that may subject the product to higher or lower rates than set forth in the schedules (assuming the importer is able to determine that any such notification exists). Such a system lacks transparency and imposes significant burdens on importers.

Moreover, India maintains a negative import list of products subject to various forms of nontariff regulation. The negative list is currently divided into three categories: banned or prohibited items (e.g., tallow, fat, and oils of animal origin); restricted items that require an import license (e.g., livestock products, certain chemicals); and "canalized" items (e.g., petroleum products, some pharmaceuticals, and bulk grains) importable only by government trading monopolies subject to cabinet approval regarding timing and quantity. India, however, fails to observe customary transparency requirements, such as publication of information in the Official Gazette or notification to WTO Committees and, in practice, these requirements act as a barrier to trade. The government allows imports of second-hand capital goods by the end users without requiring an import license, provided the goods have a residual life of five years. Refurbished computer spare parts can only be imported if an Indian chartered engineer certifies that the equipment retains at least 80 percent of its residual life, while refurbished computer parts from domestic sources are not subject to this requirement. The government has required import licenses for all imports of remanufactured goods since 2006. As with such requirements on other products, the licensing requirement is onerous as implemented: the license application requires excessive details, quantity limitations are set on specific part numbers, the delay between application and grant of the license is long and creates uncertainty, and, in some cases, it is very difficult to obtain a license.

In October 2007, India's Director General of Foreign Trade (DGFT) eliminated the registration requirement for foreign exporters of unshredded scrap metal. However, a preshipment inspection (PSI) regime remains in place. Since 2004, India has subjected imported boric acid to stringent requirements. Traders (i.e., wholesalers) of boric acid for non-insecticidal use remain unable to import boric acid for resale because they are not end users of the product and cannot obtain no-objection certificates (NOCs) from ministries. Instead, traders fall under the stringent regulations applicable to insecticidal boric acid. NOCs are required before applying for import permits from the Ministry of Agriculture's Central Insecticides Board & Registration Committee (CIB&RC). Meanwhile, local refiners continue to be able to produce and sell non-insecticidal boric acid, with a requirement only to maintain records showing they are not selling to insecticidal end users. The CIB & RC has not enforced this requirement on domestic producers since at least the 2006-07 Indian fiscal year.

Another important issue that has direct bearing on the GCC's export basket relates to various petrochemical products that are subject to protectionist measures by India. By virtue of sheer natural endowments, the GCC countries have comparative advantages as exporters of various petrochemical products, and India is a major market for such products. However, due to domestic pressure from the industrial lobby, India is implementing a series of trade restricting measures in this sector which is not a good sign for a vibrant relationship. In March 2009, an Indian investigation into dumping of polypropylene (PP) by Saudi Arabia and Oman was initiated. Consequently, provisional duties ranging from \$44.40 to \$1,033.65/ton were announced in July 2009. The decision by the Indian Ministry of Commerce and Industry to impose anti-dumping duties on imports of polypropylene from Saudi Arabia and Oman is unprecedented and in violation of the World Trade Organization (WTO) rules and regulations. It is to be noted that India ignored the feedstock cost provided by Saudi Arabia and came up with its own overstated estimates of the production cost of polypropylene, even though the Kingdom's feedstock pricing mechanism is completely in compliance with WTO agreements - a fact that was independently verified at the time of the Saudi Arabia's accession to the WTO in 2005. The methodology employed by India was in breach of the WTO Anti-Dumping Agreement and the WTO legislation on Prevention of Unfair Competition in Importation. While the application of anti-dumping duties on polypropylene by the Indian government is intended to unfairly protect large Indian petrochemicals companies from global competition especially during these tough times, there are many factors that suggest the support provided to these large industries will be at the expense of Indian downstream industries and average consumers. Such protectionist measure undertaken by India will artificially reduce competition in the Indian polypropylene market and strengthen monopolistic positions. Such an increase in the domination of large polypropylene producers will unilaterally disadvantage a wide range of crucial Indian downstream industries that use polypropylene in production and will make these industries less competitive both in the domestic and global markets. Higher costs incurred by the downstream industries will also lead to higher prices for average Indian consumers. Importantly, India's insistence on anti-dumping instead of countervailing (anti-subsidy) duties has resulted in temporary frictions which do not augur well for intensifying economic cooperation.

Investment: Huge Potential

Traditionally, India has never been a major investment partner for the GCC countries due to prevailing economic priorities and strategic investment decisions which were biased in favor of western industrialized markets. However, since 2000, there is a clear shift in the trends due to the changing economic geography, in which both GCC and India have emerged as major FDI investors as well as recipients (see Table 10.7). Thanks to unprecedented current account surpluses, the GCC countries are investing billions abroad, seeking investments in alternative markets and currencies, and looking more toward the East. Two-way investment between GCC and India shows the increasing importance of the mnember countries as international investors and suppliers of capital to India. Simultaneously, India is also investing more in the GCC countries. Both GCC and India have experienced a sharp increase in FDI flows in the recent past. This astonishing growth in FDI is a reflection of the ample oil-generated foreign currency liquidity, combined with an improved business environment, cross-border mergers and acquisitions, and increased outward orientation of the GCC economies.

Table 10.7: Trends of FDI inflows and outflows, GCC and India

FDI Inflows (US Dollars at current prices and current exchange rates in millions)										
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Bahrain	363.6	80.4	217.0	516.7	865.3	1048.7	2914.9	1756.1	1793.9	257.2
Kuwait	16.3	-175.0	3.6	-68.0	23.8	234.0	122.0	116.0	-51.0	145.0
Oman	83.2	5.2	122.2	26.0	111.1	1,538.4	1,596.9	3,331.6	2,358.9	2,210.7
Qatar	251.6	295.5	623.9	624.9	1,199.0	2,500.0	3,500.0	4,700.0	4,107.0	8,722.0
KSA	183.0	504.0	453.0	778.5	1,942.0	12,097.0	17,140.0	22,821.1	38,151.5	35,513.9
UAE	-506.3	1,183.8	1,314.3	4,256.0	10,004.1	10,899.9	12,806.0	14,186.5	13,700.0	4002.7
GCC	391.3	1,894.0	2,734.1	6,134.0	14,145.2	28,318.0	38,079.8	46,911.3	60,060.3	50,851.4
India	3588.0	5,477.6	5,629.7	4,321.1	5,777.8	7,621.8	20,327.8	25,001.1	40,418.4	34,613.2
FDI Outflows (US Dollars at current prices and current exchange rates in millions)										
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Bahrain	9.6	216.0	190.2	741.4	1,035.6	1,135.4	980.1	1,669.1	1,620.5	-1791.5
Kuwait	-303.1	-242.0	-78.0	-5016.0	2,581.0	5,142.1	8,240.0	10,156.0	8,858.0	8,737.0
Oman	-2.0	55.0	0.0	88.4	41.6	233.6	274.6	-36.4	585.2	405.7
Qatar	17.7	17.2	-21.0	88.2	437.9	351.9	127.4	5,160.2	6,028.7	3,772.1
KSA	1,550.0	45.6	2,020.0	473.0	78.7	6,602.9	5,397.6	12,729.9	14,50.3	6,525.9
UAE	423.7	213.7	441.1	991.2	2,208.3	3,749.5	10,891.8	14,567.7	15,800.0	2,722.9
GCC	1695.8	305.5	2,552.3	-2633.9	6,383.2	17,215.3	25,911.5	44,246.6	34,342.6	20,372.2
India	514.4	1,397.4	1,678.0	1,875.8	2,175.4	2,985.5	14,285.0	17,233.0	18,498.7	14,896.7

Source: UNCTAD, FDI Database, October, 2010

The GCC countries have traditionally preferred portfolio investments to FDI, a reflection of the lack of manufacturing and industrial activity and expertise. This tendency has resulted in the GCC's outward investment being largely concentrated in the US and Europe. However, since 2000, the GCC countries have become increasingly more sophisticated in managing their reserves and in establishing large-scale sovereign wealth funds (see Table 10.8).

Table 10.8: Market estimates of assets under management for GCC SWFs

Country	Fund Name	Assets $ Billion
UAE – Abu Dhabi	Abu Dhabi Investment Authority	627
Saudi Arabia	SAMA Foreign Holdings	415
Kuwait	Kuwait Investment Authority	202.8
Qatar	Qatar Investment Authority	65
UAE – Dubai	Investment Corporation of Dubai	19.6
UAE – Abu Dhabi	International Petroleum Investment Company	14
UAE – Abu Dhabi	Mubadala Development Company	13.3
Bahrain	Mumtalakat Holding Company	9.1
Oman	State General Reserve Fund	8.2
Saudi Arabia	Public Investment Fund	5.3
UAE – Ras Al Khaimah	RAK Investment Authority	1.2
GCC Total SWF Assets		1380.5

Sources: Sovereign Wealth Funds Institute, October 2010

In the early 2000s, the GCC countries started to diversify away from US assets, partly because of political events in and after 2001, and partly because of financial considerations. While flows to the US have returned massively, the GCC are investing proportionally less in treasury bills, the safest type of investment available, and moving toward other types of government (or corporate) securities. This is a sign of a different strategy in managing oil surpluses with respect to past oil booms and a signal of their search for higher (expected) returns on investment. Private and institutional Gulf investors are making "strategic" investments in Asia by holding a diversified portfolio of assets, emphasizing equity and equity-like investments.

As part of this strategy, and following India's emergence as the second most attractive FDI destination globally, there is a slow and steady FDI flow from the GCC countries to India. In the peried April 2000 to March 2010, FDI inflows from the GCC to India were nearly $2 billion (see Table 10.9). This shows the huge untapped potential in the Indian market and that it provides a favorable platform for strategic diversification of GCC investment with assured higher rate of return.

Table 10.9: GCC FDI in India, April 2000 to March 2010*

	Amount in US $ million	Share in India's total FDI inflows (%)
Bahrain	20.8	0.02
Kuwait	15.5	0.01
Oman	64.2	0.06
Qatar	0.3	0
Saudi Arabia	29.3	0.03
United Arab Emirates	1549.3	1.5
GCC	1679.2	1.5
World	110289.3	100

* Indian financial year April-March
Source: DIPP, Government of India, March 2010

The investment requirements for India's infrastructure sector are estimated at $500 billion over the next five years. Given huge potentials and India becoming the second largest destination for global FDI, large companies from the GCC, and particularly UAE, are moving quickly to capitalize on the growth opportunities in India. The bulk of UAE investments is in the construction, infrastructure and transportation sectors. Both joint ventures and fully-owned subsidiaries are prevalent routes adopted to invest in India. A number of GCC companies operate in India pointing to the potential for further enhancement of investment linkages.

Table 10.10: Sectors attracting highest FDI equity inflows in India (amounts in US $ million)

Ranks	Sector	2006-07*	2007-08*	2008-09*	2009-10*
1	Services Sector (financial & non-financial)	4,664	6,615	6,116	4,392
2	Computer Software & Hardware	2,614	1,410	1,677	919
3	Telecommunications (radio paging, cellular mobile, basic telephone services)	478	1,261	2,558	2,554
4	Housing & real estate	467	2,179	2,801	2,844
5	Construction Activities (including roads & highways)	985	1,743	2,028	2,868
6	Power	157	967	985	1,437
7	Automobile Industry	276	675	1,152	1,177
8	Metallurgical Industries	173	1,177	961	407
9	Petroleum & Natural gas	89	1,427	412	272
10	Chemicals (other than fertilizers)	205	229	749	362

* Indian financial year April-March
Source: DIPP, Government of India, March 2010

India offers immense investment opportunities in a variety of sectors, including manufacturing, infrastructure and services. Development of infrastructure such as power, roads, ports, telecommunications and civil aviation is given priority. India has the potential of absorbing high levels of FDI in the infrastructure sector in the next few years as The Indian government is undertaking major programs with private sector participation which can generate more investment opportunities. The GCC countries have a good track record in the development of infrastructure and companies from the region can participate actively in these infrastructure projects. FDI up to 100 per cent is already allowed in the development of power, roads, ports and airports. Manufacturing, particularly skill-intensive activities, and knowledge based industries are areas where India has strong competitive advantages.

The GCC countries are actively promoting the diversification of their industrial base towards high value-added industries, high technology and knowledge-based industries, manufacture of intermediate and capital goods, and ancilliary and supporting industries. Emphasis is also being placed on the promotion and development of services such as education, tourism and manufacturing related services such as research and development; design and prototyping; integrated logistics and marketing; and regional establishments such as operational headquarters; international procurement centers; and regional distribution centers. Collaboration between Indian and GCC companies can be a mutually beneficial exercise for investors from both countries.

Table 10.11: Major FDI and M & A activities between India and UAE companies

UAE Companies	Indian Companies	Sector	Value	Year
Dubai Ventures of Dubai Group	Chiranjjeevi Wind Energy	Wind turbine manufacturer	Acquired 40 percent stake	2008
Dubai Investments Group	Thomas Cook India (60%)	Travel & Tourism	$92 million	2005
DUBAL	Alumina refinery in Orissa	Aluminum	$3600 million	2005
Istithmar	SpiceJet	Aviation	$50 million	2005
Noor Investment Group LLC	Adventity BPO India Pvt. Ltd	BPO services	--	2008

Dubai Ports World	Chettinad Logistics & Jakari Group	Container terminal at Chennai Port	Buy out of 20 % and 5 % shares of each and now 100% ownership	2008

Moreover, GCC and Indian companies are also venturing into mergers and acquisitions globally as well as bilaterally. India is credited to have 10 of the world's largest companies which are currently on a global acquisition spree in order to leverage their strength and competitiveness. Similarly, UAE-based companies are also venturing globally to acquire strategic stakes. In recent years, UAE-based companies have acquired similar stakes in India also.

There is merit in enhancing investment cooperation between GCC and India as there are many areas of complementarities. Outward investment by both countries has begun to rise and is expected to increase further in the future. This provides opportunities for increased flow of investments between the two. Hence, joint investment promotion and facilitation activities could be undertaken to bring in more Indian investments to the GCC and GCC investments to India.

Enhancing Economic Relations through Various Trade and Investment Facilitation Measures

GCC-India trade, investment, and economic cooperation are becoming increasingly important in the changing global economy. Enhanced trade will enable GCC and India to continue to expand trade in commodities, manufactures and services; diversify their export base and develop new complementarities; develop and test new tradable products and services; and build productive capacities and competitiveness. The expansion of mutual trade and investment, in turn, could act as a springboard for their fuller entry into the global market.

By eliminating tariffs and non-tariff barriers to trade in goods, a possible GCC-India regional arrangement would offer important possibilities to build economies of scale; attract FDI at higher levels and on better terms; pool economic, human, institutional, technological and infrastructure resources; and build production and marketing networks between participating countries. Some of these arrangements could have a substantial impact on the expansion of trade in specific sectors among participating countries, as well as between these countries and the rest of the world. Recently, the GCC and India have reinvigorated their regional liberalization programs and entered into initiatives aimed at a deep integration agenda, including trade in services. Consolidating and strengthening these processes of regional trade and economic integration among developing countries so as to maximize their full potential is a major challenge.

Trade linkages between the GCC and India could be intensified not only through tariff liberalization but also by adopting various trade facilitation measures. These measures could, *inter alia*, include entering into mutual recognition agreements (MRAs) to deal with issues of technical barriers to trade (TBT) and sanitary and phytosanitary measures (SPS); customs cooperation; harmonization of standards and conformity assessment; and enhancing business to business dialogue. It is also necessary to put in place various trade remedial measures and rules of origin, as mutually acceptable, designed in such a way as to facilitate trade creation between the two regions.

Therefore, a pragmatic strategy focused on a number of key thrust areas could be considered in order to consolidate and expand the transformation that is taking place in GCC-India trade, investment, and economic cooperation. This would enable the foundation of a genuine locomotive for sustained economic growth, diversification, employment generation and well-being in both the regions. In this regard, the Free Trade Agreement becomes very essential to liberalize policies for seamless trade and investment flows. The FTA negotiations have not achieved much due to procedural rigidities involving sectoral commercial interests. India's demand to exclude petrochemicals as well as its stress on labor issues have become stumbling blocks. Thus, both sides need to reach a consensus on the list of commodities for further negotiation. Trade in services and investment need to be included in the FTA for a more sustainable outcome.

Conclusions and Policy Priorities

GCC-India economic relations have been robust and mutually beneficial. However, there is huge potential for diversifying and intensifying the scope and depth of bilateral economic engagement.

Given the macroeconomic contexts and economic policy regimes prevailing in both regions, there is a need to explore the possibilities of more intensive cooperation in trade, investment, services and collaboration in other areas of mutual interest. Overall, the export-orientation of countries, their comparative advantages, trade complementarities, possibilities of intra-industry trade, and economic capacities augur well for bilateral trade cooperation.

Trade and investment complementarities need to be explored and trade-investment facilitation mechanisms set in place. This is particularly important also in those areas where two countries have export comparative advantage and instead of competing in the global market, some of these areas could be chosen for joint ventures and co-marketing.

Both sides are also becoming increasingly significant sources of outward investment. Although two-way investment flows between the GCC and India have so far been limited, the continuous investment flows and increase in bilateral trade in recent years indicate that there is potential for increased investment flows between the two sides in a number of sectors. These include power, roads, ports, telecommunications and civil aviation, IT sector, services like education, tourism, R&D, design and prototyping, and regional distribution centers among others.

Enterprise-level technical cooperation can be another area of engagement which is essential for industrial competitiveness in both the regions. This would help in the development of domestic industries, particularly SMEs. Such cooperation can include skills development and training, development of specific industries (e.g. high-tech start-up companies, ICT, R&D), and technology development and transfer. For example, India has strong capabilities in re-engineering manufacturing processes in pharmaceuticals, engineering and design capabilities, R&D capabilities and innovative scientific manpower.

The scope of the FTA should be expanded to include trade in services. The sectors of mutual interest include medical, healthcare and diagnostics; advertising; audio-visual (including film making, production and related services); education; computers, IT and telecommunications; finance; tourism and travel; transport; construction and engineering includue archifechiral; distribution; human resource development; and accounting and taxation services.

Therefore, the guiding principle for the way forward would be to put the FTA negotiations on fast track. Negotiations should include trade in goods, services, investment, and other areas of cooperation for mutual benefit. For this to happen, the following policy priorities need immediate attention from GCC authorities:

- Institute a high-level coordination committee comprising government officials, business community and academia to prepare a policy construct that can guide action on the ground level
- There is immediate need for comprehensive studies on sectoral complementarities, potentials and difficulties that have direct bearing on bilateral economic relations
- The central coordinating committee should be placed in the GCC Secretariat

so that it can directly deal with its Indian counterpart on a case-by-case basis with clear deadlines for negotiations and policy implementation

- There is a need to devise a suitable India-specific strategy that should be based on contemporary realities in which India is viewed as an emerging economic powerhouse, and therefore, the GCC should put in place efforts to benefit from India's growth story
- With the growing specter of global protectionism due to the economic crisis, the trade-dependent GCC countries are highly vulnerable and should seek active engagement with a major trading partner like India both bilaterally as well as in various international foras.

Appendix : GCC-India trade, export indicators and tariff profile, 2009

Bahrain

Product Code	Product Label	Bahrain's Exports to India			
		Value in 2009, USD thousand	Annual growth in value between 2005-2009, %, p.a.	Share in Bahrain's exports, %	Equivalent ad valorem tariff applied by India to Bahrain
'TOTAL	All products	539,821	46	10.5	
'27	Mineral fuels, oils, distillation products, etc	296,223	67	13.1	6.1
'76	Aluminum and articles thereof	70,328	4	5.2	5.3
'31	Fertilizers	44,592		26.6	6.3
'26	Ores, slag and ash	36,894		29.2	2.1
'72	Iron and steel	20,134	11	26.7	5

‘99	Commodities not elsewhere specified	18,966	103	11.5	
‘28	Inorganic chemicals, precious metal compound, isotopes	17,642	-14	47.1	6.6
‘78	Lead and articles thereof	7,314	83	100	5.1
‘25	Salt, sulphur, earth, stone, plaster, lime and cement	7,022	29	66.2	5.8
‘74	Copper and articles thereof	6,893	22	60.7	5.3
‘47	Pulp of wood, fibrous cellulosic material, waste etc	4,073	7	81.9	6.9
‘71	Pearls, precious stones, metals, coins, etc	3,237	185	1.2	6.5
‘86	Railway, tramway locomotives, rolling stock, equipment	1,492		6.6	10
‘39	Plastics and articles thereof	1,111	78	4.4	7.4
‘84	Nuclear reactors, boilers, machinery, etc	1,015	36	1.2	5.4
‘88	Aircraft, spacecraft, and parts thereof	940	25	7.6	3.1

‘49	Printed books, newspapers, pictures etc	480	122	8.5	8
‘73	Articles of iron or steel	445	201	0.8	10
‘85	Electrical, electronic equipment	256	-25	0.8	3.7
‘68	Stone, plaster, cement, asbestos, mica, etc articles	167	70	1.2	10

Source: Trademap Database, October 2010

Kuwait

Product Code	**Product Label**	**Kuwait’s Exports to India**			
		Value in 2009, USD thousand	Annual growth in value between 2005-2009, %, p.a.	Share in Kuwait’s exports, %	Equivalent ad valorem tariff applied by India to Kuwait
‘TOTAL	All products	7,602,188	95	15.3	n/a
‘27	Mineral fuels, oils, distillation products, etc	7,334,779	126	15.6	n/a
‘29	Organic chemicals	82,880	3	10.9	n/a
‘39	Plastics and articles thereof	57,346	57	8.3	n/a
‘31	Fertilizers	32,253	55	14.8	n/a
‘72	Iron and steel	29,598	-7	41	n/a

'76	Aluminium and articles thereof	17,427	4	59	n/a
'25	Salt, sulphur, earth, stone, plaster, lime and cement	10,031	15	14.5	n/a
'28	Inorganic chemicals, precious metal compound, isotopes	7,252	-18	28.3	n/a
'74	Copper and articles thereof	7,159	-5	22.5	n/a
'84	Nuclear reactors, boilers, machinery, etc	4,662	32	5.8	n/a
'47	Pulp of wood, fibrous cellulosic material, waste etc	4,429	38	59.8	n/a
'99	Commodities not elsewhere specified	3,519	218	6.6	n/a
'89	Ships, boats and other floating structures	3,196		94.5	n/a
'71	Pearls, precious stones, metals, coins, etc	2,309		1	n/a
'73	Articles of iron or steel	1,447	66	18	n/a

'48	Paper & paperboard, articles of pulp, paper and board	1,020	-1	8.4	n/a
'41	Raw hides and skins (other than furskins) and leather	599	-7	24.9	n/a
'78	Lead and articles thereof	566	-24	54.8	n/a
'33	Essential oils, perfumes, cosmetics, toileteries	390	27	8.5	n/a
'51	Wool, animal hair, horsehair yarn and fabric thereof	293	-21	93.6	n/a

Source: Trademap Database, October 2010

Oman

Product Code	Product Label	Oman's Exports to India			
		Value in 2009, USD thousand	Annual growth in value between 2005-2009, %, p.a.	Share in Oman's exports, %	Equivalent ad valorem tariff applied by India to Oman
'TOTAL	All products	627,451	32	2.3	n/a
'31	Fertilizers	381,651	27	77.2	n/a

‘76	Aluminum and articles thereof	54,323	199	7.9	n/a
‘73	Articles of iron or steel	35,968	30	17.4	n/a
‘39	Plastics and articles thereof	31,315	121	4.8	n/a
‘27	Mineral fuels, oils, distillation products, etc.	26,386	25	0.1	n/a
‘29	Organic chemicals	20,057		9.6	n/a
‘72	Iron and steel	13,696	5	32.4	n/a
‘25	Salt, sulphur, earth, stone, plaster, lime and cement	9,599	37	9.6	n/a
‘71	Pearls, precious stones, metals, coins, etc.	9,550		10.9	n/a
‘84	Nuclear reactors, boilers, machinery, etc	7,510	15	2.5	n/a
‘99	Commodities not elsewhere specified	6,798	6	0.2	n/a
‘21	Miscellaneous edible preparations	6,164		15.1	n/a

‘88	Aircraft, spacecraft, and parts thereof	4,130	1	4.5	n/a
‘08	Edible fruit, nuts, peel of citrus fruit, melons	3,361	57	18.6	n/a
‘74	Copper and articles thereof	3,286	-20	5.8	n/a
‘26	Ores, slag and ash	3,133	147	3.1	n/a
‘68	Stone, plaster, cement, asbestos, mica, etc. articles	1,918	146	1.9	n/a
‘54	Manmade filaments	1,540	326	37	n/a
‘03	Fish, crustaceans, molluscs, aquatic invertebrates nes	1,494	33	1.7	n/a
‘32	Tanning, dyeing extracts, tannins, derivs, pigments etc.	1,132	-1	11.2	n/a

Source: Trademap Database, October 2010

Qatar

Product Code	**Product Label**	**Qatar’s Exports to India**			
		Value in 2009, USD thousand	Annual growth in value between 2005-2009, %, p.a.	Share in Qatar’s exports, %	Equivalent ad valorem tariff applied by India to Qatar

'TOTAL	All products	4,146,324	45	9.1	n/a
'27	Mineral fuels, oils, distillation products, etc.	3,705,662	52	8.9	n/a
'39	Plastics and articles thereof	119,770	40	14.1	n/a
'28	Inorganic chemicals, precious metal compound, isotopes	79,331	4	31.8	n/a
'31	Fertilizers	74,075	51	11	n/a
'29	Organic chemicals	55,612	-12	8.1	n/a
'38	Miscellaneous chemical products	52,592	486	45.2	n/a
'72	Iron and steel	35,591	97	12.5	n/a
'25	Salt, sulphur, earth, stone, plaster, lime and cement	7,184	-7	17	n/a
'74	Copper and articles thereof	3,831	-1	56.6	n/a
'76	Aluminum and articles thereof	3,570	37	56.2	n/a
'99	Commodities not elsewhere specified	2,881	91	1.4	n/a
'73	Articles of iron or steel	2,388	-7	2.8	n/a

'84	Nuclear reactors, boilers, machinery, etc.	1,338	196	1.9	n/a
'86	Railway, tramway locomotives, rolling stock, equipment	1,077	313	78.3	n/a
'47	Pulp of wood, fibrous cellulosic material, waste etc.	555	10	57.8	n/a
'34	Soaps, lubricants, waxes, candles, modelling pastes	258	7	52.5	n/a
'85	Electrical, electronic equipment	181	1	0.9	n/a
'87	Vehicles other than railway, tramway	65	227	0.6	n/a
'48	Paper & paperboard, articles of pulp, paper and board	46	13	1.8	n/a
'57	Carpets and other textile floor coverings	39	81	20.9	n/a

Source: Trademap Database, October 2010

Saudi Arabia

Product Code	Product Label	Saudi Arabia's Exports to India

		Value in 2009, USD thousand	Annual growth in value between 2005-2009, %, p.a.	Share in Saudi Arabia's exports, %	Equivalent ad valorem tariff applied by India to Saudi Arabia
'TOTAL	All products	14,494,390	69	8.3	
'27	Mineral fuels, oils, distillation products, etc	13,012,971	93	8.5	6.1
'29	Organic chemicals	608,502	17	7.9	5.8
'39	Plastics and articles thereof	305,254	26	5	7.4
'28	Inorganic chemicals, precious metal compound, isotopes	163,372	13	52.4	6.6
'31	Fertilizers	78,178	43	9	6.1
'72	Iron and steel	65,106	41	20.9	5
'76	Aluminum and articles thereof	50,447	5	16.7	5.2
'25	Salt, sulphur, earth, stone, plaster, lime and cement	49,391	80	13.9	5.7
'41	Raw hides and skins (other than furskins) and leather	42,856	12	53.7	8.1
'74	Copper and articles thereof	25,391	0	15.1	5.3

‘38	Miscellaneous chemical products	23,542	164	16	9
‘47	Pulp of wood, fibrous cellulosic material, waste etc.	12,970	8	59.6	6.8
‘48	Paper & paperboard, articles of pulp, paper and board	10,095	22	2.7	9.1
‘32	Tanning, dyeing extracts, tannins, derivs,pigments etc.	8,518	56	5.3	9.1
‘85	Electrical, electronic equipment	4,821	88	1	3.4
‘78	Lead and articles thereof	4,145	6	71.6	5.1
‘73	Articles of iron or steel	3,816	2	1	10
‘83	Miscellaneous articles of base metal	2,484	242	3.4	10
‘15	Animal, vegetable fats and oils, cleavage products, etc.	2,431	55	3.1	11.7
‘49	Printed books, newspapers, pictures etc.	2,156	109	7.1	8

Source: Trademap Database, October 2010

UAE

Product Code	Product Label	United Arab Emirates' Exports to India			
		Value in 2009, USD thousand	Annual growth in value between 2005-2009, %, p.a.	Share in United Arab Emirates's exports, %	Equivalent ad valorem tariff applied by India to UAE
'TOTAL	All products	12,660,854	34	21.8	n/a
'71	Pearls, precious stones, metals, coins, etc.	11,315,476	36	50.6	n/a
'72	Iron and steel	213,681	26	32.1	n/a
'39	Plastics and articles thereof	187,090	27	10.5	n/a
'74	Copper and articles thereof	153,487	30	51	n/a
'84	Nuclear reactors, boilers, machinery, etc.	110,349	18	2.2	n/a
'76	Aluminium and articles thereof	101,976	20	19.8	n/a
'99	Commodities not elsewhere specified	92,235	1627	65	n/a
'08	Edible fruit, nuts, peel of citrus fruit, melons	59,663	9	16.1	n/a
'17	Sugars and sugar confectionery	37,049	43	6.2	n/a

‘85	Electrical, electronic equipment	34,531	-5	0.8	n/a
‘47	Pulp of wood, fibrous cellulosic material, waste etc	25,304	11	56.9	n/a
‘27	Mineral fuels, oils, distillation products, etc	22,675	17	3	n/a
‘73	Articles of iron or steel	21,585	-16	1.3	n/a
‘90	Optical, photo, technical, medical, etc. apparatus	20,268	21	4.8	n/a
‘29	Organic chemicals	19,573	56	14.8	n/a
‘62	Articles of apparel, accessories, not knit or crochet	17,573	80	3.9	n/a
‘70	Glass and glassware	16,741	21	4.3	n/a
‘25	Salt, sulphur, earth, stone, plaster, lime and cement	15,496	8	3.8	n/a
‘33	Essential oils, perfumes, cosmetics, toileteries	13,510	23	2.4	n/a
‘88	Aircraft, spacecraft, and parts thereof	11,950	115	0.9	n/a

Source: Trademap Database, October 2010

11

India-GCC Trade, Investment and Emerging Business Opportunities

Sameena Hameed

Introduction

Nations with complementary resources and capabilities can be strategic partners in the long run as mutual stakes in peace, progress and prosperity can be significantly large. At the same time, geographical proximity adds a geopolitical content to economic relations. The Indian Ocean links India and the GCC countries with a common destiny and they also share common threat perceptions. Many security threats emanate from non-state actors with transnational presence. Both the regions have complementary vital resources like energy and food and face common growth and development challenges. While trade and commerce between the two regions has been robust in the last few years, the vast potential for reaping mutual complementarities remains under-exploited. This chapter analyzes the scope for building an India-GCC strategic partnership through mutually beneficial trade, investment and business.

India-GCC Trade: Potential and Performance

India-GCC relations have received a major boost in recent years as both the regions have begun looking towards each other. Table 11.A1 (see Appendix) shows that among the six Gulf Cooperation Council (GCC) countries, only UAE was among the top five destinations of Indian merchandise exports in the year 2001. The UAE ranked number one in India's export destinations in the year 2009. At the same time, India ranked among the top five merchandise export destinations for UAE, Saudi Arabia, Qatar and Kuwait. Thus, India is relevant for GCC's exports individually and collectively. However, most of the GCC countries are still not among India's top five export destinations, and the GCC as a group has lost its share in India's merchandise exports. Though there is a quantum jump in India's exports to the GCC countries, an increasing share of its merchandise exports goes outside the GCC. There is a need to strengthen India's exports to the GCC countries especially as the GCC is emerging as an integrated market of about $1 trillion, equivalent to that of India. Besides, the GCC is also emerging as a gateway to the West Asia and North African (WANA) region.

Table 11.A2 (see Appendix) shows the merchandise import matrix of India and the GCC countries for the year 2001, 2004 and 2009. In the year 2001, none of the GCC countries were among India's top five import sources. In the year 2009, Saudi Arabia and UAE entered India's top five sources of import. But the share of GCC countries in the total merchandise imports increased more than five times from 3.3 percent in 2001 to 18.4 percent in 2008. Table 11.A2 also shows that India was among the top five exporters to UAE, Saudi Arabia, and Oman in 2009. India's export rank has improved for all GCC countries between the 2001 and 2009. India was also the fifth largest exporting nation to the GCC as a group in the year 2007. The year 2008 can be seen as a watershed in India-GCC trade relations. Figures obtained from the Indian embassy in UAE show that total non-oil exports to the GCC were about $21.75 billion, which was far behind exports to the EU ($34.5 billion) in 2007. But in the year 2008, the non-oil exports to GCC reached about $31.4 billion, a little behind EU ($38.9 billion) and much ahead of ASEAN ($18.8 billion) and US and Canada put together($21.9 billion).

India is important in the GCC trade matrix but only UAE and Saudi Arabia are important trade partners for India. Trade complementarities with other GCC countries have not been optimally harnessed. This shows that India-GCC trade relations could receive a further boost by enhancing trade in some categories of merchandise trade as well as focusing on improving economic relations with other GCC countries like Oman, Bahrain, Kuwait and Qatar. Oman and Qatar have considerable re-exports in the region and can serve as a production and export base for India for the WANA region. Kuwait is well positioned in the region's logistics and serves as a base for Iraq lowering the risk. Qatar is ranked closely to UAE in the competitiveness index and could be a cost-effective manufacturing base for electronic, electrical and mechanical goods to be exported from the region.

The common items in India's top ten exports and top ten imports of the GCC countries as well as among the top ten in India's imports and top ten exports of the GCC countries constitute the most important zone of complementarity. Table 11.A3 shows India's top ten exports and GCC's top ten imports in the year 2008. Table 11.A4 shows India's top ten imports and GCC's top ten exports in the year 2008. The zone of complementarity among the most important items of trade for India and GCC countries ranges from 50 to 70 percent. Table 11.A5 shows India's top ten exports to the GCC countries in the year 2008. Table 11.A6 shows India's top ten imports from the GCC countries in the year 2008. Comparing Tables 11.A5 and 11.A6 with Tables 11.A3 and 11.A4, one can see the extent to which India-GCC bilateral trade relations have been able to harness the complementarity among the most important trading items. The comparison shows that only seven out of 11 common item categories are listed in the top ten items of bilateral trade between India and Saudi Arabia. Ten out of 11 common item categories are listed in the top ten items of bilateral trade between India and UAE. Seven out of 13 common item categories are listed in the top ten items of bilateral trade between India and Oman. Seven out of 12 common item categories are listed in the top ten items of bilateral trade between India and Qatar. Eight out of 13 common item categories are listed in the top ten items of bilateral trade between India and Kuwait. Seven out of 12 common item categories are listed in the top ten items of bilateral trade between India and Bahrain. Thus, India's bilateral trade with the GCC countries, except UAE, has only harnessed about 50 to 65 percent of its zone of complementarity in merchandise trade.

India can boost export and import of many item categories like pearls, precious stones, metals, and coins; vehicles other than railway, tramway; nuclear reactors; boilers, machinery; electrical and electronic equipment; aircraft, spacecraft, and parts to the GCC countries. Besides, items like pharmaceuticals and cement are also of bilateral trade interest. Table 11.A7 and Table 11.A8 show the trading partners for India and the GCC for items of bilateral interest. Table 11.A8 shows that India is among the top five partners of Saudi Arabia for three trade categories, seven with UAE, eight with Oman, five with Bahrain, four with Kuwait and three with Qatar. This shows that India is an important trading partner for the GCC countries and could be an important player in their quest for growth and diversification. Though India is an important trade destination for most of these items, it does not figure prominently in their import matrix.

Table 11.A8 also shows that many imports by the GCC countries including nuclear reactors, boilers & machinery, vehicles other than railway and tramway, electrical and electronics, gems and jewelry are re-exported to other countries in the region. Intra-regional trade has increased at a brisk pace with an annual growth rate of 32.4 percent between 2003 and 2007.[1] In fact, the GCC countries are displaying a clear trend towards regional economic integration. This is the positive outcome of the GCC Customs Union and Arab Free Trade Area agreements. The outflow of FDI from the GCC countries is also increasingly among themselves in the last few years. Therefore, through planned investment and joint ventures, India's economic ties with the GCC countries can assume strategic relevance.

India-GCC Investment and Business Scenario

Foreign investment has become an important conduit of technology, capital and markets. Since transnational companies are the major carriers of FDI, they cultivate backward and forward linkages as they have well-integrated marketing networks. Planned foreign investments can help to develop broad-based economic relations. Joint ventures are an important component in making nations natural allies for strategic partnership, as they broaden and deepen mutual economic stakes in security in the long term. Besides, they contribute to diversification, capacity building and transform relations of dependence to interdependence. Another compelling reason for joint ventures is risk management. Alliances and Multiple off shoring (Portfolio approach) reduce or share risk. The risks associated with some industries like aircraft manufacturing, pharmaceuticals, oil and gas, and petrochemicals have risen considerably. The underlying volatility of today's markets makes planning more difficult, particularly in the cost sensitive industry. Partnering can lock in key customers, channels, or suppliers to insure against market uncertainties and price fluctuations. Thus joint ventures are a preferable mode of benefiting from mutual economic complementarities and risk management and create the ground for strategic partnership.

In recent years, both India and GCC countries are making overseas foreign direct investment and are also attractive destinations for foreign investment. FDI remains a smaller share of GCC capital outflows in oil and oil-related sectors, infrastructure, tourism, and real estate. In the *World Investment Report 2008*, Bahrain ranks 9th among 141 economies in the Outward FDI performance

1. Samir Pradhan, "Gulf-South Asia Economic Relations: Realities and Prospects," http://www.globaltradealert.org/sites/default/files/pradhan_gta4.pdf p. 74

index, which shows the share of a country's outward FDI in world FDI as a ratio of its share in world GDP. It is the second ranking GCC economy ahead of the UAE, Qatar and Saudi Arabia. In the Inward FDI performance index, it ranked 12th among 141 economies, ahead of all other GCC nations. According to the International Trade Center's database, UAE is the leading host country for FDI (in terms of number of foreign affiliates) among the GCC countries in petroleum and petroleum products, machinery and equipments, and motor vehicles and other transport equipment. The leading home countries in most of the sectors are US and UK. But in some categories, the GCC countries are the leading foreign investors in the region. For Saudi Arabia, UAE is the leading home country for construction, wholesale and retail trade, Kuwait is leading in transport, storage and communications, and Bahrain leads in business activities and finance. For UAE, Qatar is the leading home country for mining and petroleum and Oman in precision instruments. For Kuwait, Qatar and Bahrain, UAE and Saudi Arabia are the leading home countries for their FDI in many sectors. The intra-regional FDI flows also reiterate the picture of economic integration. Also it shows the link between the GCC countries' FDI and their non-oil exports.

India and the GCC countries have made significant progress in liberalizing investment and business regulations for foreign firms. Hundred percent foreign investment is allowed except for a negative list and in those sectors having caps. The negative list has been subsequently reduced. The Foreign Investment Act 2000 in Saudi Arabia guarantees the repatriation of profit and capital and streamlines the investment process through a one-stop investment agency. Gas extraction and mining were opened to foreign investment in 2003. However, oil exploration, drilling and extraction remain off limits. Qatar's Foreign Investment Law 2000 allows 100 percent foreign ownership in agriculture, manufacturing, health, education, tourism, consultative and technical services, information technology sector, distribution services and power projects which develop and utilize the state's natural resources after approval from the minister of business and trade. An amendment in 2004 allowed foreign investment upto 25 percent in Qatar shareholding companies listed in the Doha share market.

The presence of a local agent as a condition of doing business and the restriction on employment of foreign citizens are some of the existing regulations in the GCC countries. Implementation of well-established laws and enforcement of contract are also a major impediment. Like India, the GCC countries have set up Special Economic Zones to act as 'hot spots' for trade and investment with a plethora of incentives for foreign investment. Jebel Ali Free Zone, Ras Al Khaimah Free Trade Zone and Hamriyah Free Zones in the UAE offer extensive tax privileges and minimal regulations on foreign investment. The condition of having a local agent is also waived in these free zones. The new privately-managed Kuwait Free Trade Zone (KFTZ), located strategically in Shuwaikh Port, entails incentives such as 100 per cent foreign ownership, policy of free trade promotion, exemption from all corporate and personal income taxation, and no restrictions on movement of capital and profits outside the KFTZ.

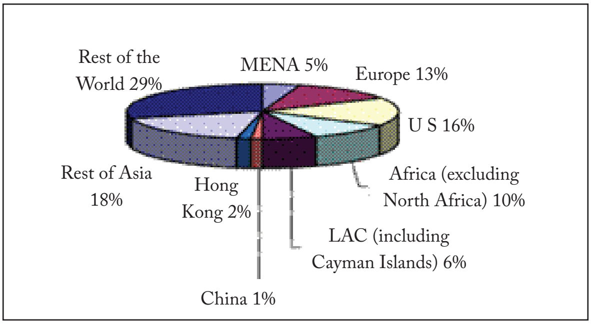
Similar incentives are given in the Salalah Free Trade Zone in Oman, and Mina Sulman and North Sitra Industrial Estate in Bahrain. Qatar's free trade zone covers the new Qatar Science & Technology Park. Saudi Arabia is also considering a plan to set up a free trade zone. The ease of doing business in the GCC states is reflected in Table 11.A9. Reforms in Saudi Arabia have made the country as lucrative as UAE to start a business. Qatar is as competitive as UAE in reducing transaction cost.

In India, the policies for investment and commerce for foreign firms have been rapidly liberalized and simplified. Foreign investment caps are slowly being lifted. Under revised guidelines issued in 2009, capital investments in downstream companies that are 'owned and controlled' by Indians will now be counted as domestic investments and discounted while calculating indirect foreign investments. The guidelines open a host of previously restricted sectors to FDI, including retail, telecom, aviation and media. The agriculture sector remains in the negative list. Special economic zones (SEZs) offer tax immunities, zero customs duties, streamlined labor laws, and approval processes. However, investment has been hampered by problems in acquiring land for SEZs. The issue of governance and the enforcement of contracts are major hurdles. The business environment varies significantly across Indian states. State governments have broad powers, resulting in varying regulations on land use, the environment and zoning. In general, the more prosperous south and western states are seen as more reformist and open to foreign investment.

India-GCC Bilateral Investments

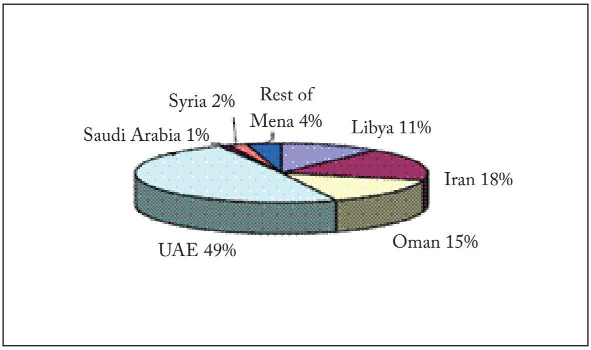
Figure 11.1 shows the distribution of cumulative FDI made by India for the years 2000-06, which makes it clear that only 5 percent went to WANA countries. Among the WANA countries, about 49 percent went to the UAE, 15 percent went to Oman, 1 percent to Saudi Arabia and 4 percent to the rest of the GCC countries.

Figure 11.1. Distribution of cumulative FDI made by India for the years 2000-06



Source: Investment Division, Department of Economic Affairs, Ministry of Finance, India

Figure 11.2 Cumulative FDI flows from India by destination country (MENA), 2000-06



Source: Investment Division, Department of Economic Affairs, Ministry of Finance, India

India has emerged as the sixth biggest foreign investor in Saudi Arabia. Indian investment crossed $1 billion in more than 108 services and 82 industrial projects in operation. The joint ventures include 32 projects in the industries sector (SR394.46 million), 32 in the service sector (SR92.37 million) and 64 in agriculture (SR275.68 million). The Saudi Arabian General Investment Authority (SAGIA) has awarded 190 licenses to Indian companies for joint ventures or 100 percent Indian companies including 39 projects in industries, 54 in services and 93 in agriculture in Saudi Arabia. In addition, several Indian companies are working in Saudi Arabia in areas such as construction, IT, software development, designing, consultancy, and financial services. King Abdullah invited Indian businessmen to invest in information technology, telecommunications, mining, energy and power, pharmaceuticals, agriculture and the services sectors. There are 49 Indo-Saudi joint ventures or Saudi-owned companies in India, in diverse fields such as paper manufacture, chemicals, computer software, granite processing, industrial products and machinery, cement, and metallurgical industries. A further 50 projects have been approved and are being established in stationery, granite slabs, asbestos, cement, trailers and computer software for health and financial sectors. Indian IT companies are already involved with a growing number of Saudi companies that have outsourced their IT requirements. These Indian firms have supplied high quality products and skills at a fraction of the cost of international competition. India would like Saudi Arabia to undertake massive investments in the infrastructure sector, including airports and railways, which require investments in excess of $100 billion.

The Indo-Oman joint venture of about $1 billion in the fertilizer industry at Sur is India's largest overseas joint venture. An India-Oman Joint Investment Fund has been established with $100 million. Oman has invested more than $200 million in India in refineries, pharmaceutical industry, and home furniture. Oman is also keen to set up super-specialty hospitals in India. The Oman Oil Company has a 26 percent stake in Bharat Oman Refining Limited. In 2005, the Hinduja group and the government of Qatar formed a joint venture of $1 billion to develop infrastructure in both the countries. Dubai-based property developers, including Emaar Properties, have taken up major property projects in India and have announced the largest FDI of $500 million in the Indian real estate sector. Abu Dhabi Investment House launched a $400 million *sharia*-compliant investment fund for the development of India Entertainment City planned to be developed in Navi Mumbai. UAE government officials are working with the state government of Kerala to develop the Dh1.8 billion Sky City project in the coastal city of Kochi. Gulf Finance House (Bahrain) will invest $10 billion to develop a 1,600-acre economic zone outside Mumbai, which will include projects such as Energy City India, Telecom City Mumbai, Software City Mumbai and Entertainment City Mumbai.

Investors are exposed to a variety of location-specific risks like abrupt currency and wage fluctuations and regulatory limits. Such risks can be mitigated in the same way as the financial managers do by diversifying their holdings. India needs to spread its investment in the GCC region as an integrated portfolio business strategy to mitigate risk. Regional spread facilitates horizontal and vertical integration and expansion of the regional distribution network. Similarly, the GCC countries can think of an investment strategy that is well spread in Asia rather than making a choice between alternative locations.

India-GCC Investment and Market Potential

The emerging economic integration in the GCC countries through intra-regional trade and investment makes the region a $1 trillion dollar market equivalent to that of India. The GCC countries are diversifying their economic base and reinvesting a substantial amount of their surplus capital in massive infrastructure projects, including hospitals, medical centers and educational institutions. High population growth rate, and a youth bulge in the demography, along with rising levels of disposable income, government subsidization of basic necessities, and easy credit facilities are creating a new generation of affluent consumers with considerable taste for foreign goods and services. Assuming the oil price to be $70 per barrel, McKinsey calculated that the GCC oil export revenues will be $6.2 trillion and for the average price of $100 per barrel, it will be $9 trillion till 2022.[2] The GCC's foreign assets were about $2 trillion in 2008. In the same year, their sovereign wealth funds were estimated as follows: Abu Dhabi: $500 billion; Saudi Arabia:$300 billion; Kuwait: $260 billion; Qatar: $60 billion.

India is also a trillion dollar market with a population of 1.2 billion, according to the 2011 census estimates. It has a vast growing domestic market and about 400 million people will enter the middle class over the next 15-20 years. Besides, it has a large English-speaking skilled workforce. According to the World Bank and IMF, India's savings and investment rates had shot up to record levels of 37.7 per cent and 39.1 per cent of GDP, respectively, in the year 2008. while foreign exchange reserves were about $280 billion.

Though the Indian and GCC investments are taking place in a wide range of sectors, a blueprint for investment and a business plan has to be prepared for strategic convergence of interests and mutual capacity building. A judicious mix of trade and investment plans needs to be created in items which are mutually imported and re-exported like petroleum, gems and jewellery, and items with regional export potential like pharmaceuticals, electrical, electronic, and engineering goods, and vehicles. Investment in various capacity-building sectors like infrastructure,

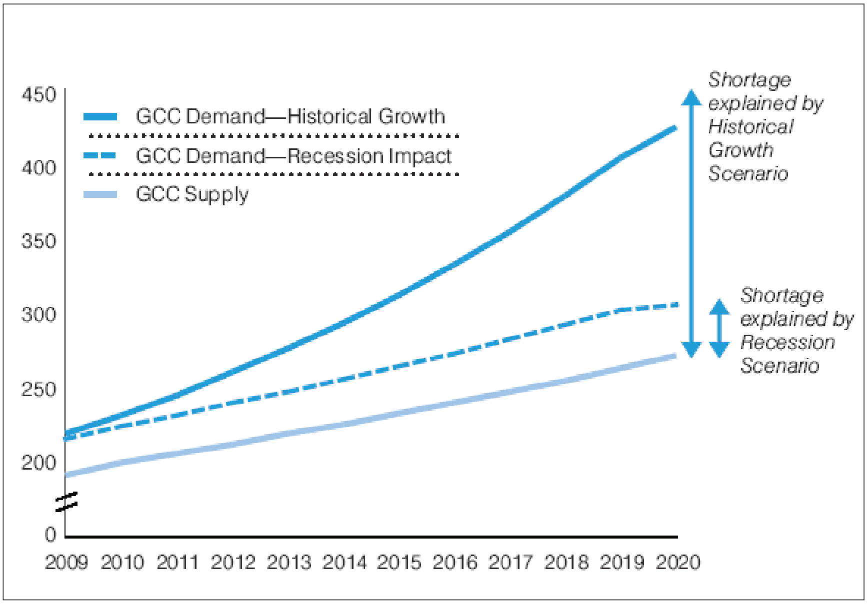
2. McKinsey Global Institute, "The Coming Oil Windfall in the Gulf," 2008, Available at http://www.mckinsey.com/mgi/reports/pdfs/the_coming_oil_windfall/Coming_Oil_Windfall_in_the_Gulf.pdf

agriculture, education, health, IT, and hospitality is also vital. Joint ventures are more conducive for an India-GCC strategic partnership.

India-GCC Investment and Business for Mutual Energy Security

Energy security is important for India as well as for the GCC countries. India's energy security challenge comes from its high import dependence for its oil and gas needs. Oil and gas imports not only feed its domestic industries but also its exports of petroleum products. Energy ties also help India to secure long-term oil supplies. The GCC countries have their own energy issues. The region faces electricity shortages, which have been hitting the industrial and construction sector. From being an exporter of natural gas a few decades ago, the GCC region has become an importer as it seeks to meet its growing domestic demand especially in the power sector. The GCC natural gas shortage is projected in Figure 11.3. The GCC countries' oil production is regulated by OPEC quotas and burgeoning domestic energy demand is at the cost of exports. Therefore, their energy security challenge is to meet domestic energy demand without reducing exports of oil and gas.

Figure 11.3: GCC gas demand vs. supply forecast (BCM)



Raed Kombargi and others, "Gas Shortage in the GCC How to Bridge the Gap" online at http://www.booz.com/media/uploads/Gas_Shortage_in_the_GCC.pdf

The energy sector continues to dominate the GCC economy despite the rigorous diversification efforts made by them to develop the non-oil sectors and reduce the dependence on oil. The GCC countries are now focusing on expanding their oil production and refineries through foreign investment. They are investing around $500 billion in active and planned projects in the oil, gas and petrochemical sectors in the period 2007-2012. The issue facing the Gulf oil sector is of declining spare production capacity and depletion of oil fields. Saudi Arabia aims to maintain its position as world leader with an oil production capacity estimated at around 11-12 mb/d. According to EIA, existing Saudi fields sustain an average annual decline rate of 6-8 percent, meaning that the country requires an additional capacity of 0.7 mb/d in order to compensate for natural decline. Aramco, the state-owned national oil company of Saudi Arabia, estimates that the average total depletion for Saudi oilfields is 29 percent. Abqaiq, the oldest, has been 74 percent depleted and the giant Ghawar field has produced 48 percent of its proven reserves. This challenge can be met by India's ONGC, which has a reserve replacement ratio that is more impressive than most of its illustrious global counterparts. The organic reserve replacement ratio of Exxon Mobil (43 percent), Chevron (57 percent), and BP (114 percent) are all less than ONGC's 135 percent. Only Royal Dutch Shell has a higher ratio of 180 percent. The improved oil recovery/enhanced oil recovery (IOR/EOR) schemes implemented by ONGC since 2000 to augment production and arrest the production decline of matured fields, has been immensely successful. The recovery factor for 15 major fields went up from 27.5 percent in 2000-01 to 30.5 percent in 2005-06.[3]

Technology developed by Indian energy organizations can help the GCC countries meet their energy challenges. The microbial enhancement oil recovery technology of ONGC and TERI can extract oil from less productive wells by injecting microbes that produce carbon dioxide and methane gases. These gases enter the pores and squeeze out every ounce of oil. They also produce bio-surfactants that reduce the tension between oil and the rock surface and help release the oil. Indian technology is superior to others as it developed microbes strong enough to survive in the extreme cold and heat of the desert as well as its extreme salinity that is three times that of sea water. It reduces the need for natural gas injection to maintain oil reservoir pressure. Another Indian biotechnology product 'Oilzapper' is one of the most powerful bioremediation tools in the worldwide effort to tackle oil spill and oily sludge. In Kuwait, it is one of the global bidders.

3. Financial Express, "Giving Behemoth its Due," available at http://www.financialexpress.com/news/giving-an-oil-behemoth-its-due/311753/

The current focus of GCC countries like Saudi Arabia and UAE is on offshore oil exploration. UAE's ADNOC has commissioned a range of ambitious projects to add 650,000 b/d of offshore oil production by 2016 to bring its total offshore capacity to 1.75 million b/d. The major issue in offshore drilling is the exorbitant cost. The average cost of drilling an onshore well in Saudi Arabia is about $2.9 million, while the cost of drilling an offshore oil well in the Gulf is about $16 million. The main reason for this cost differential is the expense of the rig and crew. The average contracted rate for offshore rigs operating within Saudi Arabian waters was about $130,000 a day in 2009. Though currently the offshore rigs market is oversupplied putting a downward pressure on prices, during aggressive oil and gas exploration it is often heated. Joint offshore drilling operations in the Indian Ocean can lead to sharing of costly infrastructure and significant reduction of cost. India has nearly 44 floating rigs, second only to the US, some able to drill holes as deep as 30,000 feet. India has also recently built its first indigenous offshore drilling rig. India's New Exploration Policy allows foreign investment in E&P activities. The GCC oil companies, especially from Saudi Arabia and Kuwait, can invest in Indian E&P activities as they have done in China. Offshore drilling rigs are increasingly computer-dependent and remote-controlled becoming vulnerable to attacks from hackers. New security threats emanating in the wake of the explosion of the drilling rig Deepwater Horizon and the consequent offshore oil disaster, the worst in US history, compel India and the Gulf to cultivate a broad range of alliances in the upstream and downstream energy sector, including in maritime security.

The GCC countries are augmenting their oil refining capacity to export value added petroleum products. In their aspiration to maintain their market, they are increasingly looking towards the Asian countries. India can play an important role in the GCC's ambition to be a leading player in the oil product market. The demand for petroleum products is already on the decline in the US due to the surplus natural gas and shale gas. The Europeans take West African light oil. French Total is already reported to have scaled down its refining capacity in Europe. Nevertheless, oil guzzling Asian economies like China, India, and Japan have built up surplus oil refining capacity. This implies that they would be demanding oil, not oil products. Therefore, to serve the Asian market, the GCC countries have to invest in refining capacity in the Asian countries. China already has 11 million barrels per day (mbpd) oil refining capacity, which is expected to increase to 16 mbpd by 2015. In addition to its domestic requirement, at present it has about 4.4 mpd excess refining capacity which is projected to increase to 6.6 mbpd by 2015. Singapore has about 1.3 mbpd refining capacity and Thailand another one mbpd.

India's total per annum refining capacity is expected to grow from 2.9 mbpd to 4.6 mbpd in a few years. Indian refineries can refine heavy crude oil to produce light products with sulphur as low as 10 parts per million (ppm) as compared to the Chinese refineries which can refine upto 50 ppm. Only refineries in Japan, Taiwan and South Korea are able to refine petroleum products with zero sulphur content. But sophisticated export-oriented refineries in India and the Gulf would be able to meet international quality standards and also have a freight advantage for exports to developed countries in comparison to refineries in Japan and Korea.

The threat to oil infrastructure in the face of current turmoil may prompt the GCC states to acquire assets abroad. Saudi Arabia was considering hiring oil storage facilities from Japan Oil at Japan's Okinawa storage facilities. The GCC oil companies can pick up stakes in Indian oil and gas assets and help set up strategic reserves. Fluctuation in demand like that caused by the crisis in Japan, the world's third largest oil consumer, requires integrated and cost-effective asset management. Indian oil companies like IOC hold patents for cost-effective non-conventional desulpherisation process. It would be more profitable for the GCC countries to invest in the building of new integrated refining and petrochemicals plants than pick up stakes in existing ones.

India-GCC joint ventures as integrated upstream and downstream operations in India, GCC and the third countries can yield synergistic benefit in rationalizing cost, internalizing state-of-the-art technology, securing new markets, and tiding over market volatilities. Saudi Arabia has been invited to build oil and gas plants in Turkmenistan. Iran, Saudi Arabia and China have stakes in an upcoming refinery in Malaysia. Qatar-based Gulf Petroleum intends to build the complex in Malaysia, consisting of an oil refinery, a petrochemicals project, and storage facilities, to cater to the Asia-Pacific market. India and the GCC states can have joint stakes in oil and gas assets abroad to retain their markets and revenues in the face of security challenges. Indian joint ventures with the GCC in Africa could enable the latter to regain their African markets, besides catering to others in a cost effective manner. Many of the East African countries led by Kenya, Tanzania, and South Africa, import petroleum products from the Gulf, but these are often curtailed now due to the burgeoning domestic demand in the exporting countries. The market for petroleum product imports in Africa is substantial. Further, petroleum-rich African countries have significant presence in oil trade. They could serve as a profitable export base for petroleum products for both India and the GCC countries.

The GCC region has also started importing natural gas to meet its growing domestic demand, especially in the power sector. Depleting oil fields require re-injection of natural gas to maintain reservoir pressure. The UAE gas demand for re-injection is expected to increase significantly from around 18 billion cubic meters (bcm) in 2008 to approximately 45 bcm by 2020. The growing gas-based petrochemical, steel and aluminum industries are strong drivers of demand for natural gas. Though the GCC countries have 23 percent of global gas reserves, they face supply constraints. Most of the natural gas production is in the form of associated that is closely tied to OPEC production quota. New sources of non-associated gas are proving difficult to locate. GCC investment can be invited in the exploration of natural gas and shale gas in India.

The region's power generation needs will grow by about 50 percent from approximately 710 terawatt hours (TWh) in 2010 to around 1,100 TWh in 2030, according to forecasts by the EIA. The region's current installed power capacity is around 75,000 megawatts (MW). The Gulf countries have established the GCC power grid that will enable them to meet increasing power demand in the region and avoid power outages. Recent reports estimated that ongoing power projects in the GCC are worth up to $162 billion. Currently, most of the power generation in the region is being fueled by gas and oil.

The GCC countries are also setting up dual purpose co-generation/desalination power plants like the 500MW co-generation/desalination power plant in Ruwais refinery in UAE. The desalination plant is needed to supply million gallons of water to the refinery each day. As the region is unlikely to supply major equipment locally, vast business opportunities exist for the exporters of co-generation power plants, power equipments like gas and wind turbines, heat recovery chambers and the like. India's 'waste to energy' power projects can contribute to waste management besides local generation of industrial and residential power.

India can also help the GCC to develop nuclear power. It has been the first Asian country to have initiated a nuclear power program and holds the sixth position among nations possessing 20 or more operating nuclear power reactors in the world. The total nuclear power generation in the country has gone up to 4,780 MWe. The time has also come for India to think beyond domestic development of nuclear power reactors and showcase its civilian nuclear power capabilities abroad. The Indian Atomic Energy Department has offered to export Indian expertise. NPCIL is ready to offer Indian PHWRs of 220 MWe or 540 MWe capacity for export. Indian industry is becoming a competitive supplier in the global market with regard to special steels, large size forgings, control instruments, software, other nuclear components and services. The small and medium sized reactors of 220 MWe or 540 MWe, individually or in clusters, would be ideally suited for the small

GCC countries with smaller grids. Indian reactors are also cost competitive and are based on proven technologies. Development of a hybrid Nuclear Desalination Demonstration Plant (NDDP) at Kalpakkam (capacity 6.3 million liters per day) would be of interest to the GCC countries.

Demand Side Management of Energy

One potential area of energy ties is in demand management. The energy intensity of growth in the GCC countries has dramatically risen over the years. Gas flaring in oil production causes losses estimated at $1–2 billion per year, while transmission and distribution losses in the power sector cause even more. Since energy is highly subsidized, the region is likely to receive more investment in the energy-intensive sectors. Since subsides are politically difficult to cut, these countries are more likely to adopt energy efficiency norms. Until now, not much attention has been paid by the MNCs operating in this region. Foreign firms send their least energy efficient air-conditioners and cars to the Gulf. Car firms still export models to the Gulf that were discontinued everywhere else years ago. Indian companies should focus on projecting the energy efficiency of their operations and products in all lines of business and investment especially in energy-intensive industries like power, steel, aluminum, cement and water desalination. Average energy intensity in Indian cement and iron and steel industries has been declining consistently. Today, India has one of the most energy-efficient cement plants in the world.

Power capacitors are indispensable in the energy-efficient systems as it helps to reduce the overall power factor (PF) of the system. The application of capacitors is increasing across industries to save energy as a cheaper alternative to other electrical equipment. Indian power capacitor exports are increasing to countries like China, Germany, Turkey and Spain. Many Indian firms can also provide consultancy in the fields of energy audits, cogeneration, process optimization, boiler efficiency and management of waste heat. The GCC states need to foster more energy-efficient practices in building design and transport infrastructure. Heavily air-conditioned buildings absorb vast amounts of energy. There are considerable opportunities for collaboration in green building projects and energy-efficient equipments.

Greening of Energy Use

The GCC'S quest for exploitation of renewable energy to generate electricity and meet other domestic energy demand in an eco-friendly manner finds complementarity with Indian expertise in this field. India is the second biggest power producer from renewable energy sources. Currently 8 percent of its electricity supply is sourced from renewable energy with installation of over 13,200MW of renewable-based power generation capacity. Given the high solar incidence over both the regions, there are opportunities for joint ventures for producing solar energy equipments and solar panels. India has been ranked 7th worldwide for solar photovoltaic (PV) cell production and 9th in solar thermal power generation. This capacity is growing rapidly due to the entry of various private players in the manufacturing of solar energy equipment. About 75 percent of its production is exported, mainly to the European countries. The Indian solar energy sector is estimated to grow at an annual rate of 25 percent for the next few years with market demand expected to reach 200MW by the year 2012. The implementation of the three-phase plan for solar PV capacity expansion began in 2010, with the government spending approximately $20 billion over a 30-year period.

India is also a major player in harnessing wind energy and has capacity in wind turbines and generators. In 2008, seven percent of wind turbine imports in the US were from India. It is the third largest investor and ranks fifth globally in the harnessing of wind energy. The market in India for renewable energy (RE) business is estimated at $500 million and it is growing at an annual rate of 15 percent. The new RE policy of the government of India aimed at generating 10,000 megawatts (MW) of power through renewable and non-conventional sources by 2012 is expected to further boost the growth of this sector. India possesses large shale deposits across the Gangetic plain, Rajasthan, Gujarat and coastal areas. ONGC has embarked on a pilot project with an initial investment of Rs. 100 cr. to explore shale gas options. It has recently discovered shale gas in West Bengal.

There is significant potential for investment in cleaner fuel technologies in the GCC. There is a nascent effort to develop bio-fuel sources, particularly for the aviation industry. The International Air Transport Association targets 10 percent of airline fuel to come from alternative energy sources, chiefly biofuels, by the year 2017. As the GCC seeks to develop its aviation industry and its role as a tourist hub, joint ventures may be worthwhile to address these concerns. Several research institutes, including the Masdar Institute of Science and Technology and the King Abdullah University of Science and Technology, have launched research and development (R&D) projects on clean energy and alternative energy. The UAE aims to become an exporter of renewable energy technology. Indian research institutes have collaborated with foreign partners both to acquire and transfer critical capabilities in this area. India–GCC collaboration in alternative energy can contribute to more region-specific research and expansion of the business emanating out of it.

The creation of the world's first carbon-neutral city under Abu Dhabi's Masdar initiative shows the resolve of the GCC countries towards reducing their carbon footprint. The energy-intensive economies of the GCC, especially the UAE and Saudi Arabia, have some of the highest levels of per capita carbon emissions. More energy intensive projects are likely to come up in the region. Mean while, Many Indian companies are adopting technologies, practices and approaches that will help India leapfrog to a low-carbon economy. Automobile company Hero Honda has launched a special initiative to reduce the eco footprint of its entire value chain. Its Green Vendors Development Program (GVDP) is inspiring other companies to follow suit. India can facilitate better environment-friendly complexes/zones and cities with its expertise in green buildings, waste management, and water treatment and recycling. ITC Ltd. has become world's first company to be carbon positive, water positive and zero solid waste discharge entity. More than 400 green building projects, including commercial and IT spaces, office buildings, airports, government offices, hospitals, factories, and residential dwellings, with a footprint of about 300 million sq. ft. have so far been facilitated by the Indian Green Building Council. These buildings have a combined potential to save about 3.5 million tons of CO2 per year. GCC producers are in a good position to develop carbon capture and sequestration (CCS) technology, as they have the required land and the capital resources. Such investments would pick up significantly if the UN were to put in place more incentives for CCS after the Kyoto Protocol expires in 2012. There is considerable scope for joint ventures and business in Clean Development Projects in both the regions.

Emerging Investment and Business in Manufacturing Sector

Integrated Petroleum Refining, Petrochemical and Chemical Complexes

The GCC countries see petrochemicals as important drivers of economic diversification and employment generation. Besides, they are also keen on expansion of refining capabilities to export value added petroleum products. While naphtha, a product of refining crude oil, is used to make petrochemicals around the world, countries in the Gulf have traditionally used cheaper home-produced natural gas. The GCC countries, especially UAE and Saudi Arabia, face natural gas shortages as new power plants compete for gas supplies. Naphtha-based petrochemical plants have larger and more complex product options like aromatic-based chemicals and derivatives, while ethane-based plants can generally produce olefins. Hence, there is a perceptible shift towards heavier feedstock and this presents a strong case for well-integrated petroleum refineries.

The GCC countries also want to move up the petrochemical value chain. Saudi Arabia, in its industrial cities of Yanbu and Jubail, looks forward for value added specialty and performance chemicals and further down to the product chains, plastics, and energy-intensive industries such as minerals and metals. India has experience in building an integrated petrochemical complex. The Jamnagar complex was completed at 30 percent to 50 percent below the cost of comparable refineries and in 36 months compared to the more typical 60 to 80 months. The facility was visualized through a three-dimensional computer-modeling package, which was the world's largest modeling effort. Throughout the plant, automated processes maximize yield and conserve energy, monitor tank inventories, blend products and synchronize transportation systems.

The total petrochemical capacity in the GCC region is estimated to increase at a compound Annual Growth Rate (CAGR) of 5.5 percent during 2009-13 with most of the additions coming from Saudi Arabia followed by Qatar. Among other Asian players, Singapore is rapidly developing its petrochemical manufacturing base. New production capacity has been added in the form of Shell Eastern Petrochemical's second world-scale petrochemical project. Indian refining capacity is set to reach 210-224 million metric tons a year by 2012, up from 135 million metric tons a year in 2006/2007. The extra capacity translates into eight to ten million metric tons a year of naphtha. Olefins capacity in India could double to ten million metric tons a year in the coming years.

The petrochemical industry has been characterized by significant cyclicality reflected in the historical volatility of prices of most of the products. Oil derivative feedstock remains the main driver for the pricing of petrochemicals and hence its volatility. The volatility inhibits long term investment planning and adversely impacts growth. High oil price feeds into petrochemical products, which are inputs in a wide range of consumer and producer goods industries, and this puts pressure on inflation. In the long run, it hurts export competitiveness. India and the GCC governments need to realize the importance of minimizing the adverse impact of price and demand volatilities on growth and employment prospects on both the economies. Business tie-ups minimize risk of demand and price volatility by strengthening producer-supplier networks and sharing of rewards and risk through consolidated alliances and alliances with specialist companies.

Alliance for Innovation and Higher Value Addition

Joint ventures among petrochemicals and chemicals companies help producers to move up the value chain and share the costs and risks of developing novel technologies. Union Carbide and AlliedSignal launched UOP, a joint venture that develops process technology for the oil-refining, petrochemical, and gas-processing industries and has since grown to become the world's largest process-licensing organization. Many segments of the chemical industry have high growth potential and can benefit from joint ventures.

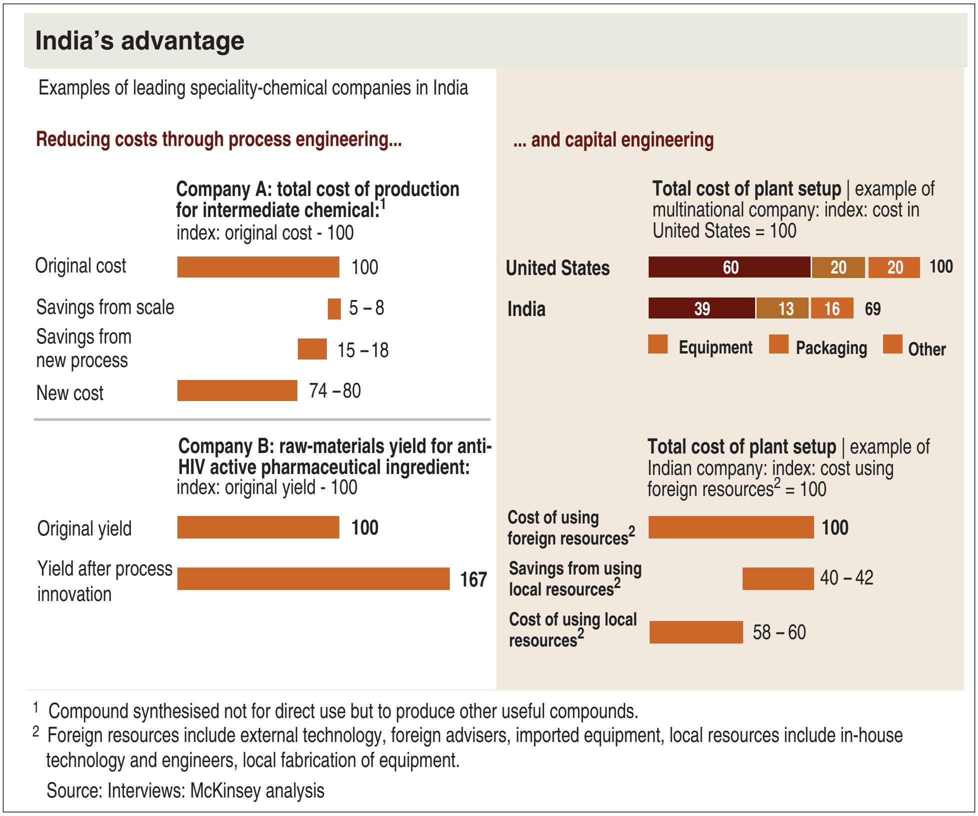
The specialty chemicals (including knowledge chemicals as active ingredients in agrochemicals and pharmaceuticals) market in India has the potential to grow at an annual rate of about 15 percent to reach $40 billion by FY 2014. There are many big and small Indian players. The major end user segments include textile, automobiles, construction, leather, paper, detergent, rubber, paints, polyester, and oil and gas. India has capabilities in chemical engineering and cost reduction and has the potential to become one of the developing world's top two exporters (along with China) of specialty chemicals with exports of about $15 billion in 2015. European levels of labor productivity are achieved at Indian plants at 20 percent of the labor cost; besides capabilities exist to apply novel practices mainly in process and capital engineering (Figure 11.4). Degussa and Rohm and Hass have already set up plants in India; Bayer and DuPont see it as an important sourcing hub for intermediate chemicals and Sun Chemical has started sourcing ink intermediates there.

Indian dyes are in demand all over the world due to the ban on production of dyes in developed nations to control pollution. Dyes are used in paints, inks, textiles and polymers. The total market of paint and dyes is almost $1 billion, and the growth rate is almost 12 percent. Moreover, the per capita consumption is very low (400 gm) as opposed to the developed countries (15 kgs) and has high growth potential. The Indian government's decision to establish large special economic zones as petrochemical clusters can help potential alliances along the chemical chain to reap economies of scale.

Alliances for Enhanced Producer-Supplier Relations

An alliance along the production chain improves profitability and helps tide over uncertainties. A joint venture for strengthening producer-supplier networks can be established in a whole range of consumer and industrial goods industries. Synthetic textiles, synthetic fibers, fertilizers, packaging material and PET bottles, are some of the important areas. Strong demand for cars, PET bottles and packaging materials will be strong drivers of industrial growth. The car industry is among Asia's largest consumer of petrochemicals, which are used in a wide range of car parts such as dashboards, bumpers and seats. Besides China's plan to build 36 million units of government subsidized apartments over the next five years and construction projects in the GCC countries would ensure strong demand for construction-related petrochemical products. It is estimated that India's consumption of plastics will go up from 8 million tons in 2009 to 25 million tons by 2020.[4] India is net short of ethylene and propylene, and the country is a net importer of downstream products like polyethylene, polypropylene and vinyls.

Figure 11.4 India's comparative advantage in process and capital engineering



Demand for synthetic fiber arises mainly because of fabrics and garments. India's synthetic textile sector is relatively modern and has high growth potential, which will position it as a major outsourcing hub. At present, India exports synthetic textiles to more than 175 countries worldwide, wherein WANA accounted for over 32 percent and European Union approximately 23 percent. The Synthetic

4. India Petro-Chemical Report Q 4 2010. Available at http://www.researchandmarkets.com/reports/1343694/india_petrochemicals_report_q4_2010.pdf

and Rayon Textile Export Promotion Council (SRTEPC) has targeted synthetic textile exports worth $6.2 billion and 4 percent of the global market share by FY 2011-12. Similar business alliance opportunities exist in areas such as technical textiles, cosmetics, and synthetic rubber. During 2001-02 to 2005-06, the demand for synthetic rubber had an impressive Average Annual Rate of Growth (AARG) of 16.5 percent. This sector is import dependent to about 70 percent of its need.

Similarly, gas-based fertilizer plants in GCC countries can profitably serve the Indian market, which is one of the largest consumers of fertilizer. Regional fertilizer capacity is expected to increase at a CAGR of 16.4 percent during 2009-13 with about 13.3m tons in Saudi Arabia followed by Oman and Qatar. SABIC has to face tough competition to enter (on a stand-alone basis) the Asian markets mainly due to the strong presence of SINOPEC, Reliance and Industries Qatar (IQ) in these areas. Saudi Arabia is rich in all grades of potash and Indian expertise in chemical industries can help in augmenting their exports. The success of the Indo-Oman joint venture that made India the leading destination of Omani fertilizer export is a case in point. Indian tariffs on petrochemical imports from the GCC have been a bone of contention in the free trade negotiations. The recent imposition of anti-dumping duties on Saudi and Omani petrochemical exports has raised much concern. The win-win situation would be to create a wide spectrum of joint stakes. While India should remove import duties on Gulf petroleum products, the GCC countries could set up joint ventures with Indian companies in the Gulf and India. India-GCC business relations in this sector can lead to better backward and forward integration.

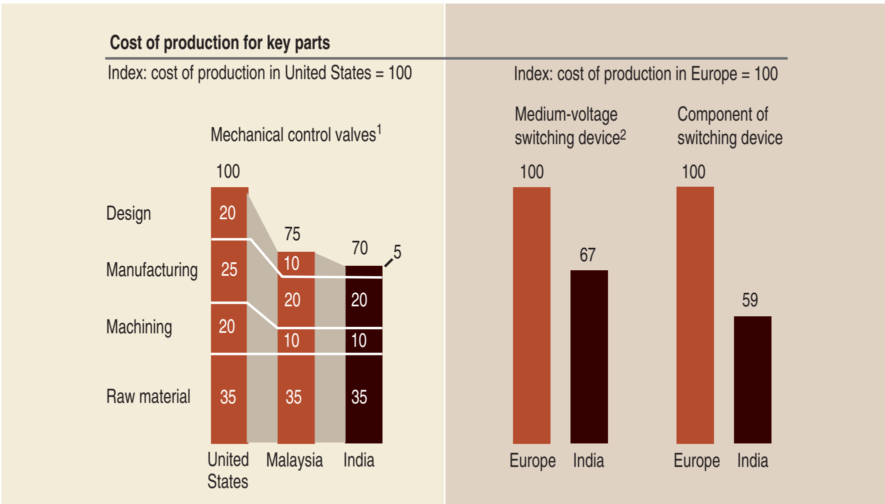
Engineering, Automotive, Electrical and Electronic Goods

The GCC countries import engineering, automotive, electrical and electronic goods in huge quantities. They are also developing their export capabilities in these sectors and exporting to the WANA region. In 2008, the GCC imported about $25 billion of electrical and electronic goods and exported about $3.3 billion worth of electrical and electronic goods to the WANA region. Similarly, the region also imported about $43 billion worth of machinery and equipment and exported machinery and equipment worth about $3 billion to the WANA region. Indian companies like Larsen and Toubro and Lanco Group are already executing big projects in the GCC. Similarly, for electrical and electronic goods, many Indian companies like Godrej and Videocon have already secured a strong foothold in the GCC market. Of the five industrial cities planned in Abu Dhabi, two focusing on heavy to medium manufacturing, engineering and processing industries are established.

Two more industrial cities dedicated to the automotive industry are planned. Saudi Arabia's consumer product cluster industries initiative offers business opportunities for consumer goods and automotives.

India is also an important outsourcing destination for multinationals for engineering activities. It can capture up to $25 billion of the $375 billion outsourcing market by 2015. India's advanced tooling and machining industry enables it to produce capital equipment locally at a cost 20 percent lower than in other developing countries (Figure 11.5). Many global automakers are already sourcing components from India. Toyota turned India into a regional sourcing hub and now exports transmission assemblies, one of the most complex parts of any automobile plan, from there. In product engineering, one of India's strengths is cost cutting designs. Many automakers are now setting up engineering and design centers in India to capitalize on these skills.

Figure 11.5. India's comparative advantage in mechanical engineering goods



[1] Key actuator in industrial systems; manufactured by leading industrial company in only 3 locations in world.
[2] Key safety device in power transmission; manufactured by leading multinational only in india.
Source: interviews; Mckinsey alalysis

India is projected to export electrical and electronic goods worth up to $18 billion a year by 2015. Some Fortune 100 companies source and manufacture electrical and electronic products in India. For example, Siemens sources many components for power transmission and distribution equipment (mainly castings and forgings) from India, typically saving 25 to 30 percent as compared with US and European cost levels. Joint ventures in the Gulf region and in India can build on technical capabilities in the region as well as facilitate cheaper imports.

There is considerable scope for joint ventures for small and medium industries especially in Bahrain and Saudi Arabia, which are keen to develop their small and medium industries.

Metals and Metallic Products

Massive construction and industrial projects have led to huge demand for metallic products, especially steel and aluminum, in the GCC region. According to the International Trade database, about $27 billion of metals and metal products were imported into the region in 2008. Also, the GCC countries exported about $2.5 billion of these goods to the WANA region. The GCC's building and construction industry annually consumes about 400,000 tons of aluminum. Due to the region's extreme weather conditions, aluminum has become popular in building and construction projects because of its lightness, strength, malleability and resistance to corrosion. Investments in the Gulf's aluminum industry are currently estimated at $30 billion and could reach as much as $55 billion by 2020 due to upcoming smelter expansions and new projects. Besides, there is a huge scope for the recycling industry.

India is the world's fifth largest aluminum producer with an annual production of around 2.7 million tons. It also has huge reserves of bauxite amounting to 3 billion tons. Production is currently outpacing demand. However, with the growing demand for aluminum in India, the industry is set for robust growth. There is scope for joint ventures and 100 percent ownership enterprises in India and the GCC countries for better resource utilization and demand risk management.

Over the next decade, the Gulf's steel producers are expected to be among the top producers in Asia. The regional steel trade is worth about $50 billion from projects currently under way, and an additional $150 billion will come from new schemes in the pipeline. Saudi Arabia is the only country in the region, which can meet the strong regional demand. UAE's steel business involves large-scale imports of steel products from Turkey, China, Taiwan, South Korea, Ukraine, Russia, India, Saudi Arabia and Iran. Steel manufacturers in Arab countries are trying to integrate and consolidate their position in the face of a growing worldwide industry trend of mergers and acquisitions.

Indian investment can bring the benefits of energy- efficient technology and linkages with mineral resources in India. The GCC states need millions of tons of tube and pipe to develop and increase oil production capacity and ensure supplies to the international market. The present demand is met through imports from India, Turkey and other countries. Business opportunities exist in this sector as new investments are expected to exceed $20 billion until the year 2020.

India has a well-developed mining sector, which has about 20,000 known minerals. It produces about 84 minerals, comprising 4 fuels, 11 metallic, and 49 non-metallic industrial and 20 minor minerals. Globally, India is the largest producer of mica, third largest producer of coal, and fifth largest producer of bauxite. India also has significant reserves of copper, zinc, gold and about 26 other metallic minerals. The new policy initiatives have opened the mining sector to private domestic and foreign players. India's metal industry provides lucrative opportunities for investment for the GCC countries due to their own import requirements, need for energy and water conservation, as well as to cater for growing Chinese demand through exports.

Cereal Edibles and Processed Food

The GCC food imports are projected to more than double from $24 billion in 2008 to $49 billion by 2020 increasing its import dependence from 56 percent in 2000 to 63 percent in 2030[5]. Since food constitutes about 15-20 percent of household budgets in the GCC countries, it is also the source of imported inflation. Export bans put by India and other countries during times of shortages put GCC countries under tremendous pressure. The GCC countries are purchasing agricultural land in Africa, Central Asia and Southeast Asia to strengthen their food security. While land issues tend to have a political backlash, the Gulf could build up strategic food reserves by investing in joint ventures to set up a series of cold storages and warehouses. Saudi Arabia imports about 5 million tons of wheat. About one million tons of foodgrains were reportedly wasted in Food Corporation of India's godowns. About 40-50 percent of the foodgrains come from dryland areas which lack adequate irrigation facilities. Joint investment funds can be set up to improve productivity in the dryland areas in India. Investment can also be directed towards agricultural infrastructure, food processing industries, and R&D to improve farm productivity.

The Gulf is also one of the driest regions in the world. With agriculture accounting for more than 85 percent of freshwater withdrawals and energy-intensive desalination being the dominant source of water supply, there is a link between water scarcity and food and energy security in the region. GCC investment in setting up food reserves and processing plants can help the region in meeting food security needs as well as reducing the consumption of water and energy. A suitable mechanism needs to be evolved on a public-private partnership to facilitate Gulf investment in food for the procurement of supplies to benefit the Indian farmers,

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5. The GCC in 2020, available at *www.businessresearch.eiu.com/*gcc-2020.*html*

who mostly practice subsistence agriculture. It would be promising to conceive of an India-GCC friendship food city in India with forward and backward linkages with the food sector in the GCC countries. The food sector is among the fastest growing sectors in Saudi Arabia and has witnessed rapid expansion in research and development and variety of products. The sector is not so much vulnerable to the economic cycle in term of volumetric growth, because of strong spending habits among nationals. The strengthening of the regional distribution network will lead to a healthy Compound Annual Growth Rate (CAGR) of 19.0 percent during 2009-13. There are ample business opportunities for Indian and GCC stakeholders in cultivating forward and backward business linkages in food production, processing, storage and retailing.

Gems and Jewelry

India imports precious stones and metals from the GCC countries and re-exports the same after processing them. The GCC countries can be a re-processing base for re-export in the region. About $22 billion of processed gems and jewelry are imported by GCC countries, mainly by UAE, from the European countries. The colored stones market is expected to have robust growth over the next decade, both in the UAE and the other Gulf States. The Indian competence in jewelry design, and stone cutting and polishing are well known. The gems and jewelry industry is one of the fastest growing segments in the Indian economy with an annual growth rate of approximately 15 per cent. It is also the largest export component, with exports to the European countries. There is a strong case for expansion of the gems and jewelry processing business in the GCC region. Kuwait has set up a creative zone to encourage Kuwaiti nationals in art, craft, and designing. India can encourage joint ventures in training enterprises for gems and jewellery designing, processing, cutting and polishing.

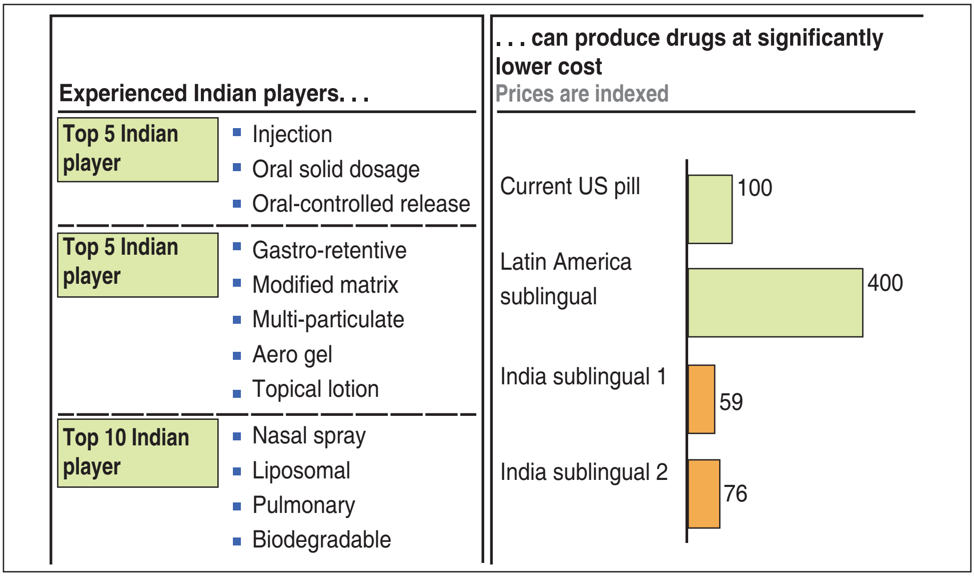
Cement

Cement capacity in the GCC of about 116 million tons has outstripped demand. However, this over-supply situation is likely to be mitigated by strong spending plans in Saudi Arabia, Oman, Kuwait and Qatar. Companies in the GCC are focusing on cost-saving measures such as installation of in-house power plants and horizontal and vertical integration. Some of them have ventured into the concrete block business while others have acquired stakes in limestone quarries, power plants, cement bagging plants, and port terminals. UAE cement companies, which are currently in financial crisis, can benefit from Indian cement companies, with cost-cutting capabilities like better energy efficiency and ability to set up co-generation power plants.

Pharmaceuticals

The GCC countries will experience a sharp increase in healthcare needs due to a growing and ageing population and a rise in chronic non-communicable 'lifestyle' diseases. The GCC region currently imports at least 95 percent of its pharmaceutical requirements, mostly from the US and Europe. The market for pharmaceutical products in the GCC and Yemen could reach a staggering $10 billion by 2020.[6] The estimated pharmaceuticals sales in the GCC were about $5.6 billion in 2010. Local pharmaceutical manufacturing is limited and concentrated in Saudi Arabia and the UAE because of the requirement of high capital expenditure and lack of R&D capabilities of local players. The imported drugs are generally priced higher in the GCC vis-à-vis other countries. Currently, the GCC governments are trying to boost domestic drug manufacturing by entering into joint ventures and licensing deals with multinational pharmaceutical companies. Saudi Arabia and Qatar allow 100 percent foreign investment in the sector.

Figure 11.6: India's comparative advantage in pharmaceuticals

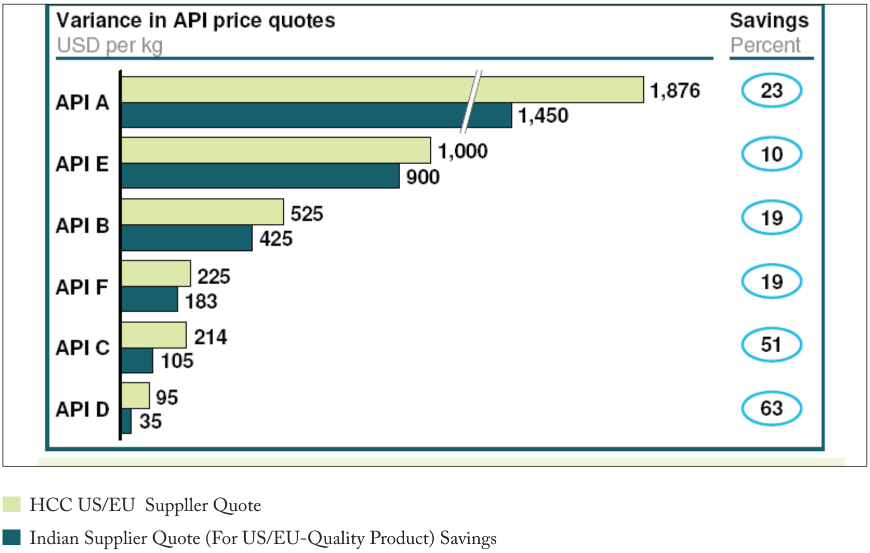


Source: Palash Mitra, 'Indian Pharma: The Next Big Leap' available at: http://www.indiapharmasummit.com

6. http://www.bioportfolio.com/news/article/446011/Gcc-Region-Imports-95pc-Of-Pharmaceutical-Products.html

Pharmaceutical multinational firms do not have manufacturing facilities in the smaller GCC countries and operate through representative offices in Saudi Arabia or the UAE. Thus, opportunities exist for Indian players to setup local facilities to meet the growing GCC demand. Indian capabilities in R&D and low-cost manufacturing have enabled pharmaceutical companies to enter the market in developed countries. Indian pharma companies have a competitive advantage in Active Pharmaceutical Ingredients (API), and global mid-pharma companies are outsourcing the vast majority of API from India. Indian competitive capability also exists in drug formulations and drug delivery technology (Figure 11.6 and 11.7). Indian pharma companies can build strategic partnerships with GCC institutions for R&D activities.

Figure 11.7: India's comparative advantage in active pharmaceutical ingredients



Source: Palash Mitra, 'Indian Pharma: The Next Big Leap' available at: http://www.indiapharmasummit.com

The demand for anti-diabetic and cardiovascular drugs is expected to grow fast in the near future due to the changing demographics and lifestyles. Patented drugs dominate the market, with generic drugs accounting for just 5-6 percent. Higher growth is projected in the generic segment in smaller GCC countries. Kuwait-Saudi Pharmaceutical Industries (KSP) is the only prime generics producer in Kuwait. There is also significant scope for OTC drugs as many GCC countries such as Saudi Arabia and UAE are allowing essential OTC drugs like vitamins to be sold in retail outlets and shopping malls. The sale of drugs is restricted by state controls, with governments fixing drug prices and capping profit margins for the wholesalers and distributors in many countries. Many GCC countries do not allow foreign players to participate in the retail and wholesale pharmaceutical sector. Foreign players are entering the region by setting up facilities to manufacture approved drugs in the region and participating in joint ventures with local distribution firms for market access. Smaller countries like Oman, Bahrain, Qatar, and Kuwait are striving to secure strategic trade partners for low-cost generic drugs distribution.

The size of the Indian pharmaceuticals market is about \$10 billion. It is estimated to grow at 12-14 percent to reach \$20 billion with exports worth about \$8 billion. India's share in the global contract manufacturing has consistently increased with the strengthening of its new patent regime. The Indian share in global contract manufacturing was about 4 percent (equivalent to \$1.5 billion) in the year 2007 which is estimated to increase to 10 percent (equivalent to \$7-8 billion) in 2015. India-GCC joint ventures will contribute to capacity building of the GCC countries besides sharing of the risk. Also, Indian companies will get new markets in the Gulf, which relies greatly on Western imports.

Emerging Investment and Business Opportunities in the Service Sector

Healthcare Services

Healthcare spending in the GCC will grow fourfold over the next 17 years to more than \$60 billion.[7] At the current annual growth rate of 5 per cent, the GCC's 35 million population will double over the next two decades. With increase in longevity, the ageing population will bring enormous long-term challenges for healthcare providers as four-fifths of a human's healthcare needs typically occur after the age of retirement. There has been a rise in lifestyle-related diseases. According to the World Bank, four out of 10 countries with the highest incidence of diabetes are in the GCC. Chronic diseases require long-term, costly and specialist treatment. The high number of road traffic accidents in the region puts additional strain on healthcare systems.

The GCC countries lack the expertise and specialist hospitals required to deal with these health challenges. The availability of health professionals and hospital beds in the Gulf are also inadequate. Governments spend millions of dollars

7. *GCC Healthcare Report 2009*. Available at www.meed.com/special.../country-supplements/ - United Arab Emirates

each year sending patients overseas for treatment. For example, the UAE pays about $2 billion each year for patients to receive treatment abroad. Most of the consultations sought were in the fields of oncology, pediatrics and orthopedics. Kuwait's budgetary allocation is highest on health. Aware of the enormity of the challenges ahead, governments in the Gulf are now making investment in health a priority. According to regional projects tracker MEED Projects, more than $10 billion worth of healthcare-related construction projects are under way in the Gulf. This includes the construction of many super-specialty hospitals. Health authorities are also investing in primary care clinics for early disease intervention. Saudi Arabia is currently setting up 250 primary healthcare centers across the Kingdom. The Gulf States are attempting to raise the quality of healthcare in existing hospitals. Some health authorities are choosing to outsource management. In Abu Dhabi, the management of six public hospitals has been handed over to international operators. But attempts to improve the quality of healthcare in the GCC could be undermined by a lack of skilled professionals. The region's healthcare sector is heavily reliant on imported manpower. Kuwait alone expects to require an additional 4,000 doctors and 10,000 nurses by 2016, if its nine hospital projects are operationalized. In recent years, hospitals in the Gulf have struggled to recruit and retain staff amid strong global competition for talent. Another issue is of clinical work load. Given the small populations of the Gulf countries, specialist hospitals will have to attract patients from overseas to ensure an adequate clinical workload to attract the best medical talent. Some of the most technologically advanced hospitals are under construction in the Gulf, but unless the quality of health services provided matches the high standards of the facilities and equipment, patients will continue to go overseas for treatment.

Vast business opportunities exist for India in health tourism, hospital management, IT health solutions, health insurance, and health management. About 100,000 foreign patients visit India every year and the medical tourism market is predicted to reach $2 billion by 2012. Medical infrastructure and technology in India are at par with those in the US, UK and Europe. India can compete with some of the best hospitals and treatment centers in the world at competitive rates (Table 11.1) and, therefore, this makes it a favorable destination. Joint venture health management companies could be set up to help the GCC outpatient care and quality standards and negotiate financial arrangements with hospitals and specialist clinics in India. Besides, Indian patients can also be facilitated in the upcoming super-specialty hospitals in the GCC helping them to attain their required clinical load.

Table 11.1: Average costs of selected surgical procedures in selected countries (US$)

Procedure	Thailand	India	Singapore	US	UK
Heart bypass Graft Surgery	7,894	6,000	10,417	23,938	19,700
Heart valve replacement	10,000	8,000	12,500	2,00,000	90,000
Angioplasty	13,000	11,000	13,000	31,000-70,000	
Bone Marrow transplant	-	30,000	-	2,50,000-4,00,000	1,50,000
Liver Transplant	-	40,000-69,000	-	3,00,000-5,00,000	2,00,000
Neurosurgery	-	800	-	29,000	
Knee surgery	8,000	2,000-4,500	-	16,000-20,000	12,000
Cosmetic Surgery	3,500	2,000	-	20,000	10,000

Source: www.medicaltourism.com

Apollo and Fortis can be strong contenders for hospital management services in the GCC region. Their expertise in telemedicine can take care of many medium- to long-term challenges of skilled personnel as well as reduce time and cost of sending patients abroad, and allow early intervention of disease through counseling and remote monitoring. They can also play a vital role in human resource development in the health sector. India has the fastest growing healthcare IT market in Asia, with an expected growth rate of 22 per cent. The Indian healthcare technology market is poised to be worth more than $254 million by 2012.[8] India can help in connecting a chain of primary health centers in a pan-GCC telemedicine e-network (on the model of Pan Africa e-network that connected 53 countries with a satellite and optic-fiber network, providing tele-education, tele-medicine and VVIP connectivity).

Health insurance has high growth prospects in the GCC region due to low penetration rates. The governments have made insurance mandatory for expatriates and in some cases for nationals. Insurance premiums in the GCC rose by 28 percent in 2009 to $10.6 billion.[9] But the GCC governments' demands for more benefits and requirement of local license are some of the existing challenges. Alliance between companies providing complementary products enables better access to the small and medium-sized market. Omani companies provide a good platform in the GCC insurance market. Oman Insurance is the second-largest insurer in Abu Dhabi, with more than 16 per cent of the market for the enhanced insurance package, second only to the state-run Daman. Health insurance business in India is also growing fast at 50 per cent and is worth about $5 billion. GCC investment in India's healthcare sector, which is the largest service sector, provides opportunities for high returns and capacity building.

IT Services - Gulf Silicon Valley and Pan e-GCC project

There has been a high demand for IT services in the GCC countries. Already India's IT products and services export to the GCC is growing at annual rate of about 30 percent. Some of the big IT companies like Wipro, Tata Consultancy, and Satyam are already significant players in the market. Wipro Infotech has formed a joint venture with Dar Al Riyad Group called Wipro-Arabia Ltd to cater to the Saudi IT market. Joint ventures in India and the GCC countries facilitate critical capacity building in this sector for the GCC countries. India can collaborate with GCC countries to set up IT clusters or zones in smaller countries and a Silicon Valley in UAE or Saudi Arabia from where Indian IT companies can provide a whole range of IT products and services to the GCC countries.

Given the challenge in the agriculture and health sectors in the GCC countries, there are bright prospects for Indian companies specializing in bioinformatics to provide IT solutions to these sectors. Indian company Avesthagen is one of the leading and fully integrated biotechnology and bioinformatics companies and

8. "Health Care Opportunities in India". Available at www.ukti.gov.uk/.../Healthcare%20Sector%20in%20India.pdf.html
9. www.arabianbusiness.com/gcc-insurance-premiums-

provides innovative solutions for global challenges in the areas of degenerative conditions, metabolic disorders and infectious diseases. Many Indian players provide IT solutions in biomedical research, data mining, bio-imaging etc. for global MNCs.

IT solutions are central to banking. It has moved from being just a business enabler to being a business driver. The GCC banking sector inspite of robust growth faces challenges of asset portfolio management, customer services, diversification of products and risk management. Indian IT companies can provide solutions for core banking, automation, and customer relationship management. They are also providing innovative low cost e-governance solutions like packaged applications, database, application servers, operating systems, business intelligence (datawarehousing and datamining), support systems, geographic information systems (GIS), open source software, document management, knowledge management, smart cards, biometrics, telemedicines, and wireless.

India can establish a pan GCC E-network for tele-medicine, tele-education, e-governance, e-commerce, infotainment, resource mapping, and meteorological and other services. It could connect learning centers and universities in the GCC region with the universities in India for tele-education and link primary health centers and hospitals with super-specialty hospitals in India for tele-medicine.

Research and Higher Education

The GCC governments are faced with the challenges of providing more employment to their nationals and diversifying their economy in knowledge-based sectors, and this has encouraged them to embark on ambitious higher education and research projects. Education City in Doha is a manifestation of the long-term vision to transform gas-rich Qatar into a diversified and knowledge-based economy. Education City is a state-funded initiative to attract international universities to set up affiliates in Doha and stimulate higher research. Other GCC countries are also collaborating with foreign universities and institutes to open branches in the region.

India can set up affiliations of its premier institutions IIT, AIIMS, IIMs and IIITs to cater to management,engineering, medicine, and information technology studies. In Qatar Education City and King Abdullah University of Science and Technology, joint ventures can be established with Indian research institutes working on the convergence of technologies like bioinformatics, photonics, robotics and other frontier technology areas like biotechnology and nanotechnology. Besides, joint study and training centers focusing on energy efficiency, renewable energy, and carbon capture can be considered. Issues of quality and job market relevance can be met with linkages with the corporate sector.

Banking, Financial Services and Venture Capital

The growth in saving and investment in India and the GCC and the cross-border flow of people, goods and capital offer immense opportunities in banking and other financial services. Indian commodity brokerages are setting up their derivatives trading subsidiaries in Dubai. A large number of Indian banks and insurance companies are operating in the GCC countries, among them SBI, ICICI, Bank of Baroda, Oriental Insurance Company and New India Insurance Company though they mainly focus on trade finance and remittance business of the Indian expatriates. Given the competence of Indian financial services companies, they can benefit from the growing financial sector opportunities in the Gulf.

Foreign banks are permitted to enter joint venture companies in Saudi Arabia with a foreign equity cap of 60 per cent. They can also open branches in the Kingdom. The Saudi government has also opened up asset management, financial advisory services, and financial brokerage to outside institutions. Indian banks can offer financial advisory services to Gulf holding companies and other private sector players for their initial public offering. They can enter into brokerage services. Indian financial institutions should make a strong pitch to provide Islamic banking in the Gulf. Attracted by the region's $1.5 trillion funds, Western banks like HSBC, Citigroup, ABN AMRO, Deutsche Bank, Standard Chartered, and BNP Paribas have set up Islamic divisions or even spun off separate banks to cater to this unique segment. The Gulf banks in the face of emerging competition are likely to consolidate through mergers and acquisitions. This provides Indian banks and financial service providers opportunities for business tie-ups and joint venture Islamic Funds for project and corporate finance. India's private sector players like ICICI Bank, Kotak Mahindra Bank, and Reliance Capital, which have Islamic products need to be active in this vibrant segment of banking in the Gulf. India's competence in bank risk management and IT banking solutions could add new dimensions to Islamic banking in the Gulf.

Successful joint ventures in the Gulf would lead to greater penetration of GCC investment in sharia-compliant products in India. The foreign institutional investors from the GCC are actively looking at the Indian capital market owing to its strong fundamentals and growth. The current focus on boosting Islamic banking and finance in India can cater to the GCC investors. BSE has recently launched BSE-Shariah 50, which has many blue chip companies with a strong presence in the Gulf. Since the year 2007, there has been a Sharia-based Exchange Traded Fund (EFT) in operation in India and also many Islamic Compliant Brokerage Houses like Parsoli, Hidaaya Consultancy Services, Bearys Amanah and Idafa Investments, but it is yet to pick up in a big way. The BSE has the largest number of sharia-compliant companies in the world more than the entire Middle East and Pakistan. Standard & Poors had partnered the National Stock Exchange, India's biggest bourse and the main market for derivatives, to launch S&P CNX Nifty Shariah and S&P CNX 500 Shariah index. The market capitalization of shari'a-compliant companies within the Nifty stock market index is nearly 60 per cent.

Many sharia-compliant funds can be floated for projects in India and the Gulf ranging from infrastructure to building social capital like schools and hospitals. Ambit Capital in collaboration with QInvest, Qatar's leading investment bank, launched a $150 million open-ended Ambit QInvest India Fund in 2010, which is said to be the largest sharia-compliant India fund. Taurus Mutual Fund collected about Rs50 million for its sharia-compliant Taurus Ethical Fund, when it was launched in February 2009. Being an actively managed diversified fund, it has outperformed the benchmark with annual returns of 23.8 per cent. The Al Baraka Financial Services, advised by Ernst & Young and Taqwaa Advisory and Shariah Investment Solutions (TASIS has a tie-up with Dubai Islamic Bank), plans to invest in India's infrastructure in ports, airports, and expressways and will be the first Islamic bank in India. Both India and the GCC can leverage their strengths to harness the growing business opportunities in this sector. Besides, tie-up with financial firms gives a boost to a country's business in other host countries through preferential credit.

Tourism

India is emerging as a favorite destination for tourists from the GCC states especially from UAE and Oman. They come for diversified purposes ranging from business, medical treatment, education/training, to vacations. Simultaneously, a large number of Indian tourists travel to the UAE and Saudi Arabia. About 1.5 lakh pilgrims from India visit Saudi Arabia each year. Thus, a whole range of business opportunities emerges in the hospitality sector for companies in India and the GCC countries. Nasser Al Hajri Corporation, a construction company, plans to invest about $25 million in medical tourism projects in Kerala and two hospitality projects in Delhi and Chennai. Indian government initiatives to improve infrastructure, boost aviation, and ease restrictions on foreign investment will stimulate demand for hotels and tourism infrastructure. Tourist management companies could have joint ventures that boost bilateral tourism and provide end-to-end services to GCC tourists in India and vice-versa.

India-GCC Free Trade Agreement

In 2004, India and the GCC signed a Framework Agreement for enhancing and developing economic cooperation on the basis of equality and mutual interest. India and the GCC are complementary economies rather than competitive ones. They are currently negotiating an agreement on free trade. However, the issue of tariff on petrochemical imports from the GCC has been a bone of contention in the negotiations. To serve its domestic interest, India wants to put petrochemicals in the negative list, which is opposed by countries like Saudi Arabia. There is a need to elevate petrochemicals from a contentious item in trade to motive force in mutual business. The win-win situation will be when India moves forward in removing the tariff and benefits from cheaper imports, and the GCC countries facilitate Indian stakes through joint ventures in Indian and GCC petrochemical complexes and refineries. India is dependent on ethylene and propylene import. the GCC countries need investment in PET plants to reduce their import dependence. Through joint ventures, the GCC stands to benefit from market security and lower risk of price and demand volatility.

The GCC customs union allows free trade among its members. The member countries levy a common external tariff of 5 percent. They are also part of the larger Greater Arab Free Trade Agreement. In fact, the GCC countries are displaying a clear trend towards regional economic integration and have emerged as a trillion dollar market, equivalent to India. Besides, greater infrastructural connectivity in the form of cross-border rail and road networks, such as the friendship bridge between Bahrain and Qatar, would boost regional trade in the near future. The Indian concern about the divergent rules, procedures and standards followed by GCC member countries should not be a drag on an India-GCC FTA. The growing regional integration and the success of the GCC-Singapore FTA has brought the conclusion of an ASEAN-GCC FTA closer.

The tariffs imposed in India are higher than that in China on most trading items (Table 11.A10). But with the exception of Oman and Saudi Arabia, India has a better rank than China in the exports of most of the GCC countries. China, however, has a better rank than India in most of the GCC countries' import matrix except that of UAE and Oman. This reveals the close link between trade and investments. The region has welcomed more Chinese investment. If the ongoing

China-GCC FTA negotiations successfully conclude, there will be significant diversion of trade and investment in favor of China.

An India-GCC Free Trade Agreement by reducing tariffs and duties would yield significant benefits to both the regions. The immediate gains are for the GCC countries as their exports would become more competitive in the Indian markets. The tariff for some of the items of their trade interest is as high as 10 percent. Saudi and Omani exports would get a further boost in India. For India, the benefits are much larger in the medium to long term. In the short term, the reduction or removal of tariff on Indian exports may not yield significant trade creation effects as tariff levels are already low at about 5 percent or even less. The GCC countries impose common external tariff upto five percent. A Free Trade Agreement can make consumer items more price competitive for low segment expatriate markets but it is the technology and investment relations that are going to determine the level of penetration in the GCC market. Indian exports have not penetrated significantly in the region. Export of pharmaceuticals, processed gems and jewelries, electrical and electronic goods, machinery items, vehicles and parts thereof are some of the unexploited areas that will get significant boost with a FTA. Many of the trade items that can be imported from and re-exported to the GCC like gems and precious stones, organic and inorganic chemicals, and petroleum products could benefit from FTA with upto 15 percent reduction in costs. For many of the metal products, India can be a manufacturing base for re-exports to the South and East Asia. The GCC-Singapore FTA has enhanced Gulf export opportunities not only to Singapore but to the East Asian region. Given India's cost competitiveness, an India-GCC FTA could establish India as a manufacturing base for the Gulf companies for exports to ASEAN and East Asia. The FTA, by reducing tariff which are about 6-10 percent on petrochemicals, fertilizers, organic chemicals, inorganic chemicals, gems and precious stones, metals and other items will cut the costs along several domestic production lines. These items are either used as inputs in many consumer and industrial goods or are processed for re-exports.

The pact covering goods, services, and investment will take economic ties between India and the GCC countries to a higher level. Indian service firms in the Gulf will gain more business opportunities. The FTA needs to be well tailored to the needs of small-scale industries. Besides, to take full advantage of the potential of GCC investment in India, FTA negotiations could also include Islamic banking. The implications of a FTA between India and the GCC must be viewed in the broader context along with its direct effects on trade in goods and bilateral investment flows. The GCC countries are a group of socially conscious investors that responds positively to cultural diplomacy. There are huge social spill-overs of broad trade and investment relations. Many sharia-compliant India-GCC joint venture funds could be raised for socially empowering projects in India.

India and the GCC have complementary resources and capabilities and have common concerns and challenges. Therefore, the negative list should be small and should not be a drag on the FTA negotiations. Where domestic interest is hurt in the short term, the need for due consideration and compensation could be impressed upon both the stakeholders and mutually rewarding joint ventures and equity holdings could be facilitated in both the regions for medium-to long-term gains. A Free Trade Agreement with the GCC countries would be useful for India's energy security as well as for its larger economic and social interests.

Appendix

Table 11.A1: Export matrix of India and GCC countries

Country		Rank I	Rank II	Rank III	Rank IV	Rank V	Rank
India	2001	USA(20)	UAE(6)	'Hong Kong (SARC) (5)	UK(5)	Germany(4)	GCC (12)
	2004	USA(17)	UAE(9)	China(7)	Singapore (5)	Hong Kong China (5)	GCC (9)
	2009	UAE(14)	USA (11.8)	China(6)	Hong Kong China (4)		GCC(7)
Oman	2001	UAE(7)	Korea R(6)	Iran(4)	Saudi Arabia (2)	USA(1)	India-(0.2) Rk-19
	2004	China (33)	Japan (14)	Thailand (13)	UAE (7)	Korean rep. (6)	India (0.3) R-20
	2009	China (17.6)	Japan (8.5)	Thailand (7)	Korea (6)		India (1.9) R8 (2008)
Saudi Arabia	2001	Taipei China (40)	USA (19)	Japan (5)	Netherlands (3)	France(3)	India(1) RK-14
	2004	Taipei China(62)	Zambia	Uruguay	USA		India (0.3) R-20
	2009	China(20)	USA(19.8)	India(12.3)	Taipei China (7.4)	Singapore (7)	India(1.9) R8

Table 11. A1 (continued)

Qatar	2001	Japan (45.26%)	South Korea (17)	Singapore (7.15%)	UAE (4.46%)	USA (3.14%)	India(1) RK-14
	2004	Japan(42)	South Korea(16)	Singapore (9)	India(6)		
	2009	Singapore (24)	India(21)	Thailand (8.6)	China (7)	Belgium (6.6)	
Bahrain	2001	USA(8)	Saudi Arabia(6)	Taipei China(3)	UAE(2)	Japan(1)	India(1) RK-7
	2004	Saudi Arabia (6)	USA(3)	Taipei China(3)	India(2)		
	2009	India (15.3)	USA(14.2)	Singapore(8)	Taipei China (7.9)	China (6)	
Kuwait	2001	Japan (25.50%)	USA (15.20%)	South Korea (13.91%)	Singapore (7.77%)	Pakistan (6.62%)	India RK-14
	2004	Saudi Arabia (1)	Iraq(1)	UAE(1)	Indonesia (1)		Not in first 24
	2009	India (25)	Taipei China (15)	USA (13)	China (11.6)	Singapore(9)	
U A E	2001	Japan(31)	Taipei China(19)	Iran(5)	Oman(3)	India(2)	
	2004	Japan(28)	Korean rep.(11)	Iran(9)	India(7)	Thailand(6)	India(3)
	2009	India(33)	Thailand (11)	Singapore (7)	Oman(6.5)	Pakistan (5.6)	
GCC	2007	Japan(23)	Taipei China(14)	USA(8)	India(3)	UAE(2.5)	

Source: Compiled from database of International Trade Centre, Geneva
Figures in the bracket are percentage share

Table 11.A2: Import matrix of India and GCC countries

Country		Rank I	Rank II	Rank III	Rank IV	Rank V	Rank
India	2001	USA(6)	Switzerland(6)	Belgium(5)	UK(5)	Japan(4)	GCC (3.3)
	2004	USA(6)	China(6)	Switzerland(5)	Germany(4)	UAE(4)	GCC(6.3)
	2009	China (11.5)	UAE (7.4)	USA(6)	Saudi Arabia(5.4)	Australia	GCC(18.4) (2008)
Oman	2001	UAE(28)	Japan(16)	USA(7)	UK(6)	Germany(4)	India (4) RK-6
	2004	UAE (32)	Japan(14)	Italy (6)	UK(5)	Germany (5)	India(0.3) R-7
	2009	UAE (22)	India(5.8)	USA(5.4)	China (4.7)		
Saudi Arabia	2001	USA(18)	Japan(11)	Germany(8)	UK(7)	China(5)	India-(2.4) Rk-11
	2004	USA (15)	Japan (10)	Germany(8)	China (7)	UK(6)	India(3.2) Rk—9
	2009	USA(17)	China(14.2)	Germany(10.7)	UK (6.5)	India(6)	
Qatar	2001	USA(14)	Italy(10)	Japan(10)	Germany(9)	UK(8)	India(2.4) RK-11
	2004	France(27)	USA(10)	Saudi Arabia(10)	UAE(7)	Germany(5)	India (2.4) RK-10
	2009	USA(19)	Italy(12)	Germany(10.3)	France(8.8)	UK(8.4)	India(3.2) RK-10

Table 11. A2 (continued)

Bahrain	2002	Japan(6)	Saudi Arabia(6)	Germany(6)	Australia(5)	USA(4)	India(3) Rk-10
	2004	Japan(6)	Saudi Arabia(6)	UK(4)	Germany(4)	France(4)	India(3) RK-9
	2009	France(16)	USA(13)	China(9.4)	Germany(8.4)	UK(6)	India(2) (2007) RK-9
Kuwait	2001	USA(11)	Germany(10)	Japan(10)	Saudi Arabia(7)	Italy(6)	India(4) RK—8
	2004	Germany (12)	USA (11)	Saudi Arabia (8)	China (7)	Japan(6.4)	
	2009	USA(16.8)	China(13.3)	Germany(10)	Italy	France	India(4) RK-6 (2007)
U A E	2001	Japan(8)	USA(8)	Germany(7)	China(7)	UK(7)	India(6) RK-6
	2004	India(11)	China(10)	UK(7)	Japan(7)	Germany(7)	
	2009	India(22)	China(16)	USA(10.5)	Germany (7.4)	UK (4.8)	
GCC	2007	USA(9)	China(9)	Japan(8)	Germany(7)	India(6)	

Source: Compiled from database of International Trade Centre, Geneva

Table 11.A3: India's top ten exports and GCC's top ten imports (2008)

Indian top 10 exports	GCC top 10 imports						
	Saudi Arabia	**UAE**	**Qatar**	**Kuwait**	**Bahrain**	**Oman**	**GCC**
Mineral fuels, oils, distillation products,	Boilers, machinery; nuclear reactors,	Pearls, precious stones, metals, coins,	Boilers, machinery; nuclear reactors, etc	Vehicles other than railway, tramway	Vehicles other than railway, tramway	Vehicles other than railway, tramway	Nuclear reactors, boilers, machinery,
Pearls, precious stones, metals, coins, etc	Vehicles other than railway, tramway	Boilers, machinery; nuclear reactors, etc	Articles of iron or steel	Boilers, machinery; nuclear reactors, etc	Boilers, machinery; nuclear reactors,	Boilers, machinery; nuclear reactors,	Vehicles other than railway, tramway
Iron and steel	Electrical, electronic equipment	Vehicles other than railway, tramway	Electrical, electronic equipment	Electrical, electronic equipment	Stone, plaster, cement, asbestos, mica, etc	Articles of iron or steel	Pearls, precious stones, metals, coins, etc
Nuclear reactors, boilers, machinery	Iron and steel	Electrical, electronic equipment	87 Vehicles other than railway, tramway	Iron and steel	Electrical, electronic equipment	Electrical, electronic equipment	Electrical, electronic equipment
Organic chemicals	Articles of iron or steel	Iron and steel	Iron and steel	Articles of iron or steel	Pearls, precious stones coins, metals,	Iron and steel	Iron and steel

Table 11. A3 (continued)

India	Saudi Arabia	UAE	Qatar	Kuwait	Bahrain	Oman	GCC
Electrical, electronic equipment	Cereals	Articles of iron or steel	Salt, sulphur, earth, stone, plaster, lime and cement	Pearls, precious stones, metals, coins, etc	Iron and steel	Plastics and related articles	Articles of iron or steel
Ores, slag and ash	Mineral fuels, oils, distillation products	Aircraft, spacecraft, and parts thereof	Furniture, lighting, signs, prefabricated buildings	Meat and edible meat offal	Ores, slag and ash	Mineral fuels, oils, distillation products	Plastics and articles thereof
Articles of iron or steel	Pharmaceutical products	Plastics and articles thereof	Plastics and articles thereof	Furniture, lighting, signs, prefabricated buildings	Mineral fuels, oils, distillation products	Copper and articles thereof	Aircraft, spacecraft, and parts thereof
Vehicles other than railway, tramway	Optical, photo, technical, medical, apparatus	Furniture, lighting, signs, prefabricated buildings	Optical, photo, technical, medical, etc apparatus	Pharmaceutical products	Articles of iron or steel	Cereals	Cereals
Articles of apparel, accessories, not knit	Plastics and articles thereof		Aircraft, spacecraft, and parts thereof	Cereals	Aircraft, spacecraft, and parts thereof	Dairy products, edible animal product	Mineral fuels, oils, distillation products,

Source: Compiled from ITC, Geneva

Table 11.A4: India's top ten imports and GCC top ten exports

Indian top 10 Imports	GCC top 10 Exports						
	Saudi Arabia	UAE	Qatar	Kuwait	Bahrain	Oman	GCC
Mineral fuels, oils, distillation products,	Mineral fuels, oils, distillation products	Mineral fuels, oils, distillation products	Mineral fuels, oils, distillation products	Mineral fuels, oils, distillation products	Mineral fuels, oils, distillation products	Mineral fuels, oils, distillation products	Mineral fuels, oils, distillation products,
Pearls, precious stones, metals, coins, etc	Organic chemicals	Pearls, precious stones, metals, coins, etc	Plastics and articles thereof	Plastics and articles thereof	Aluminum and articles thereof	Electrical, electronic equipment	Pearls, precious stones, metals, coins, etc
Nuclear reactors, boilers, machinery,	Plastics and articles thereof	Vehicles other than railway, tramway	Vehicles other than railway, tramway	Fertilizers	Fertilizers	Plastics and articles thereof	Organic chemicals
Electrical, electronic equipment	Aircraft, spacecraft, and parts	Boilers, machinery; nuclear reactors,	Organic chemicals	Organic chemicals	Ores, slag and ash	Fertilizers	Plastics and articles
Fertilizers	Fertilizers	Electrical, electronic equipment	Iron and steel	Salt, sulphur, earth, stone, plaster, lime	Boilers, machinery; nuclear reactors,	Dairy products, eggs, honey, edible animal product nes	Vehicles other than railway, tramway

Table 11. A4 (continued)

Aircraft, spacecraft, and parts	Salt, sulphur, earth, stone, plaster, lime etc	Stone, plaster, cement, asbestos, mica, etc	Boilers, machinery; nuclear reactors,	Pearls, precious stones, metals, coins, etc	Pearls, precious stones, metals, coins, etc	Organic chemicals	Nuclear reactors, boilers, machinery,
Iron and steel	Electrical, electronic equipment	Plastics and articles thereof	Inorganic chemicals, precious metal etc	Iron and steel	Iron and steel	Articles of iron or steel	Electrical, electronic equipment
Organic chemicals	Pearls, precious stones, metals, coins, etc	Manmade filaments	Salt, sulphur, earth, stone, plaster, lime etc	Electrical, electronic equipment	Organic chemicals	Animal,vegetable fats and oils, cleavage products, etc	Aircraft, spacecraft, and parts thereof
Ores, slag and ash	Iron and steel	Articles of iron or steel	Articles of iron or steel	Boilers, machinery; nuclear reactors,	Articles of iron or steel	Boilers, machinery; nuclear reactors,	Fertilizers
Inorganic chemicals, precious metal compound, isotopes	Articles of iron or steel	Iron and steel	Electrical, electronic equipment	Vehicles other than railway, tramway	Articles of apparel, accessories,	Ores, slag and ash	Aluminium and articles thereof

Source: International Trade Centre

Table 11.A5: India's top 10 exports to GCC (2008)

Saudi Arabia	UAE	Qatar	Kuwait (2008)	Bahrain (2006)	Oman(2008)	GCC
Mineral fuels, oils, distillation products, etc	Mineral fuels, oils, distillation products, etc	Nuclear reactors, boilers, machinery, etc	Cereals	Nuclear reactors, boilers, machinery, etc	Electrical, electronic equipment	Pearls, precious stones, metals, coins, etc
Cereals	Pearls, precious stones, metals, coins, etc	Electrical, electronic equipment	Meat and edible meat offal	Articles of iron or steel	Nuclear reactors, boilers, machinery, etc	Copper and articles thereof
Copper and articles thereof	Cereals	Articles of iron or steel	Nuclear reactors, boilers, machinery, etc	Cotton	Articles of iron or steel	Cereals
Articles of iron or steel	Iron and steel	Mineral fuels, oils, distillation products, etc	Mineral fuels, oils, distillation products, etc	Edible vegetables and certain roots and tubers	Mineral fuels, oils, distillation products, etc	Articles of iron or steel
Nuclear reactors, boilers, machinery, etc	Articles of iron or steel	Vehicles other than railway, tramway	Iron and steel	Electrical, electronic equipment	Copper and articles thereof	Nuclear reactors, boilers, machinery, etc

Table 11. A5 (continued)

Organic chemicals	Articles of apparel, accessories, not knit or crochet	Salt, sulphur, earth, stone, plaster, lime and cement	Articles of iron or steel	Iron and steel	Cereals	Electrical, electronic equipment
Articles of apparel, accessories, not knit or crochet	Nuclear reactors, boilers, machinery, etc	Cereals	Articles of apparel, accessories, not knit or crochet	Articles of apparel, accessories, not knit or crochet	Iron and steel	Iron and steel
Electrical, electronic equipment	Electrical, electronic equipment	Iron and steel	Electrical, electronic equipment	Manmade staple fibres	Meat and edible meat offal	Articles of apparel, accessories, not knit or crochet
Iron and steel	Copper and articles thereof	Meat and edible meat offal	Residues, wastes of food industry, animal fodder	Meat and edible meat offal	Plastics and articles thereof	Salt, sulphur, earth, stone, plaster, lime and cement
Plastics and articles thereof	Articles of apparel, accessories, knit or crocht	**Ores, slag and ash**	Plastics and articles thereof	Cereals	Ships, boats and other floating structures	Vehicles other than railway, tramway

Source: International Trade Centre

Table 11.A6: India's top 10 imports from GCC (2008)

Saudi Arabia	UAE	Qatar	Kuwait	Bahrain	Oman	GCC
Mineral fuels, oils, distillation products, etc	Mineral fuels, oils, distillation products, etc	Mineral fuels, oils, distillation products, etc	Mineral fuels, oils, distillation products, etc	Mineral fuels, oils, distillation products, etc	Mineral fuels, oils, distillation products, etc	Mineral fuels, oils, distillation products, etc
Organic chemicals	Pearls, precious stones, metals, coins, etc	Fertilizers	Salt, stone sulphur, earth, plaster, lime and cement	Aluminium and articles thereof	Fertilizers	Pearls, precious stones, metals, coins, etc
Inorganic chemicals, precious metal compound, isotopes	Electrical, electronic equipment	Organic chemicals	Organic chemicals	Ores, slag and ash	Salt, sulphur, earth, stone, plaster, lime and cement	Organic chemicals
Plastics and articles thereof	Iron and steel	Inorganic chemicals, precious metal compound, isotopes	Iron and steel	Inorganic chemicals, precious metal compound, isotopes	Organic chemicals	Fertilizers
Iron and steel	Salt, sulphur, earth, stone, plaster, lime and cement	Plastics and articles thereof	Fertilizers	Iron and steel	Ores, slag and ash	Iron and steel

Table 11. A6 (continued)

Salt, sulphur, earth, stone, plaster, lime and cement	Plastics and articles thereof	Salt, sulphur, earth, stone, plaster, lime and cement	Plastics and articles thereof	Fertilizers	Stone, plaster, cement, asbestos, mica, etc articles	Salt, sulphur, earth, stone, plaster, lime and cement
Fertilizers	Nuclear reactors, boilers, machinery,	Miscellaneous chemical products	Aluminium and articles thereof	Copper and articles thereof	Inorganic chemicals, precious metal compound,	Plastics and articles thereof
Copper and articles thereof	Aluminium and articles thereof	Iron and steel	Inorganic chemicals, precious metal compound,	wood Pulp fibrous cellulosic material, waste etc	Iron and steel	Electrical, electronic equipment
Aluminium and articles thereof	Ships, boats and other floating items	Aluminium and articles thereof	Copper and articles thereof	Organic chemicals	Plastics and articles thereof	Inorganic chemicals, precious metal comp,
Raw hides and skins (other than furskins) and leather	Aircraft, spacecraft, and parts	Railway, tramway locomotives, rolling stock eqpt.	Ships, boats and other floating structures	Salt, sulphur, earth, stone, plaster, lime	Aluminium and articles	Aluminium and articles

Source: International Trade Centre

Table 11.A7: India's top five trading partners for selected trade items (2008)

		Rank I	Rank II	Rank III	Rank IV	Rank V
Mineral fuels, oils, distillation products, etc	Import	Saudi Arabia	Iran	UAE	Kuwait	Nigeria
	Export	UAE	Singapore	Netherlands	Brazil	Rep. Korea
Pearls, precious stones, metals, coins, etc	Import	Switzerland	UAE	Hong Kong (SARC)	Belgium	South Africa
	Export	Hong Kong (SARC)	Rep. Korea	USA	Belgium	Israel
Electrical, electronic equipment	Import	China	Rep. Korea	Germany	USA	Singapore
	Export	USA	Germany	UAE	Spain	Hong Kong (SARC)
Nuclear reactors, boilers, machinery,	Import	China	Germany	Japan	USA	Italy
	Export	USA	UAE	Germany	UK	Singapore

Table 11. A7 (continued)

Articles of Iron and steel	Export	USA	UAE	Saudi Arabia	Germany	UK
Vehicles other than railway, tramway	Export	USA	Italy	Germany	Algeria	Sri Lanka
Aircraft, spacecraft, and parts thereof	Export	USA	Singapore	Germany	France	UAE
Iron and Steel	Import	China	Rep. Korea	Japan	USA	Germany
	Export	USA	Belgium	UAE	Italy	Rep. Korea
Organic chemicals	Import	China	Singapore	USA	Saudi Arabia	Germany
Fertilizers	Import	USA	Russian Federation	China	Jordan	Ukraine
Inorganic chemicals	Import	Morocco	South Africa	China	USA	Tunisia

Source: Compiled International Trade Centre

Table 11.A8: GCC's top five trading partners for selected trade items (2009)

	Country	Rank I	Rank II	Rank III	Rank IV	Rank V
Mineral fuels, oils, distillation products, etc Exports	Saudi Arabia	USA	China	India	Chinese Taipei	<Singapore
	Bahrain	India	Chinese Taipei	South Africa	France	Madagascar
	Oman	China	Japan	Thailand	Korea	
	UAE	Thailand	India	Singapore	Pakistan	Chinese Taipei
	Qatar	Singapore	India	Thailand	Belgium	Uk
	Kuwait	India	Chinese Taipei	USA	China	Singapore
Mineral fuels, oils, distillation products, etc Imports	Saudi Arabia	India	Turkey	Malaysia	Thailand	Romania
	Bahrain	China	Nigeria	Brazil	India	USA
	Oman	India	UAE	Kuwait	Saudi Arbia	Qatar
	UAE	India	Oman	Italy	France	China
	Qatar	India	Singapore	China	Malaysia	Chinese Taipei
	Kuwait	Russia	Yemen	Turkey	Trinidad & tobago	USA
Pearls,precious stones, metals, coins Exports	Saudi Arabia	Nepal	Switzerland	Jordan	UK	USA
	Bahrain	Switzerland	Oman	UK	USA	India
	Oman	UAE	India	Bahrain	Thailand	Malaysia
	UAE	India	Belgium	Malaysia	Turkey	Switzerland
	Qatar	Switzerland	Italy	Thailand	Italy	Hong Kong China
	Kuwait	Switzerland	UK	India	Singapore	Germany

Table 11. A8 (continued)

Pearls, precious stones, metals, coins Imports	Saudi Arabia	Switzerland	South Africa	USA	UK	UAE
	Bahrain	UAE	Italy	India	Hong Kong China	UK
	Oman	UAE	Bahrain	Switzerland	India	Singapore
	UAE	India	Switzerland	UK	South Africa	Malaysia
	Qatar	UAE	France	India	Italy	Switzerland
	Kuwait	India	UAE	Switzerland	Lebanon	Italy
Organic chemicals Export	Saudi Arabia	China	Singapore	India	Chinese Taipei	Indonesia
	Bahrain	USA	China	Chinese Taipei	Belgium	Thailand
	Oman	China	R. Korea	India	France	Malaysia
	UAE	India	China	Pakistan	Singapore	Oman
	Qatar	China	Chinese Taipei	Indonesia	Pakistan	Turkey
	Kuwait	China	India	Pakistan	Turkey	Oman
Fertilizers Export	Saudi Arabia	Thailand	USA	Pakistan	South Africa	India
	Bahrain	USA	India	Australia	New Zealand	Thailand
	Oman	India	Pakistan	USA	Thailand	Australia
	UAE	India	Pakistan	Oman	Zambia	Mozambique
	Qatar	USA	Thailand	Australia	India	South Africa
	Kuwait	USA	Thailand	Pakistan	India	South Africa

Table 11. A8 (continued)

	Country	Rank I	Rank II	Rank III	Rank IV	Rank V
Iron and steel Export	Saudi Arabia	India	Jordan	Pakistan	Jordan	USA
	Bahrain	India	Italy	Pakistan	Malaysia	Indonesia
	Oman	UAE	India	Pakistan	Thailand	Uk
	UAE	Oman	India	Pakistan	Jordan	Malaysia
	Qatar	China	India	Indonesia	Oman	Pakistan
	Kuwait	India	Pakistan	Thailand	Malaysia	Italy
Articles of iron and steel import	Saudi Arabia	China	Italy	Germany	USA	Argentina
	Bahrain	China	Italy	India	USA	Germany
	Oman	UAE	China	India	S.Korea	Saudi
	UAE	China	India	Germany	Italy	France
	Qatar	Italy	France	China	Germany	Belgium
	Kuwait	China	Italy	Germany	UK	India
Electrical & electronics import	Saudi Arabia	China	USA	Germany	Sweden	France
	Bahrain	China	Turkey	USA	Switzerland	Germany
	Oman	UAE	Malaysia	India	China	USA
	UAE	China	Germany	UK	USA	<Singapore
	Qatar	France	Switzerland	Germany	Italy	Turkey
	Kuwait	Germany	China	USA	UK	France

Table 11. A8 (continued)

Electrical & electronics export	Saudi Arabia	Oman	Jordan	UK	Algeria	Turkey
	Bahrain	Germany	Algeria	Nigeria	Venezuela	UK
	Oman	UAE	Qatar	Iran	Saudi Arabia	Egypt
	UAE	Oman	India	Nigeria	Germany	UK
	Qatar	UK	France	Oman	Germany	Belgium
	Kuwait	Oman	Germany	UK	Italy	France
Vehicles other than railway, tramway imports	Saudi Arabia	USA	Germany	Thailand	Australia	China
	Bahrain	USA	Germany	UK	Thailand	Italy
	Oman	-	-	-	-	-
	UAE	USA	Germany	China	UK	Thailand
	Qatar	Germany	USA	Thailand	UK	Italy
	Kuwait	USA	Germany	Australia	Thailand	UK
Nuclear reactors, boilers, machinery exports	Saudi Arabia	UK	India	Oman	Singapore	Germany
	Bahrain	Germany	Oman	Nigeria	Jordan	UK
	Oman	UAE	Iran	Turkey	Qatar	Jordan
	UAE	Oman	Nigeria	UK	Germany	India
	Qatar	UK	Oman	France	Italy	Belgium
	Kuwait	UK	India	Oman	Singapore	Germany
Nuclear reactors, boilers, machinery imports	Saudi Arabia	USA	Germany	China	Italy	UK
	Bahrain	USA	China	Germany	Switzerland	France
	Oman	UAE	USA	China	Italy	UK
	UAE	China	USA	Germany	UK	Italy
	Qatar	Italy	Germany	USA	UK	India
	Kuwait	USA	Italy	China	Germany	UK

Table 11.A9: Doing business in India and the GCC in the year 2010

		India	Saudi Arabia	UAE	Qatar	Oman	Kuwait	
Starting a Business	Procedures (number)	13	4	8	6	5	13	7
	Time (days)	30	5	15	6	12	35	9
	Cost (% o f income per capita)	66	7.7	6.2	7.1	2.2	59.1	0.5
	Min. capital (% of income per capita)	211	0	0	7	2.2	1	195.2
Dealing with Construction Permits	Procedures (number)	37	17	17	19	16	25	13
	Time (days)	195	94	64	76	242	104	43
	Cost (% of income per capita)	2095	28.5	30.7	0.6	428	124	54.6
Employing Workers	Difficulty of hiring index (0-100)	0	0	0	0	0	0	0
	Rigidity of hours index (0-100)	20	40	20	20	40	0	0
	Difficulty of redundancy index (0-100)	70	0	0	20	0	0	30
	Rigidity of employment index (0-100)	30	13	7	13	13	0	10
	Redundancy costs (weeks of salary)	56	80	84	69	4	78	4
Registering Property	Procedures (number)	5	2	1	10	2	8	2
	Time (days)	44	2	2	16	16	55	31
	Cost (% of property value)	(7.4	0	2	0.3	3	0.5	0.9

Table 11. A9 (continued)

Paying Taxes	Payments (number per year)	59	14	14	1	14	14	25
	Profit tax (%)	25	2.1	0	0	9.7	4.7	0
	Others (%)	39.6	12.4	14.1	11.3	11.9	10.7	15
Trading Across Borders	Documents to export (number)	8	5	4	5	10	8	5
	Time to export (days)	17	17	8	21	22	(17)	14
	Cost to export(US$ per container)	945	681	593	745	825	1060	995
	Documents to import (number)	9	5	5	7	10	10	6
	Time to import (days)	20	18	9	20	26	19	15
	Cost to import (US$ per container)	3000	678	579	657	1037	1217	635
Enforcing Contracts	Procedures (number)	46	43	49	43	51	50	14.7
	Time (days)	1420	635	537	570	598	566	635
	Cost (% of claim)	40	27.5	26.2	21.6	13.5	18.8	14.7
Closing a Business	Recovery rate (cents/$)	15.1	37.5	10.2	52.7	35.1	35	63.5
	Time (years)	7	1.5	5	2.8	4	4.2	2.5
	Cost (% of estate)	9	22	30	22	4	1	10

Source: Compiled from World Bank Report, *Doing Business-Snapshot 2010, for various countries*

Table 11.A10: Comparative Tariffs

GCC exports to India	Tariff In India%	Tariff in GCC %	Indian Exports to GCC	Tariff in GCC %
Mineral fuels, oils, distillation products, etc.	1.78	1.43	Mineral fuels, oils, distillation products, etc	5
Pearls, precious stones, metals, coins, etc.	10	6.52	Pearls, precious stones, metals, coins, etc	3.35
Organic chemicals	6.86	5.26	Copper and articles thereof	5
Fertilizers	7.33	18.83	Cereals	0.01
Iron and steel	5	4.23	Articles of iron or steel	5
Salt, sulphur, earth, stone, plaster, lime and cement	5.52	3.16	Nuclear reactors, boilers, machinery, etc	4.46
Plastics and articles thereof	8.31	7.48	Electrical, electronic equipment	4.10
Electrical, electronic equipment	5	17.18	Iron and steel	5
Inorganic chemicals, precious metal comp,	6.86	4.45	Articles of apparel, accessories, not knit or crochet	5
Aluminum and articles	5.77	6.4	Salt, sulphur, earth, stone, plaster, lime and cement	5
Articles of Iron & steel	10	8.36	Vehicles other than railway, tramway	5

Source: Compiled from International Trade Centre

12

GCC-India Energy Relations: Climate Change and Renewables

Mohamed Abdel Raouf

As climate change and other environmental issues take center stage in global forums, the need for clean energy becomes apparent and internationally relevant. While India's thirst for oil motivated its quest for an alternative energy supply that is clean and sustainable, oil-exporting nations like the member states of the GCC are also exploring avenues to lower carbon emissions and to ensure their viability when their hydrocarbon deposits have been depleted.

GCC-India relations are built upon a foundation of mostly economic and trade-based exchanges. But can India and the GCC expand their relationship to incorporate the environment sector and how will this benefit the many environmental causes shared by the two regions?

Economy and Environment

GCC exports to India like mineral fuels, oils and distillation products mean that production and consumption of GHG-emitting products are on the rise. Top GCC imports like vehicles (i.e., cars, vans, trucks etc.) are another growing source of GHG emissions. Rapid growth in the trade of these products means that global warming could reach worrying levels in the near future. Consequently renewable energy needs to step up as the main energy resource not only because it is sustainable, but also because it is cleaner and less damaging ecologically.

Environmental issues require collective action on an international level. It is no longer enough to work in isolation on the problems; sharing knowledge on environmental issues and management and having joint projects between countries in the region is probably the first step towards a holistic solution.

In this context, it would be useful to start by looking at some of the common environmental problems between the GCC-India. When countries have common problems, it is easier to identify areas of cooperation that would be relevant to all parties involved.

GCC-India: Environmental Problems – Similarities and Differences

Desertification

Desertification is the process of land degradation in arid, semi-arid and dry sub-h umid areas resulting from various factors, including climatic variations (such as drought) and human activities (such as overexploitation of drylands).[1]

It is a common misconception to think that drought causes desertification. Lands suffering from drought, if well-managed, can recover once rainfall starts to increase, but the prolonged exploitation of drought-ridden land without allowing it to regain moisture and nutrients would result in further land degradation and, eventually, desertification. Four of the six GCC countries, Bahrain, Kuwait, Saudi Arabia and the UAE, have been classified as suffering from desertification. A current concern is the distribution of water resources for different uses. Most GCC countries sustain agriculture in an inefficient manner – agriculture remains the prime water-consuming sector in the GCC despite its meager contribution toward GDP. On top of that, they still import most of their food products from other countries and are nowhere near self-sufficiency in terms of food resources. Saudi Arabia, for instance, is phasing out wheat production. Self-sufficiency in agriculture is an unattainable pipedream for the GCC countries and environmentally damaging because of its water consumption. Many parts of Asia as well as Australia suffer from the same problem. According to the UNCCD website:

> Desertification manifests itself in many different forms across the vast Asian continent. Out of a total land area of 4.3 billion hectares, Asia contains some 1.7 billion hectares of arid, semi-arid, and dry sub-humid land reaching from the Mediterranean

1. Glossary of Environment Statistics, Studies in Methods, Series F, No. 67, United Nations, New York, 1997.

> coast to the shores of the Pacific. Degraded areas include expanding deserts in China, India, Iran, Mongolia and Pakistan…

So India, in terms of the number of people affected by desertification and drought, is one of the most severely affected countries. Consequently, it makes sense for India and the GCC to cooperate on environmental projects and techniques to combat desertification.

Water Security

The Water Security Index (WSI) investigates a number of critical water issues that can directly or indirectly influence a country's population, economy, environment, national security and international relations. The WSI uses six measured or derived indicators, which have been chosen to cover the most important aspects of the issue while still enabling reliable comparison between countries based on the available data. The six indicators were chosen to measure the following:

- Access – the proportion of the population that have access to safe drinking water and sanitation
- Availability – the amount of renewable water accessible to each country and its reliance on external water supplies
- Water stress – the relationship between available water and supply demands
- Water intensity – the water dependency of the economy of each country

All GCC states, with the exception of Oman, are at high risk when it comes to water security. According to the UN, all GCC countries except Oman fall in the category of 'acute scarcity.' Oman is at medium risk on the WSI. Apart from the Arabian Gulf region, Central Asia, South Asia and parts of Southeast Asia like Cambodia seem most susceptible to water security risks. As developing countries further industrialize, increased stress on freshwater resources can be foreseen.

The nature of the problem in the GCC is the rapid depletion and overexploitation of groundwater resources that will soon run dry. Unlike territorial disputes over the ownership of water sources in some regions, the very real dearth of water supply is the major problem in the GCC. Although desalination has been an alternative, at least for household consumption, the process of releasing concentrated saline water back into the sea at differing temperatures from the natural environment also causes problems to the ecosphere.

Climate Change and Air Pollution

In the GCC countries, total atmospheric emission load is about 3,847,755 tons per year, made up of 28 per cent CO, 27 per cent SOx and 23 per cent particulates.[2] Seasonal sand and dust storms are capable of aggravating the air quality situation.[3] Dust storms are capable of carrying pollutants to great distances, thus regionalizing the problem of air pollution. The estimated mean amount of particle matter in urbanized areas of five of the six GCC states are currently above 88 μg/cu.m – way above the world average of 53 μg/cu.m. The lack of a comprehensive public transport network necessitates vehicle ownership for daily travel needs which increases the overall vehicle emissions in the GCC states.

Besides that, the Arabian Gulf countries account for about 50 percent (254 million metric tons of carbon) of Arab countries' total emissions of CO2.[4] However, the GCC region is the largest producer of hydrocarbons and that makes the issue of energy consumption a particularly sensitive topic.

The nature of air pollution makes it transboundary and regional; unlike land pollution that can be confined within national boundaries, the fluidity of air means that pollution is easily carried across large distances over land and water to affect other countries. In Southeast Asia, forest fires from Indonesia create haze which is hazardous to health and also lowers visibility rates. The haze is carried by winds to the rest of the region, and the nearest countries, namely Brunei, Malaysia and Singapore, are most affected by this transboundary air pollution.

Similar concern may arise in the GCC as air pollution negatively affects the atmosphere and the countries which are situated close to each other begin to feel the effects of air pollution that is carried over from another state.

As is common with all global commons, it is the large players because of their sheer size that will have the greatest effect on air pollution. This is a key reason why rapidly industrializing giants like China and India are now in the limelight for their energy consumption and practices. Rapid development is spurring higher amounts of emissions and neighboring countries just beyond their borders could easily become victims of air pollution from heavy industry even thousands of kilometers away. The current concern for India and the GCC countries is similar: how to accommodate economic growth while practicing environmental sustainability.

It is worth mentioning that all environmental threats are interlinked. For instance, desertification leads to biodiversity loss; livestock increase and overgrazing leads to desertification; waste-dumping releases methane, which adds to the global

2. UNEP, 1999.
3. Ropme 1999.
4. EIA, 1997.

warming problem, which in turn leads to desertification, water scarcity and many other ecological disasters.

Several multilateral agreements have been reached to address environmental issues. The GCC countries and India have either ratified or acceded to the United Nations Convention to Combat Desertification (UNCCD), United Nations Framework Convention on Climate Change (UNFCCC) as well as Kyoto Protocol.

Current GCC-India Environmental Collaborations

Despite the similarities in the nature of environmental problems of the GCC and India, there has been little collaboration between the two sides in dealing with environmental issues.

Both sides agree that the international community should share common but differentiated responsibilities regarding the global warming issue. In this regard, Clean Development Mechanism (CDM)[5] can play a role in reducing CO_2 levels locally and globally. Both sides recognize the benefits of the Clean Development Mechanism (CDM) that contributes to combating global warming as well as achieving sustainable development.

Some problems are a common responsibility, such as the global commons like air and water, and even issues like climate change. In these areas, where the problems cannot be dealt with in isolation, it is important to emphasize cooperation and a collective effort to reduce the negative impacts that humans have on the elements.

Promoting environmental collaboration may seem to be a peripheral priority in political exchanges, but it is an incentive as well as a tool for nurturing better bilateral relations. By pooling the efforts and resources of scientists and researchers solutions to common environmental problems can be found faster. Furthermore, with the push for alternative energy solutions, the growing market for renewable energy and the resultant commercial possibilities could trigger the interest of businesses in the energy industry. Joint environmental projects to improve renewable energy technology could expedite the process of development and provide markets for these new technologies.

5. The Clean Development Mechanism (CDM), defined in Article 12 of the Kyoto Protocol, allows a country with an emission-reduction or emission-limitation commitment under the Kyoto Protocol (Annex B Party) to implement an emission-reduction project in developing countries. Such projects can earn saleable certified emission reduction (CER) credits, each equivalent to one ton of CO2, which can be counted towards meeting Kyoto targets.

In light of the mounting concerns about climate change, joint environmental projects in future could very possibly focus on renewable energy. The next section is dedicated to exploring how renewable energy could be the next big thing in environmental cooperation.

Renewable Energy: Alleviating Climate Change

Why Renewable Energy?

The unsustainable nature of fossil fuels is not just a well-known fact, but also a worrisome factor in planning for the future. In preparation for the day the Earth runs dry of hydrocarbon, the world has begun to shift toward renewable alternatives for energy sources. But beyond the need for energy sustainability is a greater necessity to protect the global population from the effects of emissions generated through the burning of hydrocarbons – global warming and climate change. Despite the ideal environment for the utilization of solar energy as an alternative to burning fuel, the GCC states are still nearly 100 percent dependent on gas and oil for electricity. With the rapidly growing population of cities like Dubai and Abu Dhabi due to increasing numbers of expatriates and foreign workers, the stress on energy supply would only increase their carbon footprint and reduce fuel exports in order to meet domestic demand. There is a considerable lack of effort to integrate the use of renewable energy despite the GCC states' ability to afford the developments. It is only in recent years that incremental effort has been made to use renewable energy for solar powered parking meters, offshore buoys, and water heating in hotels.

The GCC states could in fact do more. Satellite-based studies conducted by the German Aerospace Centre show it would take just 0.3 per cent of the desert zones of the Middle East and North Africa (MENA) for solar thermal power plants to generate electricity and water desalination for MENA and Europe.[6] Instead of viewing alternative energies as competition for hydrocarbon reserves, it would be more practical to adopt an ecologically friendly standpoint – hydrocarbon resources are finite and will run out at a later stage. To continue as market leaders in the energy industry, new efforts to replace hydrocarbons with renewable energy must include use of combined renewable energy power plants, resolving the problem of intermittency, and in future, greater use of renewable energy in the transportation sector as well.

In view of the drastic changes in climate that might take place in the Gulf region due to excessive GHG emissions from burning fuel, it would also be wiser

6. *The National*, August 2, 2008.

to choose a cleaner, safer alternative energy. A move towards ecological friendliness by the UAE is the Masdar Initiative in Abu Dhabi. Masdar City will have a sustainable, zero-carbon, zero-waste ecology relying entirely on solar energy and other renewable energy sources. This exemplary initiative will be the beginning of greater advancement in the direction of finding solutions to the problems of depleting hydrocarbon resources and climate change. That has been taken on as a responsibility by the GCC countries and especially UAE which hosts the headquarters of the International Agency of Renewable Energy (IRENA) within Masdar City in Abu Dhabi Emirate.

The GCC and India can play an important role in the renewable energy field, especially in solar-thermal and wind energy. By cooperating with the leading countries in that field, the GCC can further its renewable energy ambitions with collaborations at the government, institutional and industry levels. India maintains its rank as the third most attractive on Ernst & Young's All Renewables Index at Q4 2007,[7] with continued strong growth in wind and solar, and in particular, hydropower, with plans being drawn up for some 143 projects with a total generation capacity of 20GW.

Policy Recommendations

- Collaboration between GCC countries and India needs to move beyond economics and politics into a realm hitherto neglected: environment and renewables.
- Cooperation on the environment and renewables front is a win-win situation for both sides and will eventually have a beneficial effect on economic and political relations.
- Countries must cooperate on environmental issues as that will not only help our planet to become a better place to live in but also create a lot of business opportunities for both sides, help to fight climate change, food crisis, energy crisis and desertification, problems faced by the two regions.
- A joint technical committee on environment cooperation will help to push cooperation, explore ways of joint activities such as exhibitions, and projects.

7. Ernst & Young, *Renewable Energy Country Attractiveness Indices Q4 2007*, Ernst & Young Renewable Energy Group, 2008.

13

India-GCC Green Partnership: Securing the Energy Future

Girijesh Pant

Introduction

The energy future of India and the GCC countries cannot be conceived independently of the global energy future, which in turn hinges upon factors beyond supply and demand transactions. While inadequate supplies and growing demand for energy are inducing countries to rush for control over resources by any means, growing consumption is visibly impacting the climate, leading to disastrous environmental consequences. Indeed, the magnitude of carbon emissions has reached a scale that it can no more be business as usual. While historical responsibility does lie with those who have been the leading consumers over the years, the new consumers too will have to address the issues related to the consequences of their future consumption. As part of their development strategy, they too have to work towards technological switching in their energy systems as a development condition. In this paper, our central argument is that India and the GCC as the major consumer and supplier of hydrocarbons can play a consequential role if the relationship is conceived in a comprehensive frame of green partnership. India is the fourth largest consumer of hydrocarbons and GCC is the principal supplier. In the growing economic relationship between the two sides, hydrocarbon is the prime mover. India will continue to be a leading energy consumer as growth trickles down, and the GCC will remain the key supplier despite discoveries of new hydrocarbon sites. In other words, hydrocarbon will remain a principal factor despite diversification of the trade basket. Without undermining the centrality of hydrocarbon in India-GCC energy relations, it is clear that the sustainability factor would demand that energy ties reflect the global dynamics. The bilateral frame of the relationship has to be constructed by converging energy security with climate change i.e., a green partnership.

The Hydrocarbon Regime

The global energy mix is dominated by hydrocarbons. It constitutes nearly 60 percent of world commercial energy supplies. Despite the huge potential of technology in augmenting the life span of the reserves, its non-renewable nature cannot be contested. Clearly the debate today is no more between non-renewable and renewable but of transition towards an energy mix that weighs in favor of clean energy. However, the pace of transition to low carbon economies is not going to be defined by the changes within the domain of energy mix but by the technological development in diverse sources of energy.

Further, "The critical question then is how, and at what cost different societies will adapt and transform their economic and institutional resources to qualitatively change their technological base".[1] However, the transition cannot be visualized without resolving the tensions in the hydrocarbon domain.

The tensions of the hydrocarbon regime have moved beyond the days of the seven sisters, the rise of national oil companies, producers' domination, consumers' assertion, administered pricing, and rivalry between OPEC and IEA. The skyrocketing of oil prices and later their steep decline made it clear that hydrocarbon consumers and producers are equally vulnerable, that their power quotient has been depleted by a variety of new factors neatly summed up by the Secretary General of OPEC:

> "Oil, like other commodities, was being used as a financial asset. And, in combination with the depreciation of the US dollar, substantial levels of investment capital were flowing from the financial to the commodity markets. This increased speculative activity in global commodity markets led to extreme fluctuations in prices. As OPEC said at the time, the magnitude of this price volatility was not at all consistent with market fundamentals. There were days last year when the

1. Francisco Aguayo, "Stepping off the Hydrocarbons Regime: the Challenge of Technological Transition for Latin America," Paper presented at the IPCC Meeting on Industrial Technology Development, Transfer and Diffusion, Working Group III (Tokyo, Japan, September 21-23, 2004).

> crude oil price fluctuated by $16/b. In July of last year, crude prices reached a peak of $147/b. Then, driven by the global economic downturn, they plummeted to low $30's in December.
>
> Such price volatility makes for unsuitable conditions for investments. In an industry like ours, marked by long lead times and high capital costs, price volatility undermines the ability of oil and gas industries (and their investors) to adjust to market changes."[2]

In understanding the dynamics of the global hydrocarbon regime, perhaps it will be safe to assume that the drivers of globalization processes are going to define the contours of the global economy despite the meltdown. The time lag for recovery could be a matter of debate, the strategies could be debated, but the economies are going to bounce back even if at varying speeds. Energy consumption, therefore, will rise. While the hydrocarbon reserves are not a serious impediment at least in the short run, there are several uncertainties which create points of vulnerabilities. It is precisely to address these uncertainties that the regime needs to be reinvented. This could be conceptualized at three levels, namely within the domain of hydrocarbons, the externalities impacting on hydrocarbon, and the relocation of hydrocarbon in global energy.

In the hydrocarbon regime, the tension seemingly emanates from the unfolding nature of globalization where geopolitics and geo-economics are in a contest. The tension between 'global' and 'nation' is clearly visible in the hydrocarbon domain. Both old and new consumers namely the US, EU and Asia are increasingly becoming dependent on external supplies, and this has sent them on a quest for overseas energy assets. The scramble for oil in Africa is well documented. The new aggression comes in the wake of the recognition by old and new players that energy is central to their national security. The suppliers are leveraging their position in response to this development. The point is that the geopolitics of hydrocarbon is no more defined by Western interests alone. However, the dynamics of geopolitics is mediated by the nation becoming global. With globalizing national markets, economic frontiers are redefining the geography and changing its scale. Thus decision-making transgresses national boundaries, pushing the political space to economic space. This was demonstrated in the oil price behavior when geoeconomics demonstrated its salience. The price of oil moved up not because of geopolitics of supply-demand but due to trading of oil as commodity against the falling dollar. The point made here is that energy relations among the nations are going to be impacted by the push and pull of geopolitics and geo-economics.

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2. Global Macroeconomic Outlook & Anticipating Global Energy Demand, http://www.opec.org/opecna/Speeches/2009/4thLPGtrade%20Summit.htm

The trajectory of India-GCC energy ties is going to be influenced by these pressures. India needs to import hydrocarbon to sustain its growth and the GCC countries have to export it to diversify their economies. In either case, the magnitude of dependence on hydrocarbon is so huge that neither can afford a volatile market. Their stakes lie in stable and secure transactions. This would require dovetailing of energy relations into structural linkages between the two economies. In other words, energy stakes are recognized as the prime mover of structural linkages. A calibrated strategic intervention is required to create a relationship framework which ensures a secure energy future, premised on a wider structural economic relationship. This enhanced economic engagement might even have wider geopolitical implications.

The strategic-structural-economic relationship has to be premised on the interdependence of food, energy and environment. It needs no elaboration that these three are going to be key determinants of the global agenda. In the context of India-GCC relations too the three are of vital significance. The challenge is to incorporate the three into a bilateral framework.

Unlike the seventies when the GCC states could feel secure and stable on the strength of oil revenues, their future in the next two decades critically hinges upon the investments made to make their economy structurally sustainable. The importance of making the right investments is only underlined by the Dubai crisis. While it will be premature to draw final conclusions from the Dubai crisis, it is a pointer that credit-led growth makes the nation more vulnerable than secure and stable. The GCC countries have to factor in challenges such as their growing young population, the infrastructural imperatives, food demand, and water scarcity in their investment strategy. The political economy of the region suggests that despite the sentiment of intraregional cooperation, the GCC economies will be transacting more with the global markets, especially with Asia and Africa. According to Dubai International Finance Company, “While intra-GCC trade has picked up, there exists potential for sustained intra-regional trade growth, which pales in comparison to regions like Europe (71.2%) or Asia (57.4%).” The challenge before the GCC economies is to leverage their oil resources to strengthen their structural diversification needs in their transactions with Asia and Africa. It is argued that “In the past the decision to invest and manage the GCC’s external assets was effectively out-sourced to banks and asset managers in the traditional financial centers. The ongoing financial crisis has undermined the basis and credibility of this outsourcing model. The GCC countries need to invest in and develop the capability of managing their wealth, whether for deployment and investment in their domestic economies or in regional and foreign investments.” The collapse of the Dubai model certainly demands revisiting. It reiterates that speculation-based economies cannot be sustained. The DIFC study suggests that

> "the present value of the hydrocarbon wealth for the GCC countries can be estimated at USD 11.2 trillion, assuming a 3% rate of return (and discount rate) and a price of $50 per barrel (at 2009 constant prices). The analogous value for natural gas reserves assuming a discount rate of 3% and a price $9 per mn BT stands at USD 7.1 trillion. Hence, the permanent wealth from oil and natural gas reserves under rather conservative assumptions stands at a whopping USD 18.3 trillion, giving GCC the potential to swap their fossil fuel reserves for half of the world's current (August 2009) stock market capitalization! The energy commodity revenues should not be considered income, but as the transformation of underground wealth into financial wealth. This stream of revenues will be sufficient to finance the transformation of the GCC countries into diversified economies through investments in infrastructure and education. Additionally the revenues will continue to be invested worldwide, with non negligible repercussions on asset valuations and in particular on the continuing restructuring of the world's financial and corporate sectors". [3]

Clearly the huge financial resources enable the GCC countries to transform their economies by creating capacities and tangible assets for a fast-growing population likely to reach 53 million by 2020 with a large proportion below 25 years of age. The EIU study *The GCC in 2020: The Gulf and its People*, sponsored by the Qatar Financial Centre Authority (QFC), observes that

- The GCC has one of the fastest-growing populations in the world.
- The population will remain very young, at a time when populations in the US and Europe are increasingly aging.
- The number of women who work will continue to rise, reflecting increasing investment in education for women, changing social attitudes, and newly emerging role models.
- Simply extrapolating from the trends of the past five years, nationals would become a minority of the GCC population by 2021.
- An expanding pool of skilled professionals from overseas should help stimulate further economic diversification.

To meet the needs of its population, the Gulf countries face basic challenges such as producing food in a water scarce situation and transforming the fundamentals by fostering a culture of entrepreneurship and innovation to move beyond an oil-based economy. It is estimated that the region will be importing food worth $49

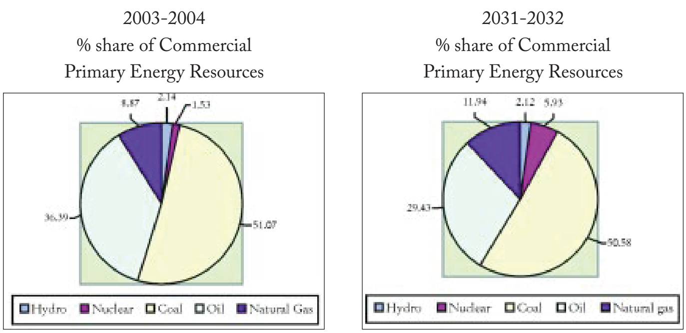
3. Nasser Saidi et al., "Wealth Effects in the GCC from Energy Commodity Prices," DIFC Economic Note no. 6.

billion in 2020, twice the value of current imports. Apparently, the region is looking for cultivable land overseas. However, whether investment in overseas agriculture can ensure food security remains debatable. The protest by local communities regarding their resources, including land, is widely reported across the continents. The local farmer communities are sensitive about selling their land. Corporatisation of agriculture is yet to become acceptable at local community level. Therefore, it will not be a prudent strategy.

What possibly could be a better strategy is to invest in agriculture with a buy-back arrangement. The buy-back could be import of food in processed form. The Gulf countries will do better business if they invest in food processing. This will generate local employment and a trickle-down impact ensuring food supplies without protests over land acquisitions. Similarly, for creating a culture of entrepreneurship and innovation, the region needs norms and institutions that encourage opportunities and provide safeguards for risk taking. The point made is that the Gulf countries need to invest their oil resources to promote sustainable development, which demands them to go beyond the region.

India, the emerging economy with 16 percent of world population, is rated as the fifth largest consumer of energy accounting for 3.5 percent of world energy consumption. Importantly, its per capita energy consumption is estimated at 0.5MMTOE, which is merely one fifth of the global average but significantly will go up to 1.200MMTOE by 2030. According to Integrated Energy Policy Report, as shown in Figure 1, coal provides more than 50 percent of commercial energy consumption and is likely to retain its share until 2031-32. Oil and gas account for 40 percent of the energy mix.

Figure 1: Percentage share of commercial primary energy resources



The huge gap between domestic supply and rising demand has made it inevitable that India look beyond its borders for energy supplies.

It may be mentioned that Indian domestic exploration is still very inadequate. It is estimated that out of 3.14 million sq. km., only 22 percent has been moderate to well explored, 20 percent is poorly explored, exploration has just started in 44 percent of the area and 14 percent remains unexplored. While under a new exploration regime India has opened its exploration to private companies both from India and abroad, the results so far are not very encouraging.

In fact, aging oil fields suggest a decline in production, with output going down to half by 2030, according to estimates. Indian dependence on imports is likely to be as much as 90 percent in oil and 60 percent in gas by 2030-31. In short, India faces a situation of declining output, unexplored reserves, inadequate investment, and growing demand. Various estimates suggest that the Indian hydrocarbon sector has good potential for investment. According to a World Bank report, the sector will be looking for nearly $120 billion in investment in the next 25 years. Another estimate by Investment Commission puts the requirement in the next five years at $30 billion[4]. Thus, the Indian hydrocarbon sector is looking for huge investment which possibly could be mobilized from the GCC countries. According to Ernst & Young, at $50 per barrel the GCC will cumulatively earn $4.7 trillion by 2020. This will be 2.5 times their oil earnings over the last 14 years. "This will afford the GCC countries huge opportunities to buy up cheap assets or finance local infrastructure developments as the rest of the world's economies stall. Their relatively moderate regulation and tax regimes will be even bigger attractions as European and US business environments tighten under the pressure of the ongoing global recession," the report said.

Among the projects which illustrate the potential of India-GCC energy relations is Energy City India. The concept was reportedly developed by Gulf Finance House (GFH) and Gulf Energy. "Elaborating on the Energy City concept, Esam Janahi, Chief Executive and Board Member of GFH, and Chairman of Gulf Energy said: India is one of the largest energy markets in the world along with China, with a rapidly rising consumption rate. Some forecasts suggest that Indian consumption could double to 5.3 million barrels a day by 2025.

"We have observed India's proactive and successful efforts to attract inward investments. We have also seen evidence of dynamism in India's energy sector. Significant advances have been made in the areas of renewable and alternative energy sources, the development of energy-related technology platforms and Research & Development."[5]

4. See http:finmin.nic.in/reports/Investment Comission Report.pdf.
5. "Gulf Finance House in Association with Gulf Energy to Develop India's First Integrated Energy Business District," http://www.ameinfo.com/98227.html.

It needs to be mentioned here that, though bilateral in nature, the concept is part of the processes triggered by global integration of energy markets. It will be part of a "Pan-Asian network of energy-focused business districts or centers, the first of which – the US$ 2.6 billion Energy City Qatar – was unveiled in March 2006. The prestigious Lusail area in Doha, Qatar, is the designated location for Energy City Qatar, while Energy City India will be developed on approximately 300 acres of land near Mumbai in Maharashtra, India.

> "The Energy City concept involves the construction of an integrated business center that specializes in the provision of complete business infrastructure for leading oil and gas producers, both local and international, downstream refiners and producers, support services, shipping and energy trading businesses. An important component of the Energy City concept is the International Mercantile Exchange (IMEX), which will provide a platform for electronic trading of energy contracts and derivatives."[6]

Secure hydrocarbon supply at reasonable prices is India's requirement. Being the leading consumer and supplier of oil, both India and the GCC would not like to be victims of oil price volatility. Similarly, the two would like to ensure safety of sea lanes for safe passage of oil tankers. The difference between the two sides lies in the fact that while India needs to expand its capacities, the GCC needs to create capacities. Thus they have complementarities of interest – the GCC can contribute in enhancing Indian capacities, India in turn can contribute to capacity building. However, consolidation of energy relations while enhancing energy security must ensure that this does not further contribute to deteriorating environmental security.

Linking Energy Security to Climate Change

The imperatives of structural linkages in the global age make it necessary to define energy relations in a complex frame of interdependence. The search for biofuels to reduce hydrocarbon dependence contributed to food insecurity. Similarly, carbon emissions have emerged as the central issue in the climate change debate. This means that energy relations between nations cannot be viewed in isolation.

The increasing consumption of hydrocarbons and the resulting carbon emissions have placed energy and environment in an adversarial relationship. As the IEA study "Energy Security and Climate Policy: Assessing Interactions" observes, "Results from the country case studies reflect a generally worsening trend in terms of CO2 emissions and energy security and highlight the linkages between these energy policy concerns. The various policy cases investigated underline that policies

6. http://www.financialexpress.com/news/gulf-finance-plans-2-b-energy-city/179702/

deemed acceptable either to reduce CO2 emissions or to improve energy security may no longer hold when considered through the prism of an integrated climate-security energy policy. It is the IEA's hope that countries will start undertaking systematic review of the energy security implications of their climate policy initiatives and vice versa."[7]

In the emerging context, stable prices, physical availability, and safe sea lanes are necessary conditions for energy security but not sufficient. In addition, India-GCC hydrocarbon trade should be anchored on cleaner fossils fuel technology. "One of the cutting-edge technologies for achieving lower CO2 emissions is carbon sequestration, or carbon capture and storage (CCS), a pioneering technology that is demonstrating the viability of industrial-scale geological storage of CO2 as a greenhouse gas mitigation option in the global environmental effort."[8]

As the leading consumer and supplier of hydrocarbon both India and the GCC countries have vital stakes in clean technology. It can be argued that developing clean technology is emerging as part of their energy security concerns. In this context, an India-GCC Research and Development initiative could be a vital component of their energy relations. This may include a joint research center operating in both India and the GCC to promote innovation and joint efforts to accelerate development and deployment of clean energy technologies. Priority areas could be energy efficient technologies including carbon capture and storage. The initiative can allow leveraging of expertise from government, private industry, and higher education to accelerate the development and deployment of new clean energy technologies. The initiative could also facilitate joint research, scientific exchanges, and sharing of proven innovation and deployment policies.

India and the GCC countries can play a constructive role in promoting diversification of the energy basket and contributing towards green technology or to the wider context of low carbon growth. The International Renewable Energy Agency (IRENA) located in Abu Dhabi provides a unique opportunity for fostering a green partnership. India and the GCC countries do share the IRENA perspective on "the major role that renewable energy can play in reducing greenhouse gas concentration in the atmosphere, thereby contributing to the stabilisation of the climate system and allowing for a sustainable, se cure and gentle transit to a low

7. IEA, Energy Security and Climate Policy: Assessing Interactions http://www.iea.org/textbase/nppdf/free/2007/energy_security_climate_policy.pdf

8. Jerry Haylins, "Copenhagen or Bust? Agreement on CCS Seen as Vital to Success of UN Climate Change Talks," *OPEC Bulletin*, November 10, 2009.

carbon economy."[9] The MASDAR initiative by Abu Dhabi could be another portal of cooperation. It is significant that the Abu Dhabi Future Energy Company (Masdar) is a subsidiary of Mubadala Development Company which, and is

> "a global cooperative platform for the open engagement in the search for solutions to some of mankind's most pressing issues: energy security, climate change and the development of human expertise in sustainability. Abu Dhabi is leveraging its substantial resources and experience in global energy markets into the technologies of the future. One key objective of Masdar is to position Abu Dhabi as a world-class research and development hub for new energy technologies, effectively balancing its strong position in an evolving world energy market. A related objective is to drive the commercialization and adoption of these and other technologies in sustainable energy, carbon management and water conservation. In doing so, Masdar will play a decisive role in Abu Dhabi's transition from technology consumer to technology producer."[10]

Significantly, the energy-rich GCC countries understand the relevance of renewable energy. It is even argued that by diversifying the energy portfolio, the GCC can retain its influence in the global energy market. According to NCB Capital, the investment banking arm of National Commercial Bank, Saudi Arabia, "in principle, solar energy could evolve into a strategic equivalent of oil allowing the GCC countries to establish themselves as leading exporters of electricity and solar technology alike.

"Traditional energy companies, with their expertise and large financial resources, can play a leading role in diversifying energy generation in the Gulf, thereby boosting their own flexibility and longer-term profitability."The NCB report noted that the Gulf countries have an opportunity to consolidate their leadership in the global energy market by adding a pioneering role in alternative energy to their traditional dominance in hydrocarbons."[11]

The Indian government too is proactively promoting renewable energy relationships with different countries. The Ministry for New and Renewable Energy has spelt out its roadmap which includes "to explore opportunities for exchange of scientists to share experience and for taking up joint research, design, development, demonstration and manufacture of new and renewable energy systems/devices by R&D institutions/organizations of both countries and thereby establishing institutional linkages between institutions of India and other countries. Bilateral/

9. http://www.masdaruae.com/en/Menu/index.aspx?MenuID=42&CatID=21&mnu=Cat

10. http://www.cleanenergyawards.com/uploads/tx_x4eenergy/Masdar_Brochure.pdf

11. http://www.saudigazette.com.sa/index.cfm?method=home.regcon&contentID=2009112855657

multilateral cooperation frameworks have been established for cooperation."[12]

According to ministry sources, 12 MOUs have been signed during 2007-9 with countries like the US, Denmark, Brazil, Cuba, Australia, Canada, Italy, and Mexico. "In addition, interaction with USA and Japan for cooperation in New and Renewable Energy is pursued under India-US Energy Dialogue and India-Japan Energy Dialogue, respectively. Interaction with EU for cooperation in New and Renewable Energy is pursued under India-EU Energy Panel. A multilateral cooperation framework called Asia-Pacific Partnership on Clean Development and Climate (APPCDC) enables interaction for cooperation with USA, China, South Korea, Japan, Canada and Australia."[13]

Solar energy, in particular, could be an area of strategic cooperation. The Indian government launched the Jawaharlal Nehru National Solar Mission in January 2010 with the title 'Towards Building Solar India.'

Apparently, both India and the GCC countries will find a synergy of interests in promoting solar energy. A strategic partnership would go a long way in helping them to achieve their mission. In fact, given the linkages of food security with the energy sector, and in the emerging perspective of a new green energy partnership, agriculture could be visualized as an additional chain. Looking into the future, a trio of energy, food and climate security could form the framework of an India-GCC strategic relationship.

12. http://mnre.gov.in/mnre-2010/schemes/support-programmes/international-cooperation-3/

13. http://mnre.gov.in/mnre-2010/schemes/support-programmes/international-cooperation-3/

14

India-GCC Labor Exchange

M.H. Ilias

General Profile of Indian Laborers in the GCC Countries

With the petroleum boom-bust cycle which culminated in a thorough exposure to international economy and massive infrastructure development and transnational immigration of labor to the Gulf, relations between India and the Gulf Cooperation Council (GCC) countries have been on a different trajectory for the last forty years. India has been at the forefront in providing human resources for the development of the Gulf countries. Today, Indians are the biggest expatriate community in every GCC country. A rough estimate shows that there are about 4 to 5 million migrant workers from India in the Gulf countries. Out of them, 1.2 million are in the UAE, 0.5 million in Kuwait, about 0.4 million in Oman, about 0.2 million in Qatar, 1.5 million in Saudi Arabia and 0.3 million in Bahrain. A rough estimate suggests that 50 percent of the Non-Resident Indians (NRIs) work in the Gulf and their remittance accounts for nearly 50 percent of the 26 million that came to the country in 2006 by way of remittances from overseas Indians.[1] Ironically, the statistics available with different agencies vary in the absence of a perfect system for registering the names and details of the Indian migrant laborers. According to the

1. *The Hindu*, January 9, 2008.

latest statistics available with the External Affairs Ministry, the GCC hosts 4 million Indians, primarily low income contract laborers.[2] The issue of illegal migration and the entry of laborers on tourist visas and pilgrim visas complicates things further. A preliminary enquiry shows that statistics available with different government agencies and diplomatic missions are dissimilar and sometimes the differences are significant. This paper seeks to present a general profile of Indian laborers in the GCC countries on the basis of job category, education and professional training. However, its major concern revolves around the multitude of problems being faced by Indian laborers in the Gulf States. The scope has also been widened to include the advantageous position being enjoyed by the Indian laborers, despite constant attemp to reduce their number.

Unlike earlier migrations, the massive flow of Indian laborers to the region obviously epitomizes globalization. Indian workers have developed an expertise of global standing and continue to contribute to the economic development in most of the receiving countries. This is quite evident from the Gulf employers' reluctance, despite tremendous pressures, to replace Indian laborers with those of other nationalities, even if they can be hired at lower wages. Similarly, the present experience suggests that the rulers are keen to avoid the political challenges to their authority that the presence of expatriate workers from various Muslim countries, including Pakistan, might pose. Muslim countries' misfortune represents a giant Indian opportunity in the Gulf.[3]

About 13 million foreigners make up about 70 percent of the workforce in six member countries of the GCC. Governments in Saudi Arabia, Oman, Bahrain, United Arab Emirates (UAE), Kuwait and Qatar worry about their societies' over-reliance on foreign help. However, the response to this situation evolving out of the huge presence of expatriates varies from country to country. Increasing unemployment rates and population growth have prompted nationalization and the setting of new limits on hiring foreign workers in the GCC states. At the same time, some countries have extended property and citizenship rights to some foreigners, in an effort to keep more expatriate earnings in the Gulf countries.

The division between nationals and expatriates runs deep in the Gulf and is becoming more profound with the governments' efforts to institutionalize it with complex sponsorship legislation, unequal compensation structure and nationalization and controlled access to opportunity for non-nationals. The huge

2. Ministry of External Affairs official website, www.mea.gov.in, accessed on October 3, 2009.

3. Edmund O'Sullivan, "Pakistan's Trouble Could Be India's Opportunity," MEED: Middle Eastern Business Intelligence, November 13, 2007.

presence of foreigners is seen as a threat to national culture and identity. The new demographic composition has generated a great deal of debate especially over the huge presence of South Asian workers, whose population amounts to almost 10 million and outnumbers locals in some of the Gulf States. Making up 90 percent of the workforce, they constitute nearly four to one in every Gulf society. A large part of worry is about Indians, who outnumber locals in places like Qatar. The GCC authorities are also concerned about the overwhelming presence of expatriates. In a ministerial meeting of GCC members held in 2005, Abdul Rahman Al-Attiya, General Secretary of the Organization, openly shared his uneasiness and warned about the possible repercussions of the situation. He stressed on "the need to look at the massive presence of expatriate workers basically as national security issue and not merely as an economic matter…"[4] This worry was also echoed in the GCC meeting held in Doha in 2008. Along with regional issues of security, common energy policies, joint nuclear energy plants and currency union, this issue topped the agenda.[5]

The Criticality of Indian Laborers

Much of the current migration from India to the Middle East has been stimulated by economic considerations, though earlier there were religious or culturally-driven movements of people. As 'easy escape' from economic hardship was the prime motivation, oil-rich states in the Arabian Peninsula became the major port of call for all recent waves of migration. A close look at the process would reveal that two types of demand, in general, stimulated labor migration to the Gulf. As Willoughby notes,[6] "Firstly, the creation of an infrastructure for exploiting the petroleum riches required both highly trained professionals and manual laborers." The second wave of immigration of Indian workers to the Gulf stretches back to 1980, when the region witnessed an economic boom. The rise in the oil price persuaded the Arabian Gulf States to adopt a more global orientation for their economy and production base. "As the per capita GDP soared, the demand for durable consumer goods, educational and health services and information technology generated a powerful employment multiplier effect that pulled foreign workers into a broad array of occupations."[7] Neither skill levels nor the size of the indigenous population were

4. *Gulf News*, November 24, 2005.
5. *Gulf News*, November 29, 2008.
6. John Willoughby, "Ambivalent Anxieties of the South Asian-Gulf Arab Labour Exchange," in *Globalization and the Gulf* , ed. John W. Fox et al. (London: Routledge, 2006), 224-241.
7. Sherief S. El-Musa,"Technology and the Dynamics of Socio-Economic Change," *The Middle East*

adequate for this export-led growth. So unlike the earlier waves of migration, the new lot comprised unskilled, semi-skilled and highly skilled workers.

The options of the GCC countries regarding the workers and their nationalities also wavered at different times with the shift in international and regional political equations. Until the mid-seventies the Gulf governments' major reserve for manpower in the then budding oil industry was fellow Arab states, like Egypt, Jordan and Yemen. But when the oil price began to escalate, they turned to a cheaper labor reserve in Pakistan.[8] Their motivation for this move was based not only on market consideration, but also on political as well as pragmatic factors. The leftist Arab nationalist ideological orientation of many of the manpower-exporting Arab countries (mainly Egypt, Iraq and Syria) was a great source of worry for the monarchic Gulf rulers. On the other hand, as a staunch Cold War ally of the US, Pakistan had benefited from the strong anti-Soviet and anti-Arab Socialist postures of the Gulf governments. But in the late 1970s and early 1980s, with the integration of the Gulf economies into the global economy, market considerations began to override all other regional as well as ideological considerations. Indian participation in the Gulf labor market expanded dramatically in the early 80s, as the diversification of the oil economy required the import of cutting-edge skills which the earlier labor force was not equipped with. The Gulf War brought a political dimension to the choice of labor force for the GCC. The rulers in each state sought to minimize the presence of low-wage Arab workers, who might pose great political challenges to authority. The region-wide growth of Islamic fundamentalism vindicated their position further. Even though the powerful regional organizations like the Arab League have made routine calls for giving priority to Arab workers, these declarations were never really implemented. Especially after 9/11, security concerns have been a major factor in the choice of the workforce. In the changed politico-religious context, expatriates from Pakistan and other Muslim countries are regarded by some as posing a potential threat to the stability and safety of the Gulf States. Although, initially, their linguistic, cultural and religious compatibility with the nationals had made them more attractive to authorities, some of these groups are now suspected of spreading extreme ideologies, which often call for the overthrow of 'un-Islamic' dynasties in the Gulf.

This worry has been reflected in the GCC countries' new dynamism in

Journal 51, no. 2 (1997): 358-72, 362.

8. Andrzej Kapiszewski, "Arab Versus Asian Migrant Workers in the GCC Countries," Paper presented at United Nations Expert Group Meeting on International Migration and Development in the Arab Region, Beirut, May 15-17, 2006, 224.

employment creation for Indians since early 2000 despite nationalization, hard fiscal management measures during the financial crunch, and accelerated plans for replacement of dominant labor groups with new ones. Indians are generally considered to be a safe national group presenting no major threat to the Gulf monarchies, except a demographic one. Furthermore, in a situation where the focus is on security, the religious diversity of the Indian workforce is well accepted in many of the Gulf countries.

Besides the many positive political effects, the influx of cheaper foreign workers from India has also helped boost the economy. The availability of competent labor of international standing at a relatively low price is a real plus in the age of globalization. The immigrants from South Asia are earning only 75 percent of the average Gulf wage. An end to the high levels of migration to the Gulf countries, thus, may lead to a fall in the economic growth rate and threaten higher inflation. So, the current choice of labor has two major benefits – one is monetary and the other is safety. Nevertheless, the picture is not as rosy as painted here. Most of the GCC states are now concerned about the large amount of money being sent out by the Indians. A substantial amount of hard currency earnings is flowing to the home country as direct remittances. These remittances often constitute a large portion of the GCC countries' GDP. Similarly, the Indian community's pattern of huge earnings and low spending has become a major cause of displeasure for the GCC states. The presence of a foreign workforce normally stimulates the domestic consumption of goods and thereby boosts local markets. This is true in many expatriates' case; however, Indians are a noticeable exception. Compared to Sri Lankans and Filipinos, Indians show less interest in purchasing goods from the local market. Mushrooming duty paid shops and the availability of the same items at amazingly cheap prices in India restrain most of the Indians from purchasing non-essential items in the host countries.

Nonetheless, despite the area-wide economic crisis, there is tremendous pressure from employers in the UAE and Qatar to employ more Indian laborers. Media reports state that major contracting companies in these two countries are frantically trying to hire laborers from South Asia. India is still the number one supplier of labor, and about 80 percent of new workers are from India. In Doha, many mega projects are faced with long delays due to the shortage of skilled Indian manpower. However, in the wake of the economic boom in India, many laborers there no longer see the need to travel to the Gulf. Inflation and currency instability due to the (fixed) dollar-peg system are other factors that deter them from seeking employment in the Gulf region. Inflation touched double digits in

Qatar and the UAE and recently hit a 16-year peak in Saudi Arabia. The laborers have started complaining bitterly that the money they earn in the Gulf stretches far less when sending to their families in India. An average Indian worker in the UAE construction industry makes about Dh800-1000 per month. In the present economic environment, this is not enough to meet their own expenses in the Gulf and support a family in India.

Following the tremendous pressure from employers, governments in the Gulf have taken a soft stand regarding labor strikes, which could otherwise end in severe punishment of people who are involved. Companies do not want the government to deport any more workers as they are having trouble finding enough replacements to complete the works. The newfound assertiveness is only the tip of iceberg and the circumstances provide a clue to Indian laborers' calculations in striking, even if they are aware of the dire consequences of termination and deportation.

Indian Labor and Nationalization of the Workforce in the Gulf

Nationalization with its wide ramifications like replacement of expatriates with locals and the introduction of quota systems for expatriates has been a much-discussed issue in the region. As David McMurray observes, the Gulf States' desire to decrease dependence on immigrant labor stems from several factors. They include: the long downturn in petroleum prices, changing demographic composition, fast increasing rate of unemployment, newfound security concerns related to the rise of political Islam, and fear of transformation in the identity and culture of the society.[9] Although seldom pursued seriously, direct policies and plans to phase out the reliance on foreign workers are in place. Although all GCC states have an almost similar sort of desire to nationalize the workforce, the programs vary from country to country. Saudi Arabia and Oman are the two countries which launched a massive move for nationalization of the labor force. With a view to phase out expatriates, Saudi Arabia identified 25 job categories for nationalization including travel, gold and jewellery, and grocery shops.[10] The government in Oman introduced some hard measures which led to the stopping of licenses of shops and establishments owned by foreigners in many sectors. Qatar and Bahrain followed suit and curtailed labor migration by putting a cap on foreign labor recruitment. Kuwait went to the extent of putting a salary ceiling on foreign workers in certain sectors including petrochemical industry and banking. This move was in parallel to

9. David McMurray, "Recent Trends in Middle Eastern Migration," *Middle East Report* (Summer 1999): 16-19.

10. *Wall Street Journal*, April 1, 2004.

the implementation of a ceiling of less than 35 percent for the number of expatriates employed in the government sector. In the UAE, the banking sector which worked in coordination with *Tanmia* (the National Human Resources and Employment Authority) employed national jobseekers after putting them through appropriate training programs and became the testing ground for the nationalization drive.

Unemployment is on the rise all over the region with the rapid expansion in the number of young nationals[11] and this has triggered a sudden nationalization drive. In Saudi Arabia, the largest among the GCC countries, unemployment increased to about 10.5 (among males) in 2009 and is estimated to be as high as 35 percent among the youth aged 20-24.[12] In Bahrain, unemployment levels reached an alarming 15 percent in 2003.[13] In the UAE, it is estimated that current employment figures among nationals may have reached as high as 20.6 percent in 2004.[14] Unemployment in many states has already resulted in some political unrest. In a rare event of protest staged towards the end of August 2010, some 200 unemployed Saudi university graduates demanded that the state should give them jobs. Creating jobs for a fast-growing national population of more than 18 million is one of the biggest challenges facing the country's leadership.[15] Voicing a similar demand, university graduates in Oman blocked motorways in Muscat. The burgeoning rate of unemployment has forced the Gulf countries to introduce some new measures, which were unthinkable in the past. Despite the threat to boycott shops that employ women, the Saudi Ministry of Labor has made it clear that it would continue issuing work permits to women to work as cashiers in shopping centers.[16] A recent study indicates that women make up 17 percent of the Kuwait labor force in the private sector and hold 7 percent of jobs in public sector, military and diplomatic sectors.[17] In Oman, which is less dependent on foreign labor, a policy to create maximum job opportunities for women has been drawn up recently.[18] These

11. The GCC has one of the world's youngest and fastest growing populations; 61 percent of the Saudi population is under 25 years old, compared with 50 percent of India's, 39 percent of China's, and 30 percent of Europe's.

12. *Gulf News*, August 29, 2010.

13. *Gulf News*, February 11, 2003.

14. Statistics furnished in http://www.tradingeconomics.com/Economics/Unemployment-Rate.aspx?Symbol =AED

15. *Gulf News*, August 29, 2010.

16. *Gulf News*, September 6, 2010.

17. The study commissioned by the Social Affairs and Labor Ministry, January 2010.

18. Nasra M.Shah, "Restrictive Labour Immigration Policies in the Oil-rich Gulf: Effectiveness and Implications for Sending Asian Countries". Paper presented at United Nations Expert Group Meeting on International Migration and Development in the Arab Region held on May 15-17,

are significant moves in societies where there are strong socio-cultural impediments that hinder the empowerment of women.

In such circumstances, the replacement of non-nationals with nationals seemed to be a top priority. A wide range of measures have been taken by governments. These include: reservation of some posts exclusively for nationals, introduction of quotas for nationals in many of the job categories, increasing the cost of foreign labor by levying a fee on those who employ them, awarding tenders for private companies meeting quota requirements, introducing skill-based education and creating sufficient employment opportunities for nationals.[19] The most prominent method is to force companies to hire locals and impose quotas in the name of Omanization or Saudization or Emiratization.

Although it began in the late 1980s, the nationalization drive in the GCC states received a boost with the 2004 UN survey which elicited opinions on the level of immigration. A majority of the GCC states considered the immigration levels to be high and introduced tough measures in a bid to lower it.[20] The changed demographic ratio between nationals and expatriates and the consequent feeling of threat may help understand the rationale for the restrictive policies as a part of the nationalization drive. While the combined estimated GCC population is 35.8 million with expatriates constituting 12 million[21] (almost 34 percent) in 2004, the figure crossed 36 percent in 2008. A 2005 data indicates that while foreigners constitute 30 percent of the 23 million residents in Saudi Arabia, foreigners constitute 80 percent of the 4 million residents in the UAE.[22]

However, the nationalization targets remain a distant dream as the process has encountered several obstacles. Only in certain fields like banking and the hydrocarbon sector, nationalization levels are close to the target. Most of the job opportunities in the current phase of the Gulf countries' development are in manufacturing, construction and other allied services, and these require skills that have traditionally not appealed to nationals. Private sector jobs with long and strict working hours and salaries that do not meet local standards are generally designed for expatriates. Work in the private sector is sometimes perceived as debasing the nationals' social status. Because of their 'superior position', locals are averse to accepting the low-skilled, low-salaried posts and they are inclined to work mostly in the government

2006 in Beirut.

19. Kapiszewski, "Arab Versus Asian Migrant Workers in the GCC Countries," 5.
20. M.Shah, "Restrictive Labour Immigration Policies in the Oil-rich Gulf."
21. *Kuwait Times*, December 20, 2004.
22. Statistics provided in Migrant News, December 2005.

sector. The majority are employed in simple jobs like administrative support, clerical and security services. But this is not the case in states with low growth rates, like Oman, where relatively poor locals find all sorts of jobs attractive. In Saudi Arabia, the perceptions and preferences regarding manual work are beginning to alter with growing unemployment, and some Saudis are entering the labor force as drivers, packers in grocery shops, and loading and unloading workers in factories.

Nationalization measures meet the same problems in highly-skilled job fields. A mismatch between skills required and the skills profiles of nationals has hindered their employment prospects in highly-skilled positions. The education and training systems are unprepared for the boom in many fields. Economic diversification efforts, in general, have made expatriate participation more inevitable. The other reason is the alleged non-flexibility of nationals, especially in terms of salary and work culture. Despite emerging strains of unemployment and competition in the labor market, the wage structure of nationals throughout the region remains high and uncompromising. Furthermore, the mandatory nationalization and the quota system have attracted the wrath of entrepreneurs across the states. They genuinely fear that such moves finally will lower productivity and erode profit. Ironically enough, the drive in many Gulf States has met with fierce opposition from the nationals themselves. The sponsorship regime, *kafala*[23] makes the citizens privileged employers and business owners, drawing surplus from the foreign presence. It also allows nationals to make money out of selling visa documents and to extract rents through discriminatory pricing. Nationals, fearing a considerable drop in their sponsorship money, have come out vehemently against the nationalization agenda.

Aware of the pitfalls of sudden nationalization, some states have developed other strategies like reducing the domination of one nationality with the quota system. Saudi Arabia pioneered this move and established a quota system for foreigners in which no nationality may exceed 10 percent of the total population. In a similar move, Bahrain is likely to impose a quota system for the number of unskilled Indian laborers allowed to work in the country. It also had proposed a six year cap on foreign labor at the last GCC meeting. Bahrain's move may be sparked mainly by growing concerns about the impact of India's new assertiveness on the Bahraini labor market. The Indian embassy in Bahrain has proposed a minimum wage structure for its nationals. Anyway, as a solution to overdependence on Indian laborers, a sweeping labor reform is on the cards in Bahrain. The administration has made foreign labor

23. The sponsorship system means that expatriate workers can enter, work and leave the host country only with the assistance of their local sponsor.

more expensive by charging companies a monthly levy for each foreign employee in addition to a visa fee of almost $500.[24] Given its large demographic and unemployment problems, a radical reform, in terms of reducing the amount of time of 'certain group' of expatriates, may be a big issue for Bahrain. Bahrain's anxiety, however, is not shared duly by other countries and this unwillingness of neighbors to endorse the proposal has prevented a GCC-wide agreement.

As a long-term strategy, almost all Gulf States now encourage an open labor market system to bring competition and internationally competitive wages. They have sought to deal with the growing Indian presence by bringing in laborers from Nepal, Sri Lanka, and Myanmar. The availability of cheap to employ migrants from elsewhere in South and South East Asian countries of course offers a viable alternative. But such moves are insufficient for the replacement of relatively expensive Indian workers. The governments brought many controlling measures and administrative regularizations to halt the movement of Indian laborers in excess. The UAE, for instance, fixed matriculation as the minimum requirement for labor. But the unavailability of skilled and competent laborers in bulk numbers torpedoed their plan. The latest example is of Qatar, which took a complete U-turn to the earlier decision to limit the number of Indians despite the constant pressure due to increasing unemployment and economic crisis. The Labor Ministry in Qatar is now on a massive hunt for skilled workers for its booming gas and construction industry and is bringing tens of thousands of new workers from India.

Challenges Being Faced by Indian Laborers in the GCC States

Pre-Migration Challenges

Recruitment Process

Since the process of recruitment of laborers to the GCC countries involves a gamut of issues, the discussion about the challenges being faced by Indian laborers in the Gulf should start from the process itself. Although India has attempted to implement administrative measures to regulate the process of recruitment, there are many loopholes in the present regime, and it is interesting to note how these loopholes are diligently being used by the licensed and unlicensed recruiting agents. Recruitment becomes a more complicated process with so many illegal practices which result in unnecessary loss of money for the laborers who wish to migrate.

24. *The Economist*, April 26, 2008.

Since the recruitment takes place mainly through private networks, governments in India and the Gulf struggle to control the manipulations. The people who extract the rent from the job-seekers are Gulf nationals, expatriate Gulf business people in the Gulf, and licensed and unlicensed recruitment agents in India.

The steps involved in the process are delineated to illustrate things better. The exit of a job-seeker is restricted by the Government of India by the employment visa system. As a first step, the GCC states issue the required visa permit on the demand of the employer, with which the employer can approach the concerned authority to get visas issued.[25] The manipulations start from this stage as a market for permits and sponsorships has emerged. Nationals may either use their influence to obtain visas that can be sold to formal and informal recruiting agents in India or they can receive funds from agents or workers who have access to visas but need a sponsor to formalize their employment in the Gulf. Sponsors with excess permits often make enormous amount of money out of them. Officials in the Gulf countries become helpless as they know that their citizens gain considerable revenue from sponsoring expatriate workers. The system of local sponsorship, *Kafala,* allows the visa sellers to extract rents through discriminatory pricing. The visa sellers approach government-licensed recruitment agencies, unlicensed middlemen, or private individuals in India.

There is no uniform charge for servicing a visa. Normally, an Indian laborer is required to pay an average of Rs60,000. This would vary depending on the job-seeker's skills. Including the charge for air ticket, an unskilled worker has to spend on average Rs. 80,000-100,000, while a skilled laborer would spend Rs300,000-400,000. Highly skilled laborers need to pay only airfare. Most ordinary laborers come from areas of extreme poverty and to mobilize such a big amount they have to tap several sources, including the mortgaging of property or gold and the family fortune in the belief that the debt can be repaid within a year or so.[26] There are the cases of cheating – the selling of false documents, misrepresenting employment prospects, and reluctance to give the promised salary.

Over the last half a decade, the Ministry of Overseas Indian Affairs (MOIA) has put in place some mechanisms to monitor the process of recruitment and regulate the activities of unlicensed agents. Service charges to be collected from the job-seeker by the agents have been fixed by the Ministry as Rs10,000 ($220) or an equivalent of 45 days' wages to a maximum of Rs20,000 ($440).[27] In the event

25. Willoughby, "Ambivalent Anxieties of the South Asian-Gulf Arab Labour Exchange."

26. BBC News, April 6, 2009.

27. *Annual Report 2009-2010*, Ministry of Overseas Indian Affairs, Government of India.

of receiving complaints pertaining to non-payment of wages, unilateral changes in the contract of workers, changing the jobs arbitrarily, or in extreme cases in which the workers are not given any employment and are left in the lurch in the foreign country, the Protector General of Emigrants can step in and ask the concerned recruiting agent to get the workers' repatriated on their cost. The *Annual Report* (2009-2010) of the Ministry says, "If the agent fails to do so, action is taken to suspend/cancel their registration and forfeit their Bank Guarantee to pay for the repatriation expenses."[28]

Against the backdrop of manipulations involved in the process of recruitment, MOIA has floated a nodal agency called Indian Council of Overseas Employment. Pre-departure orientation programs for various categories of workers are among the major objectives of the Council. Apart from this, through regular television and newspaper ads, MOIA is also disseminating essential information about the traps involved in the process of manpower recruitment from India. However, the purpose is not fully being served because of the absence of a public sector recruitment agency. The establishment of such an agency at the central and state level has the potential to bring a viable solution to the issue. Kerala's experience with a state level agency, Overseas Development and Employment Promotion Council (ODEPC) has proved to be an ideal experiment in this regard. Besides making the process smooth and effective, the agency can offer more efficient laborers to the companies in the Gulf. This in turn will improve the image of India as the exporter of competitive laborers. By emphasizing equal opportunity, this agency can change the norm 'know-who' to 'know-how' to attain a job in the GCC countries. In order to support such a system, there can be a country-to-country protocol agreement in which the GCC governments shall inform the concerned government agency in India about requirement of laborers. By making recruitment a mission-mould governmental affair, both sending and receiving countries can rein in migration through illegal means. Such a system will be able to function without difficulty as some of the GCC countries are going to have corresponding agencies to streamline foreign labor recruitment related activities. Kuwait, for instance, is all set to launch a 'manpower authority' in February 2011. The proposed authority which will function under the Social and Labor Ministry will undertake the task of recruiting foreign labor for public and private sector companies.

28. Each licensed recruiting agent has to submit a bank guarantee at the Ministry of Overseas Indian Affairs against their category of license.

Emigration Rules

Section 22 of the Emigration Act 1983 provides that no citizen of India shall emigrate for any work falling under Section 2(1) (o), unless he/she obtains emigration clearance from the Protector of Emigrants. However, people belonging to certain categories have been exempted from this recruitment.[29] Such persons are entitled to the 'Emigration Check Not Required' passport (also called ECNR passport). An ECNR passport holder does not need any emigration clearance for going anywhere the Government of India allows to migrate.[30] Even those who holding Emigration Clearance Required (ECR) passport are exempted from emigration check formalities while going to 175 countries, which are termed as ECNR countries. There are 17 ECR countries for which emigration check is required. The GCC countries belong to the latter category.

The recruitment process since the enactment of the Emigration Act in 1983, however, is characterized by severe shortcomings. With a view to making the process more transparent, professional and accountable, MOIA revamped it recently. Reform measures particularly with reference to "the need for redefining the scope of regulation, redesigning the emigration process and setting standards" were brought in.[31] The major change brought about by the reform packages was the liberalization of the emigration system by "restricting the application of the emigration process only to those possessing educational qualification below class X (ECR passport) and those going for work to only 17 countries (ECR countries)."[32] This is, of course, a significant proactive move towards the transformation of the emigration process into a simple, transparent and humane one. Nonetheless, there is the need for a comprehensive overhaul to convert the system into an effective instrument for facilitating legal migration and empowering emigrants.

The present emigration regime still lacks a proper mechanism to control both illegal migration and corruption. In 2006 alone, of some 640,000 Indians who went to the Gulf countries, 532,000 went on visit visas.[33] Likewise, there is a growing army of travel agents, emigration officers, police officers, and officers at the airport who are vulnerable to corruption. Unlawful emigration (known popularly as 'pushing')

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29. See Emigration Act, the Government of Kerala.
30. There are countries like Iraq and Afghanistan to which emigration is banned.
31. *Annual Report 2009-2010*, the Ministry of Overseas Indian Affairs, Government of India, 16-18.
32. Ibid.,18.
33. Interview with Vayalar Ravi, Minister for Overseas Indian Affairs, by Aasha Khosa, *Business Standard*, November 18, 2007.

is widespread in many migrant-dominated states of India. Stringent and inhumane rules and too much of red tape become the source of corruption and exploitation. In a situation where these inflexible measures do not serve the purpose, there is the need to review them.

Further liberalization of the system may help to prevent illegal migration and corruption. Many major manpower-exporting countries, including the Philippines, have already opened up their emigration system. Another alternative is to assign Indian diplomatic missions in the host countries to monitor incoming laborers. Registration counters can be set up at the airports in the receiving countries or in Indian embassies/consulates to collect accurate information of people who are entering the country. This will be beneficial for both sending and receiving countries.

Low Skills and Lack of Orientation

With the process of globalization and concomitant transnational flow of labor, the GCC countries now encourage an open labor market system to bring competition and internationally competitive wages. There is also a growing disinclination towards employing South Asians due to demographic and economic reasons. Secondly, South Asian labor migration to the Arab Gulf States is basically unskilled. Unfortunately, many manpower-exporting states of South Asia have still not focused their attention on skills upgradation and enhancement of the competitiveness of the labor force. The picture is not very different when it comes to India; however, there is a recent change in the profile of Indian expatriates in Gulf. Out of nearly six million Indians, 75 percent are unskilled. At the same time, there is a significant increase in the number of skilled and qualified people. Indian professionals include engineers, doctors, managers, accountants and IT specialists, all of whom have acquired the highest reputation in the Gulf for their professional capability and personal integrity.

Anyway, enhancement of the quality of manpower appears to be vital for a major manpower-exporting country like India to withstand international competition. Indian laborers may be relatively better and more efficient than other South Asian workers, but they have to upgrade their skills in line with the demands of the international labor market. Keeping this in mind, the MOIA has launched a national skill upgradation and pre-departure orientation program. Nevertheless, its success solely depends on how it reaches out to the needy people. So the efforts should be replicated at the state and district levels. The help of Non-Governmental Organizations (NGOs) can also be sought for expanding the program. Finishing schools can be established with the support of state governments and district administrations. Skill development programs are being carried out by private institutions successfully. Another option is for state governments to establish community colleges with the backing and certification of institutions of higher technical learning.

The lack of access to authentic and timely information relating to overseas employment, recruiting agencies and emigration procedures is the other major problem being faced by the intending emigrants. The Annual Report of the MOIA points out that non-availability of such information makes the emigrants dependent on intermediaries and vulnerable for exploitation. In order to avoid such a situation, there is an urgent need of initiating effective pre-departure orientation programs. The MOIA has taken a step in this direction and launched an orientation program and an Overseas Workers Resource Center to provide information and assistance to Gulf aspirants. However, the scope of this should be expanded to start in-depth counseling programs for intending emigrants. The governments should seek the help of civil society movements, organization of emigrants, and NGOs for effective implementation of this program.

Post-Migration Challenges

Work/Living Conditions

Also worth mentioning is the issue of sub-human living conditions of Indian expatriate workers in certain places. Some of the employers in the Gulf turn a blind eye to issues like the poor wage structure, non-payment of salaries, lack of medical care and sub-standard housing. A recent Human Rights Watch Report[34] highlights the widespread practice of forced, round-the-clock confinement of Indian maids, often in unsafe conditions. The low skilled employees in some places in the Gulf are often provided with substandard living conditions, including overcrowded apartments or lodging in unsafe and unhygienic 'labor camps', often lacking electricity, potable water, and adequate bathing facilities.[35]

Housemaids are the most vulnerable group among the Indian laborers. A substantial number of Indian female migrants are work as domestic servants. It is not to say that all Indian housemaids suffer at the hands of their bosses. But when employers turn hostile, maids (mainly from South and South-East Asia) find

34. HRW Report , November 12, 2007.

35. The US Department Report on Human Rights in the Gulf Countries quoted in *International Herald Tribune*, September 25, 2005.

themselves with little recourse but to hide with friends. Their passports are often confiscated upon arrival and their legal status is practically nil. The Indian Embassy in Bahrain has launched a hotline to deal with complaints of Indian housemaids. The housemaids are provided with mobile connections by the Embassy in the country.

As a step towards enforcing the agreement on the welfare of Indian labor in the UAE, the authorities made it compulsory for domestic workers and their employers to sign contracts that specify the terms of employment, including salary details and leave cycle. While this step has been widely welcomed, the Indian Consulate in the UAE complains that it still does not receive contracts that Indian domestic workers might have signed with their employees. In February 2010, concerned over widely reported abuse of domestic help, Kuwait's immigration bureau ordered officials not to allow domestic workers in to the country unless their sponsors have approval from the police.[36] In a bid to tackle the same issue, Saudi Arabia in July 2009 passed a new anti-trafficking law that set prison sentences up to 15 years for forced labor. But enforcement of labor laws to protect interests of unskilled or semi-skilled female workers are often not implemented properly.

On its part, India has put pressure on many GCC states to extend the labor laws to domestic helpers who work in risky conditions and face gender-based violence. MOIA has taken some initiatives including placing an age restriction of 30 years in respect of all women emigrants.[37]But this rule has badly affected the movement of certain categories of migrants like nurses, who constitute the majority of Indian women workforce in the Gulf countries. As per the new rule, a foreign employer has to give a security deposit of $2,500 for the recruitment of women laborers directly.[38] Embassy attestation has been made mandatory in respect of all women workers in the unskilled category.[39]

The manpower supply system which is reminiscent of pre-modern bonded labor is another mode of harassment and exploitation of Indian workers. The groups involved in the manpower supply business recruit skilled, semi-skilled and unskilled laborers in large numbers. Companies requiring manpower but not in a position to recruit foreign workers approach these agencies to hire labor for the smooth completion of their projects. So, the contract is signed between the labor supply company which provides manpower and the company that hires it, not between the worker and the company that hires him/her. Labor supply companies generally

36. *Gulf News*, February 4, 2010.

37. *Annual Report 2010*, MOIA, 35.

38. Ibid.

39. Ibid.

negotiate a good sum for the manpower they provide, but that amount does not go fully to the worker. What he/she gets may be half (sometimes less than that) of the original wage given by the hiring company. Another half may go to the manpower supply group. Now this has reached the level of slavery – physical and financial with unscrupulous exploitation. The hired laborers are normally not entitled to enjoy the benefits and incentives given by the hiring companies to their employees. The salary and overtime benefits fixed by the hiring companies may be up to standard or even higher, but the workers are generally underpaid with a large chunk of money going to labor supply groups. Many laborers have not been paid the money promised by the recruitment agencies. Average salaries are often no more than Rs. 8,000 (roughly around $170 which will not be paid if the labor supply company does not have any contract in their hands) with 12-13 hour shifts. Scared of graver consequences, the workers do not complain against the employer.

The recent South Asian labor unrest in Dubai appears to be symptomatic of these situations. The living and working conditions of Indian blue-collar workers leave much to be desired. There is no minimum wage, and if there is one it is not implemented by many of the employers. Unfair labor practices seriously demean the guest workers and they face exploitation, abuse, intimidation and violence at the hands of employers. The recent strikes are, therefore, not the cause but a serious symptom of a huge social crisis.

These things happen when the workers are not fully aware of the rights ensured by the laws of both receiving and sending countries. In all GCC states there are adequate laws to deal with the issues like non-/delayed/under payment of salaries, poor and highly unhygienic living conditions, and sub-human working conditions. Back in India sufficient provisions are there in the Indian Emigration Act to punish recruiting agencies for fraudulent practices. What is lacking is a mechanism to educate the Indian expatriate workers about their legal rights. Establishing Legal Aid Cells and counselling centers attached to the diplomatic missions in all Gulf countries would be a useful move in this regard. In many countries, Indian missions already provide such assistance to Indian workers in distress, but it should go beyond the current scope to accommodate activities like counselling. Indian embassies in the GCC countries can seek the help of organizations of Indian expatriates and NGOs for an effective implementation of these programs.

Sponsorship System

The Gulf States have instituted a sponsorship system (*kafala*) which is the legal basis for residency and employment. This system has been created to provide the governments in the Gulf countries with a means to regulate foreign labor flow into the region. The regulation should be seen in the context of certain worries that the countries in the region have had for the last three decades: (1) since foreign workers constitute a majority of the total population, there is an increasing concern that nationals are being crowded out from private sector employment (2) there are fears that the massive influx of foreign workers dilutes the indigenous culture and (3) there are increasing concerns that migrant workers present a security dilemma in the Gulf.

As per the system, each employee working in the GCC countries must have a sponsor or *kafeel* to assume full economic and legal responsibility for the employee during the contract period. But for those working in the public sector, the government department employing the worker is the *kafeel*. Briefly put, a migrant worker receives an entry visa and a residence permit only if a GCC citizen or a GCC institution employs them. Another feature of the *kafala* system is that the worker can only work for the sponsor which renders workers entirely dependent on their contract. The sponsorship system also insists on a ban on re-employment by another sponsor which means that a foreign worker quitting his/her job or dismissed by the company can come back to the same country for employment in another company only after two years. The two-year ban, however, does not apply if the worker can produce a no-objection certificate from his old employer. A worker whose sponsor is willing to give him a release can be employed by another company immediately. Similarly, according to the sponsorship rules in some of the GCC states, exit permit from the employer is mandatory for expatriates travelling out of the country.

It is a sad irony that a system that creates a lot of social and economic impediments has not been subjected to a systematic analysis. The effectiveness of different *kafala* forms has seldom been monitored by the authorities, though there is a recent move in this direction on account of international pressure. Thus more worker-friendly labor laws are the need of hour, as the existing system has led to many illegal practices like visa trading. As the demand for visas to the Gulf increase in countries like India, some nationals open up fictitious companies for which they procure work permits that they are able to sell to migrants willing to pay. In the UAE, for example, a work visa for an Indian is sold for Dh7,500 ($2,042). The ease with which an ordinary local sponsor can have a continuous source of income through visa trading coupled with a market in sending countries where many are eager to buy such visas at any cost makes it difficult to implement any policies that aim to curb such trading. Longva has identified the social consequences of the sponsorship system.[40] According to her along with nationalization and unequal compensation structure, the complex sponsorship legislation is institutionalizing a social division among nationals and non-nationals. Similarly, *kafala* becomes a social institution to curb the freedom of foreign workers. The stringent sponsorship rules also block the migration of skilled workers to the GCC countries.

It was in this context that the International Labor Organization (ILO) representative to Kuwait made a proposal in June 2005 to the Kuwaiti government to change its current sponsorship system.[41] He recommended that the State of Kuwait should be the sponsor of all expatriate workers rather than individual sponsors and stated that the current sponsorship system does not meet international standards and leaves the workers vulnerable to exploitation. Pressure has now come up from within. In Qatar, some Qataris are demanding that the State should be the sponsor of foreign workers and not individual citizens or business owners. In Saudi Arabia, the National Society for Human Rights (NSRH) has called for the replacement of the sponsorship system in the country which has several shortcomings. As a further move, NSRH proposed a new system, which would promote a healthy relationship between employers and employees. In countries such as Bahrain and Kuwait, an extensive effort is on to address the drawbacks of the sponsorship system. The ministry of interior in Kuwait is trying to simplify the procedures in favor of the expatriate workers. Bahrain is in the process of granting expatriate workers some freedom of movement in the labor market by allowing them to transfer jobs without paying any penalty. Along the same direction, the UAE has lifted the two-year ban on expatriate workers who quit their job without a no-objection certificate from the employer. The UAE government is planning to abolish the sponsorship system for immigrant workers. Henceforth, a worker will only be required to sign an agreement with his employer. Also, these countries are making rules that would ensure that the employer becomes the custodian of the workers' passports and not merely a snatcher of passports. Besides, their salaries now have to be credited through banks. In Qatar, a new law is underway with two key changes – the freedom to change jobs and the abolition of the exit permit, *kuruj.* Another significant change is that the Minister of Interior has been authorized to change the sponsorship of a worker who has a dispute with his/her employer or is being subjected to harassment. Similarly,

40. Ann Nga Longva, *Wells Built on Sand: Migration, Exclusion and Society in Kuwait* (Boulder: Westview Press, 1997), 2.

41. AMN, June 16-30, 2005.

a domestic worker's sponsorship can be changed by the minister in the public interest. As per the new law in Qatar, workers are allowed to sponsor their families. The new sponsorship law in Qatar has also made it illegal for companies to keep the passports of their employees once the visa procedure is over.

Nevertheless, still more needs to be done by GCC governments to legally protect the work-related interests of expatriates. Introduction of a GCC-wide free labor market and homogenization of sponsorship rules are the major steps that can be taken in this regard. The government of India can utilize its leverage in the region to ensure a more liberal and hassle-free system for Indian expatriate workers.

Labor Laws and their Enforcement

Expatriate workers' rights are well-specified in national labor laws of the GCC countries, though enforcement or redressal mechanisms are rarely provided. Over the last decade, governments in the Gulf have rolled out programs for reforming labor rules aimed at providing better living and working conditions for expatriate workers and enforcing basic rights. There are laws to protect workers from unscrupulous employers, but employers sometimes do not observe them.

The Abu Dhabi Declaration, which emerged from the first focused dialogue on the subject held in the Gulf, is a noteworthy achievement. The document, endorsed by 21 Asian and GCC Ministers, outlines a collaborative action plan to give a fair deal to the workers, who are largely from Asia. The key recommendation, that effective action should be initiated within three months to root out illegal recruitment practices, in the countries of origin as well as in the host countries, and to promote more transparent policies and practices of recruitment and employment, could bring the guest workers job security and fair benefits. The practical outcome of the exercise, which builds on the Asian Regional Consultative Process on Overseas Employment and Contractual Labor, or the Colombo Process, will be keenly watched in India and other South Asian countries.

The Abu Dhabi Declaration stresses on the need to get serious about implementing labor protection measures and give expatriate workers a better deal in wages, housing, and health. The Declaration also provides room for labor-exporting countries to negotiate on behalf of their expatriate labor in tune with the spirit of the Abu Dhabi dialogue.

The Declaration has prompted Indian diplomatic missions in the GCC countries to successfully translate the India's cordial relations with the Gulf countries into the welfare of laborers. The missions now insist on minimum wages for their workers and there are proper mechanisms for aiding Indian workers in distress, which do not exist for many other nationals. Indian diplomatic missions have put pressure on many GCC states to extend the labor laws to domestic helpers who work in risky conditions and face gender-based violence. Security and good labor relations, therefore, have become serious matters of concern for local authorities. It is interesting to note that there is a real change in the attitude of employers due to the pressure from the Indian side. This attitudinal shift is reflected positively in the proper implementation of labor rules and in steps to improve the conditions of expatriate workers in the field of housing, health, and wage protection.

Indirect Policies to Control Foreign Labor

Visa Restrictions

With a view to control the high manpower influx from certain countries, the GCC countries have introduced the quota system. In a bid to deal with the growing number of Indians, Qatar recently put a cap on recruiting Indian laborers. They are being replaced by laborers from Sri Lanka, Philippines and Myanmar. In Saudi Arabia, the government brought in many measures and administrative regularizations to control the number of Indian workers. As per the newly introduced quota system in the UAE, the employer has to deposit a bank guarantee of Dh3,000 at the Labor Ministry to recruit an Indian worker. The charge for work visa varies according to the nationality of the worker and to hire a worker from a country which has a smaller number of workers in the UAE costs less (Dh500). The UAE also encourages private sector companies to employ mixed nationalities. The UAE has also sought to restrict Indian laborers by fixing matriculation as the minimum educational requirement for them. Attestation and verification of certificates showing educational qualifications has become another issue for Gulf job-seekers in India. Since there is no single window for the attestation process, those who want to go to the UAE have to approach two ministries, namely, the Ministry of Human Resource Development and the Ministry of External Affairs for pre-attestation verification and certification. States like Kerala have established special cells (NORKA-ROOTS) for assisting Gulf aspirants, but people from other far-flung states have to travel all the way to Delhi for this purpose. This has become a major source of exploitation by the travel agencies as they charge a considerably high amount for attestation.

Stagnation in Salary

The flow of laborers from other Asian countries now encourages competition and the introduction of competitive wages. Of course, the availability of cheap-to-employ migrants from elsewhere in South and South East Asian countries offers a viable alternative; however, this has also resulted in stagnation of wages and in some cases a decline.[42] For example, the earnings of a driver have remained the same (generally between Dh1,500-1,800) for the last two decades. There has been no substantial increase in the case of skilled laborers also. The cost of living, on the other hand, has zoomed during the last few years. The sky-rocketing cost of living coupled with high inflation and the falling value of currency has resulted in a considerable decline in their earnings.

Return Migration

The re-absorption and rehabilitation of returning migrants has been the other matter of concern. The economic downturn resulting from the decline of oil prices and massive nationalization drive in Gulf employment presents two major causes for the return of emigrant workers. Early to mid 1990s witnessed an increasing trend of return migration, although the trend is still on. The after-effect of return migration may be less this time, but the studies show that many were employed in low-skilled or unskilled jobs such as petty traders, helpers and kitchen assistants in hotels and restaurants and their lack of skills left more than 30 percent of them unemployed. The crucial issue is of the selective use of Indian laborers in certain categories.

While the low or unskilled laborers are replaced by cheaper labor from other South Asian states like Nepal and Sri Lanka, the employers insist on the stay of semi-skilled or highly skilled laborers beyond their contract period. They are reluctant to let skilled Indian laborers leave and prefer to keep workers who have already gained enormous experience. There is a related issue of disenchantment of people with traditional low-paid jobs back in Kerala. The returning migrants generally show unwillingness to take up their earlier job, even if the wages rates have considerably increased and their economic condition is in decline. Since it is an issue in which the future of millions – 75 per cent of whom are unskilled – is at risk, there is a need to take serious measures to rehabilitate the returning migrants. The government should consider the full utilization of professional, skilled and semi-skilled workers' expertise and experience in various fields, while designing rehabilitation packages. The government can also employ them by giving them preference (as enjoyed by ex-servicemen) in public sector companies. Another recommendation in this regard is

42. Shah, "Restrictive Labour Immigration Policies in the Oil-rich Gulf."

the introduction of a contributory pension scheme for Indian migrants to the Gulf which will be beneficial for the people who wish to return to India.

Replacement Migration

The massive flow of manpower sometimes appears to be more of a bane than a boon for India. It obviously takes away highly skilled people, which in turn, may hamper the efficiency of a fast developing economy. The old theories of brain drain may no longer be relevant in the context of the extensive transnational flow of labor and capital. But Kerala's experience demonstrates how the absence of key workers hinders many developmental projects. As a result of migration, the state has witnessed a series of diverse economic and social changes. The Gulf migration provided a solution to the otherwise poor employment situation of the state. The economic effects of out-migration have been studied by many scholars with emphasis on the positive effects. However, the 'positive impact' literature has failed to assess the new dynamics. There are equally important adverse effects, the major one being the emergence of a new phenomenon, 'replacement migration.' Huge exogenous money and the shortage of skilled workers and consequent increase in labor charges have made Kerala another 'Gulf' attracting migrant workers from other states.

The emigration of skilled workers has created a shortage of laborers at home. The process of out-migration has resulted in a reduction of the supply and increase in the demand for certain categories of workers. The shortage is most acute in places where the Gulf migration is high thus spurring wage rates. This in turn has led to a massive influx of Tamil laborers with a lower wage structure. Replacement migration has thus been a natural result of emigration and there is a correlation between the growth of rate of wages of skilled workers and the positive trends in the process of migration.

Bilateral Agreements and Memorandums of Understanding (MoUs)

India has signed labor agreements with all the GCC countries, except Saudi Arabia. The agreements aim to secure Indian emigrants against exploitation, maltreatment and abuse and protect their rights in the host countries. The agreements are also designed to forge bilateral partnerships to expand the overseas employment market for Indian workers. It is also true that with an array of formal labor agreements, the country has been tactically involved in massive negotiations with the GCC states for last few years. But these agreements with slim prospects often struggle to produce tangible advances towards the improvement of the plight of Indian labourers in the Gulf. This section examines the questions: Why do the agreements fail to yield the desired results? Why do they not live up to the much-hyped expectations?

With Bahrain

India and Bahrain signed a labor welfare agreement in December 2008. The agreement sought to ensure the safety and security of the large number of Indian workers in that Gulf nation. The agreement seeks to help ensure the smooth flow of workers from India, as per the requirements of the kingdom. Indian workers make up a bulk of Bahrain's expatriate population with around 150,000 workers in total. The formation of a joint committee to implement the agreement and review employment opportunities in Bahrain was the major highlight of the agreement. The committee has the right to discuss any issue which has a direct link to Indian labor.

The agreement followed a Memorandum of Understanding, which was signed in 2007. The MoU delved into labor mobility and manpower development and provided an institutional framework for strengthening bilateral cooperation in the deployment of Indian workers in Bahrain. The agreement also recognized the existence of several malpractices which needed to curbed, like substitution of contracts, delayed or non-payment of wages, harsh working and living conditions, denial of contractual facilities, and ill-treatment and physical abuse of workers. Most significantly, the agreement proposed to bring all categories of workers under the protection of labor laws. So far, domestic workers, most of them woman migrants, do not come under the ambit of labor laws.

Further, the MoU ensured that all employment contracts will have to be in conformity with the terms of the work permit. The agreement also says that all contracts will have to be authenticated by the Bahrain government. Besides, the agreement allows for facilitation of manpower recruitment – that has to be in conformity with laws of both nations – and mutual sharing of information and experience. Interestingly, Bahrain is one place where a close monitoring of the provisions of the agreements takes place. Besides, the Indian embassy has fixed a minimum wage of BD1,000. Initially, Bahraini authorities instituted tough measures like a 'quota system' for Indian workers, but the huge demand for skilled and semi-skilled Indian laborers forced them to back-pedal. The Bahraini proposal aimed at implementing a quota system all over the region and limiting the period of a foreigner's stay in a Gulf State to six years was rejected outright by the other Gulf countries.

Another MoU between India and Bahrain was signed on June 17, 2009. The purpose of the MoU has been to enable protection and welfare of all categories of employees under the labor law and regulation in Bahrain. This MoU categorically insists that "every demand for employees shall state the required specifications and qualifications for jobs and types needed. It shall include the duration of contract, the conditions of employment, including the salary agreed on, the end of service benefits, medical facilities, leave entitlement and other facilities such as transportation, accommodation etc."[43] The terms and conditions of employees, as per this MoU, shall be defined by an individual labor contract between employee and the employer, and the employer shall not have the authority to amend or vary the provisions of the labor contract except for the purpose of improving the terms and conditions of service benefit for the employee. The two parties decided to establish a joint committee for the proper implementation of this MoU.

With UAE

India signed a similar labor agreement with UAE in 2008. Before that a MoU ensuring a safeguard for all categories of Indian workers and their protection from exploitation, under the UAE Labor law was signed between India and UAE in December 2006. The provisions of the MoU included proposals like payment of salary through banks, a compulsory health insurance scheme for workers, better housing facilities, issue of smart cards and regular Joint Committee Meetings between the two sides to discuss steps to enhance cooperation in employment of Indian workers and their training needs in three major sectors – construction, hospitality and tourism, and health care.[44] It was also decided to set up a grievance redressal mechanism for Indian workers, under which a monthly meeting would be held between Labor Attaches of the Indian Embassy in Abu Dhabi and the Consulate in Dubai and officials of the UAE Ministry of Labor. A counselor (Community Development Affairs) has also been appointed by MOIA at Abu Dhabi to look after the interests of the overseas Indian community in the UAE.

The present agreement is very comprehensive in terms of addressing a wide array of issues. Under the new agreement, the terms and conditions of the

43. See the document of Memorandum of Understanding between the Republic of India and the Kingdom of Bahrain on Labor and Manpower Development available on the official website of Ministry of Overseas Indian Affairs, www.moia.gov.in accessed on September 20, 2010.

44. For further details see the text of MOU between the Government of the UAE and the Government of India in the field of manpower available on the website www.moia.gov.in, accessed on September 15, 2010.

employment contract will have to be in conformity with the work permit that the employer obtains from the UAE government. All contracts will have to be authenticated by the UAE government and the employer will have no right to change the contract conditions. As a step towards enforcing the agreement, Dubai authorities made it compulsory for domestic workers and their employers to sign contracts that specify their terms of employment, including salary details and leave cycle.

Although this step has been welcomed, Indian Consulates in the UAE complain that they still do not receive contracts that Indian domestic workers may have signed with their employers.[45] Complaints regarding underpayment or delayed payment of wages, substitution of contracts, and denial of contractual obligations to workers by their employers are still common.

With Oman

India and Oman finalized and signed an agreement on labor welfare in 2008. The agreement covers different categories of labor, including domestic workers. Besides, the Indian diplomatic mission in Oman has taken several steps for the welfare of Indian household workers. These include making prior attestation of labor agreement by the embassy mandatory to allow household workers to leave India, orientation program for household workers prior to their leaving India, contractual binding for the sponsor to provide a pre-paid mobile phone to the household worker on arrival, the sponsor allowing the household worker to report to the embassy within four weeks of his/her arrival in Oman, free legal assistance for any household worker who is ill-treated, and the embassy paying for the medical treatment and airfare in deserving cases.

Apart from this, India and Oman signed an agreement in the field of manpower designed to check illegal recruitment and human trafficking and creating employment opportunities for Indians in that country during Indian Prime Minister Manmohan Singh's visit to the country in 2008. Along with this agreement, India has fixed the minimum wage for Indian domestic workers in Oman at 75 Omani riyals (approximately $195) per month. Above all, Oman has distinction of having a labor regulatory authority promptly taking up workers' complaints with the employers involved. Issues like living and working conditions of workers are strictly monitored.

45. Atul Aneja, "Growing Assertion of Asian Workers in the Gulf," *The Hindu*, November 22, 2007.

With Qatar, Kuwait and Saudi Arabia

Qatar was the first Gulf nation to sign an agreement with India way back in 1985. An additional protocol to the agreement was signed in the year 2007. Certain broad principles have been discussed in this additional protocol agreement. They include: declaration of mutual intent to enhance employment opportunities and for bilateral cooperation; the host country to take measures for protection and welfare of the workers in organized sector; statement of the broad procedure that foreign employer shall follow to recruit Indian workers; the recruitment and terms of employment to be in conformity with the laws of both the countries; a Joint Working Group (JWG) to be constituted to ensure implementation of the MoU and to meet twice a year alternatively in each of the two states.[46]

A similar MoU was signed with Kuwait in the year 2007. The major highlight of this MoU is the insistence that the employer or the registered recruiting agency must ensure that the employment contracts are authenticated by the: (a) Kuwait Chamber of Commerce and Industry or by the competent authority; (b) Kuwaiti Ministry of Foreign Affairs; (c) Indian Mission in the State of Kuwait; (d) competent authority under the Ministry of Overseas Indian Affairs of the Republic of India.[47] Efforts are underway to explore the possibility of a similar MoU with Saudi Arabia.

The JWGs are primarily meant for resolving bilateral labor issues and monitoring the implementation of the MoUs. Additionally, according to the MOIA *Annual Report 2010*, JWGs serve as a "platform to deal with issues such as model contract, minimum wages, documentation requirements, labor dispute redressal, retention of passport, substitution of contracts, dealing with recalcitrant employers, practical solutions to problems of exploitation and abuse of workers etc…"[48] Although India has not signed a labor agreement with Saudi Arabia, top-level negotiations are actively on for the formulation of a comprehensive deal. Regular meetings of the Saudi-Indian Joint Commission are a significant step towards it.

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46. For further details refer to the Additional Protocol to the Agreement between the Republic of India and the State of Qatar on the regulation of the Employment of Indian Manpower signed on 11 April 1985, available on the website of MOIA, www.moia.gov.in, accessed on September 20, 2010.

47. See the text of MoU on Labor, Employment and Manpower Development between the Government of Kuwait and the Government of the Republic of India, available on www.moia.gov.in accessed on September 20, 2010.

48. *See Annual Report 2010,* MOIA, 19.

The labor agreements with many of the GCC states did not produce tangible advances. The Indian laborers in these states still express the view that the government is not helping them as they suffer from extreme exploitation. Though the Indian insistence on bringing new legislation for the protection of workers under the host countries' laws was well appreciated and considered as the first indicator of India's changed position in the region, as yet, the new policy regime has not proved its worth. Indian efforts to develop a better working atmosphere and minimum salary for laborers have also failed to find traction.

Recent Initiatives: Problems and Prospects

The Ministry of Overseas Indian Affairs (MOIA) within a span of almost half a decade has taken many unprecedented steps to protect the welfare of Indians in the Gulf. The ministry is in the process of establishing overseas Indian community welfare funds in all GCC states. The Indian Community Welfare Fund is to provide: boarding and lodging for distressed overseas Indians in household/domestic sectors and unskilled workers; expenditure incidental to airlifting of mortal remains to India, or local cremation/burial of the deceased overseas Indian; extending emergency medical care to overseas Indians in need; providing initial legal assistance to overseas Indians in deserving cases. [49]

The Overseas Workers Resource Centre, which is a toll-free helpline, has been established for Indian workers in the Gulf. Such steps are much trumpeted initially; however, little happens in the subsequent period. Similarly, although India has successfully entered into bilateral social security agreements with many European countries, such agreements are still a non-starter when it comes to the GCC countries. As per the bilateral social security agreements, Indian workers coming under the social security system of the host country will be entitled to the export of the same benefits (disability insurance, health insurance and unemployment insurance) when they relocate to the home country or a third country on completion of their contract or on retirement. [50]

Another important issue to be discussed in this context is the functional overlapping of various government agencies of the government of India. The case of airlifting mortal remains of deceased overseas Indians in the Gulf seems to be the issue that illustrates the situation well. Indian diplomatic missions normally get all the pre-airlifting formalities done through private paid agencies. While the Ministry of Overseas Indian Affairs set up the Indian Community Welfare Fund

49. Ibid.

50. Ibid., 21

to provide the same service, states like Kerala have established their own agencies for the same purpose. Needless to say, there is confusion among these government agencies regarding their responsibilities. The situation shows the need for a separate cell to perform such emergency services.

Similarly, MOIA has set up an Overseas Indian Facilitation Centre (OIFC) in partnership with Confederation of Indian Industries (CII) with a mandate to cover investment facilitation and knowledge networking. Since the role of the Indian diaspora in India's economic growth is significant, a move to streamline NRI investments is the need of hour.[51]

We have a more illustrative example of China, where the Chinese diaspora is a major contributor to Foreign Direct Investment. The Government of India has now realized the significance of tapping productive investments from overseas Indians and utilizing their knowledge and expertise. As the brand ambassadors of India in the Gulf countries, NRI businessmen are in the frontline in bringing money to the country as investments. The Kerala government has successfully roped in NRIs for investment and infrastructure development. Cochin International Airport built with private participation bears testimony to the keenness of overseas Indians to participate in the country's development.

However, there are certain avenues yet untapped by the government. An exclusive bank or financial institution for overseas Indians is one among them. Especially in places like Kerala, where the population of expatriates is high, foreign remittances are the major source of deposits for the banks. In spite of this fact, banks in many migrant dominated places show a strange reluctance to fund overseas Indians' projects. People often complain about the indifferent attitude of banks towards granting housing, personal or project loans for NRIs. Overseas Indians, on the other hand, show little inclination to send their money back to India through banks. The relatively high commission for money transactions through banks makes low-salaried laborers rely on private money exchange bureaus or even illegal networks to transfer their earnings. Launching an express money transfer service attached to the bank proposed appears to be a more viable solution to contain illegal money transfer rackets. Introduction of micro-credit system and self-help groups among low-salaried Indian workers in the Gulf with the support of diplomatic missions and overseas Indian organizations in host countries could also serve the interests of Indian expatriates in the GCC countries.

51. Overseas Indians produce an economic output of about $400 billion per year.

Conclusion

There is a growing synergy between India and the GCC states as both regions have similar perceptions on many regional and global economic and strategic issues. From a narrow basket of issues, which was often taken for granted by both sides, India-GCC economic relations have now graduated to more dynamic engagement. The change is mirrored in the technological field. Indians' confidence has grown immeasurably over the years thanks to the success of its professionals and firms in the region. India is making real strides and finishes first among the countries that provide cheap and cutting edge technologies to the GCC countries.

In the case of the GCC countries, this decade has witnessed a remarkable shift towards a 'Look East' policy leading to a widening of the region's geopolitical vision. In addition to traditional partnerships, these countries have been reaching out to potential strategic partners like China and India. India-GCC relations now have expanded beyond economic areas and have significant political as well as strategic dimensions.

Labor issues, however, mark India's inability to trade its regional influence for the betterment of its peoples in the GCC. India seems to be holding an unsubstantiated fear, which has constantly been shared by media and diplomats, that if the Indian government complains about the treatment of its citizens in the Gulf, then the Gulf States can seek low-wage labor elsewhere. This fear and a zealous avoidance of criticism forces Indians to accept the stringent rules imposed by the Gulf countries unilaterally. But, unlike in the 1970s and 80s when the majority of Indian laborers had little bargaining power, the present Indian migration in the Gulf cuts both ways, contributing significantly to the technological well-being of the receiving countries, while simultaneously contributing to the welfare of the sending country. With the advent of globalization, the inflow of foreign workers is determined purely by economic factors. The movement of foreign labor to the Gulf has, to a large extent, been influenced by the forces of the global free market. While businesses seek the cheapest workforce, Indians have been able to take advantage of the situation as a cheaper-to-employ and more efficient workforce. That is the reason why Indians are being given priority in recruitment even when the Gulf countries are cutting down on expatriates in order to overcome the pinch of recession and to bring down the unemployment rate among its citizens.

15

India and GCC: Strengthening Ties through Education, Culture and Diaspora

Prasanta Kumar Pradhan

Introduction

Strengthening ties in the fields of education, culture and diaspora is both a challenge and an opportunity for both India and the Gulf Cooperation Council (GCC) countries to take their relationship to new heights. In recent decades, India has taken big strides in the field of education, particularly in areas such as vocational education, management studies, Information Technology, and medicine. A number of educational institutions have also opened their branches in the GCC countries, while some others have expressed their interest in entering the region. There has been some institutional collaboration between educational institutions from India and the GCC countries. In the field of culture, both India and the GCC countries have expressed their desire to improve their relationship. MoUs on exchange of cultural troupes, cultural education, exchange of publications and language promotion have been signed by India and the GCC countries. Priority has been given to spread culture through the means of education on both the sides. The large Indian diaspora in the GCC countries forms a natural link between India and the Gulf region and has contributed to strengthening India-Gulf links. The oil boom in the Gulf drew unskilled and semi-skilled laborers from India; and later, with the education boom in India, many highly qualified India professionals have moved to the GCC countries. Against this background, this paper intends to analyze the India-GCC educational, cultural and diaspora ties and find out how they can be further improved.

Educational Ties

The government of India has given high priority to expanding education ties with the GCC countries. During his visit to the Gulf region in November 2008, India's Prime Minister Dr. Manmohan Singh further emphasized this by stating that IT and education are two emerging areas of cooperation between India and the GCC countries. Again during his visit to Saudi Arabia in February 2010, he offered India's expertise in the knowledge-based sector. He stated that, "Education and skill development are of primary importance to both our countries. India has a proven track record in the field of knowledge-based industries, which have great potential for the improving the skill set of the workforce." Such forthright statements from the Prime Minister reflect India's interest in building robust educational ties with the Gulf countries. In this regard, India has signed agreements on educational exchange programs with the GCC countries.

Bahrain

The Executive Program for Cultural Cooperation for 2007-2010 between India and Bahrain calls for exchange of books and other publications about education systems and methods, organizing joint exhibitions and seminars, joint research programs, and training programs for teachers and administrators. In the field of higher education, both sides have agreed to develop contacts and exchanges in the field of higher education, science and research between universities and higher educational institutions, including in vocational education and training and computer training.

Kuwait

The India-Kuwait Cultural Agreement of 1970 calls for promotion and development of close cooperation between universities and scientific and research institutions of the two countries. It calls for exchange visits of professors, research scholars and experts, delegations and representatives, and scientists, scholars and journalists. It also calls for exchange of scientific and educational materials and publications. A protocol has been signed between the Council for Scientific and Industrial Research (CSIR) of India and Kuwait Institute for Scientific Research (KISR). An Academic Agreement has been signed by Jamia Millia Islamia, New

Delhi and Faculty of Arts of Kuwait University. Similarly, Faculty of Arts of Kuwait University signed an Academic Agreement with the Central Institute of English and Foreign Languages, Hyderabad in 2004.

The Vice-President of India Md. Hamid Ansari visited Kuwait in April 2009. Three agreements were signed during the visit – Education Exchange Program 2009-2011, Agreement on Cooperation in Science & Technology and a Cultural Exchange Program 2009-2011. Under the Executive Program for Education and Learning Cooperation between India and Kuwait for the years 2009-2011, both the parties have agreed to exchange books, newspapers, microfiche and archives. Both the countries agreed to exchange information on studies and research in the fields of education and learning and exchange specialists in the fields of general education, adult education, special-needs education, and social and psychological services. They also agreed to include in their educational curricula, concerned subjects about the history, heritage and geography of both the countries; encourage research seminars in the fields of science; and encourage the visits of students. The agreement in the field of science and technology calls upon both the countries to exchange scientists and publications and set up a joint India-Kuwait committee for scientific and technological cooperation.

Oman

The Executive Program for Cultural and Educational Agreement for the years 1997-1998 between India and Oman called for exchange of visits of professors of Sultan Qaboos University and Jawaharlal Nehru University, exchange of academics for seminars, and exchange of students, and made provisions for scholarships. The MoU on education between the two countries signed in December 2007 encourages cooperation through visits of academics, officials and students from universities and academic institutions, organizing seminars, scientific programs and training courses, and exchange of books, scientific documents and library materials. The MoU also said that both the countries would establish a Joint Working Group to implement the program. In this regard, the first Joint Working Group meeting was held in Oman in March 2009. In the Joint Working Group meeting, India agreed to consider exchange of text books, publications and audio-visual material, and provision of experts for teachers' education, social sciences, computer education and computer assisted learning, education technology, science education and vocational education. The Joint Working Group also discussed issues like exchange of faculty and students, holding of joint conferences, institutional capacity building, and participation in conferences.

At present, there are around 1,500 students from Oman pursuing higher education courses in India, mostly in subjects like engineering and Information Technology. Caledonian College of Engineering of Oman signed a Memorandum of Understanding with the Indian Institute of Information Technology, Allahabad to develop further interaction in the fields of research and higher education. EdCIL, a Government of India enterprise to promote Indian education abroad, organized a 'Study in India Fair - 2009' in Muscat in October 2009 in which several prominent Indian educational institutions and universities participated. Apart from that, EdCIL is also working to develop educational ties between the two countries by encouraging students to study in India and assisting in teacher recruitment and training, and curricula development.

NIIT has also proposed to partner with the government of Oman for IT education in schools, designing curriculum, creating text books, teacher training, and setting up multimedia, computer, mathematics, science and English labs for comprehensive learning at the school level. In the field of higher education, NIIT offers to map the curriculum, support world class courseware and teaching methodology for the universities, and provide trainers and assessment and joint certification. Indira Gandhi National Open University (IGNOU) has a partnership with the Glory Institute in Muscat. Though a good number of students have enrolled, Oman's Ministry of Higher Education has refused to grant recognition on the grounds that open/distance education has no room in tertiary education. This creates hurdles in future cooperation in education.

Saudi Arabia

Improving ties in education between India and Saudi Arabia was one of the objectives of the Saudi-Indian Joint Commission on Economic and Technical Cooperation established in 1981. The Delhi Declaration signed by India and Saudi Arabia in 2006 calls for closer cooperation in the field of technology, in particular in the field of information and communication technology, agriculture, bio-technology, and non-conventional energy technologies. India has also pledged to assist Saudi Arabia in setting up an ICT Center of Excellence as well as institutes of higher learning, involving both education and research, in the field of technology. India also committed to offer opportunities for Saudi students to pursue Post-Graduate and Doctorate level studies in technical institutions in India, and enhance cooperation in human resource development related to telecommunications. It was agreed that cooperation in the field of science and technology, tourism, youth affairs and sport, agriculture research and education, technical education and vocational training and other fields of mutual benefit should be intensified through signing of agreements and memorandums of understanding as necessary.

As agreed in the Delhi Declaration, India and Saudi Arabia signed a memorandum on higher education in the year 2006. The memorandum calls for exchange of teaching faculty and students, encouragement of direct scientific and educational communications among the institutions, and exchange of delegations between the two countries. It also encourages cooperation in the fields of Information Technology, computer science, medicine, mathematics and science. There are a number of scientific and technical cooperation programs between the two countries which are working successfully today. In pursuance of the Declaration, India has now been added to the Saudi government's 'King Abdullah Scholarship Program' which sends students abroad on fellowships. The program has sent more than 100 students till now. To further strengthen educational ties between the two countries, during his visit to Saudi Arabia in February 2010, Prime Minister Manmohan Singh reiterated that, "India would be happy to share her experience with Saudi Arabia in the area of human resources development."

The Council of Scientific & Industrial Research (CSIR) of India and the Saudi Arabian Standards Organization (SASO) have an ongoing program of technical cooperation since 1993. Two important SASO projects related to calibration and teleclock system have benefited from the expertise and technology provided by India's National Physical Laboratory. CSIR and the King Abdulaziz City for Science and Technology (KACST) signed a Memorandum of Understanding for bilateral cooperation in 1997 and have an ongoing program of cooperation, particularly in the field of space science, remote sensing and installation of Internet.

The number of Saudi students in India is negligible. Though Saudi Arabia is well aware of the educational progress of India in all major fields like medicine, engineering, management, Information Technology, and Biotechnology, and the quality of education being offered, India has not been a favored destination for Saudi nationals.

UAE

A Memorandum of Understanding between the Emirates Center for Strategic Studies and Research, Abu Dhabi and the Indian Council for World Affairs, New Delhi was signed in 2008. The MoU aims at setting up a long-term relationship between the two organizations to promote cooperation in areas of mutual interest such as publications, marketing and advertising, exchange of visits and information, conferences and workshops, training and research activities, field research, as well as cooperation in specific events in future.

The Dubai Medical College for Girls (DMCG) signed an agreement with All India Institute of Medical Sciences (AIIMS) in 2007. The areas of cooperation identified are internship electives, training of DMCG faculty in specialized areas, joint research, joint Continued Medical Education (CME) programs and inviting external examiners and visiting faculty from AIIMS during pre-clinical and clinical phases. Pune University plans to set up a full-fledged campus in Dubai. IGNOU has signed a Memorandum of Collaboration with the Higher Colleges of Technology, Abu Dhabi for offering degree and diploma programs at the undergraduate and postgraduate level. Birla Institute of Science and Technology (BITS) has been operating in Dubai since the last few years. S. P. Jain Institute of Management and Research, Mumbai, has opened a branch in Dubai and Mahatma Gandhi University has opened an off-campus center in the 'Knowledge Village' in Dubai.

Qatar

India and Qatar have set up a joint committee on human resource development. Tata Consultancy Engineering has set up its presence in the Qatar Science and Technology Park. India has been providing training facilities as well as experts in the area of State Audit. NSIC was commissioned to do a project for the SSI sector in Qatar. It is widely believed that since 9/11 and the subsequent cultural backlash triggered in the West, Gulf nationals have developed the impression that the United States is no longer a safe and welcoming place for them to pursue higher education. Though no concrete figures are available, reports indicate that the number of GCC students applying for degrees in American universities has dropped significantly and that a good number of the students seeking higher education prefer to stay in their countries and get quality education.

India is fast emerging as a global center of learning in diverse fields. In recent years, there has been a steady increase in opportunities for science and technology education, especially in information technology, engineering, and medicine. Students of the GCC countries who mostly head towards the US, Europe, Australia, and New Zealand can also explore India as their destination of study as they would receive quality education at a comparatively cheaper cost than in the other countries. Besides, studying in India would also help them know and understand the country better.

A look at the exchange programs signed between India and the GCC countries reflects the greater need for cooperation in the fields of professional studies and science and technology. Students today prefer subjects like engineering, medicine, IT, and management which provide access to better job opportunities and a prosperous career. India is fast becoming an education hub with a number of world- class institutions in various fields. More students from the GCC countries should be encouraged and allowed to study in India.

The following steps can be taken to improve educational ties between India and the GCC countries.

- More universities and educational institutions from India should be encouraged to open their branches in the Gulf. This would certainly increase academic interaction and mutual understanding. The Indian government should also consider opening branches of educational institutions like IITs and IIMs, which offer subjects that are in demand among the GCC students.
- There should be increased interaction among the universities, think tanks, faculties and students by way of holding seminars, conferences and symposiums. This would facilitate exchange of views and also lead to generation of new ideas. Both India and the GCC countries should undertake collaborative research and joint publication of materials on matters of mutual interest.
- Mutual recognition of each other's universities and degrees is necessary for any kind of fruitful educational ties between India and the GCC countries. This would also enable the students to choose from among the large number of universities and institutions that are available in both India and GCC.
- There should be a special drive to learn each other's languages. Courses for Indian languages like Hindi, Urdu and Sanskrit should be made available in schools and colleges in the GCC countries and similarly, Arabic language should be encouraged in India. Learning each other's languages enables a better understanding of history, culture, religious texts, mythologies as well as each other's viewpoints on several issues of bilateral importance.
- Along with the private educational institutions, more Indian government funded universities should reach out to the Gulf. There seems to be a lack of governmental initiative in this regard. Indian universities and other institutions of higher learning have not made adequate efforts to attract students from the Gulf region. The Indian government should also make conscious efforts in this regard to bring in larger numbers of GCC students to India.
- Special attention should be given to collaboration in science and technology education. In recent times, study of subjects like IT, engineering, medicine, and space research have gained popularity among the students. In this regard,

India can help GCC countries in activities like designing the curriculum, preparing text books, setting up multimedia labs and computer labs, providing qualified human resources, and setting up training facilities.

- Both India and the GCC governments should facilitate a larger number of students from the GCC countries to study in India. This will not only provide good quality education to the students, but it will enhance their knowledge about India and its people. This will allow a generation of people from both India and the GCC countries to interact with each other closely from a young age which in the long run would create a solid intellectual base for the relationship.

Cultural Ties

Cultural interactions between India and the Gulf countries are as old as the initial contacts between the two peoples on either side of the Arabian Sea. In the post-independence period, cultural contacts between India and the Gulf region have continued to grow but they are not very robust and lack the vigor of the past. Both sides should increase the focus on cultural ties as this has the potential to lay a foundation for people-to-people contacts.

Several efforts have been made by India and the GCC countries to enhance cultural ties. Agreements have been signed and there have been cultural exchange programs and collaboration in studies and research on each other's cultural history and civilization. According to the Ministry of Culture, Government of India, "Cultural Agreement is a one time legal document signed by the Government of India with the Government of any other country. It forms the basis for further development of cultural ties in the form of Cultural Exchange Programmes." Thus India has signed cultural agreements with all the GCC countries except Saudi Arabia. Though India and Saudi Arabia have not signed any cultural agreements with each other, related documents signed between the two countries call for strengthening cultural ties between the two countries.

India and Bahrain signed a cultural agreement in 1975. This was followed by a two-year Cultural Exchange Program for the years 1981-82. Further, an Executive Program for Cultural Cooperation for 2007-2010 was signed by both the sides during the visit of the Bahraini Crown Prince to India in March 2007 in pursuant with the Cultural Agreement signed in 1975. The latest Executive Program for Cultural Cooperation for the years 2007-2010 calls for exchange of books and other publications to enhance knowledge of cultural and educational methods. It also seeks cooperation in the fields of primary and higher education, promotion of their respective languages in their countries, scholarships and field study, girls' education, art and culture including music, museums and archeological artifacts, and cooperation in the fields of media, radio and television. An agreement between Prasar Bharati and Bahrain Radio & TV Corporation was also signed.

India and Kuwait signed a Cultural Agreement in 1970 and there have been a series of regular exchanges between the two countries. During the visit of the Amir of Kuwait in June 2006, an Executive Program for Cultural and Information Exchanges for the years 2006-08 was signed. An Executive Program for the Cultural and Information Exchanges between India and Kuwait was signed for the years 2009-2011 in April 2009. The present Executive Program calls for exchange of visits of experts on art and culture, and exchange of books, journals, and any other research literature on history, civilization, art and culture. On information and broadcasting, the Program calls for exchange of TV and radio programs for better understanding of each other's culture, and to provide facilities for each other's correspondents and information delegations. A Memorandum of Understanding has been signed between Kuwait University and Jamia Millia Islamia, New Delhi, to provide a framework for regular exchanges. Cultural troupes have also been exchanged by the two countries. Lalit Kala Akademi of India and Kuwait's National Council of Culture and Arts have agreed to facilitate exchange of cultural activities.

India and Oman signed an Executive Program for Cultural and Educational Agreement for the years 1997-1998. The Executive Program sought to promote cooperation between cultural institutions, libraries and museums, exchange of artists and theater organizations, cooperation in the fields of printing, publication and translation of relevant materials, and exchange of cultural officials, researchers and artists between the two countries. Muscat has two Hindu temples where *puja* is performed daily; one of them is said to be over 100 years old. There are gurudwaras within the precincts of companies and seven churches, which meet the needs of various Christian groups from India. The Basic Law of the State, promulgated in December 1996, guarantees freedom of worship.

India signed an agreement on cultural cooperation with Qatar in June 1980. The agreement calls upon both the parties to encourage, among others, establishment of cultural institutions, exchange of art and other exhibitions, radio and TV programs, exchange of experts on cinema, and participation in film festivals.

India and UAE signed a cultural agreement in January 1975 and a cultural exchange program for the years 1994-1996. India and UAE signed an Information Cooperation Agreement in 2000 which provides for cooperation and exchange of news between the Emirates News Agency and the Press Trust of India. Similarly, a Channel Carriage Agreement in 2000 between the Directorate-General of Doordarshan Broadcasting Corporation of India and the Emirates Cable TV and Multimedia LLC [E-Vision] provides for the down-linking and distribution of DD World signals in the UAE through E-Vision's cable network.

The Indian entertainment industry which includes films, theaters, and music bands has been very popular in the Gulf. Globalization and the spread of the latest technology have further raised the popularity of Indian entertainment industry, particularly among the youth.

The following steps needs to be taken to enhance the cultural ties between India and the GCC countries.

1. The Indian Council for Cultural Relations (ICCR) should establish more cultural centers in the Gulf region as there is only one Indian Cultural Centre in Abu Dhabi which was inaugurated in 2009. The GCC countries should also open their independent cultural centers in India as that would facilitate cultural interaction with India.
2. There is a lack of joint research works, seminars, conferences and other intellectual collaborations on studying both the historical and the present dimensions of the cultural engagement. A dedicated research center focusing on the cultural aspects of India-GCC relations can be established with the faculty drawn from both India and GCC. This would help to undertake specialized research on culture and understand each other's viewpoint through mutual and frequent interactions. Thus, there is a need to consolidate institutional partnership on culture between the two.
3. The exchange of cultural troupes is not publicized properly and does not get much attention in the media. Thus, it does not percolate down to the knowledge of the common man and instead is restricted to a selected few.
4. The frequency of cultural exchange programs between India and the GCC countries needs to be increased. The ICCR and the authorities in the GCC countries can take necessary actions in this regard.
5. At the official level, there should be frequent visits by the authorities from the respective Ministries of Culture. India can also form Joint Cultural Commission/ Joint Working Groups on Culture with individual GCC countries and the GCC as a whole.
6. Language remains a strong barrier in the India-GCC cultural engagement.

Efforts should be made to translate famous and popular books into each other's language and these should be made available to the public. Books on history and philosophy, besides biographies, fiction and other books of contemporary relevance, can be translated and be made available. Apart from that, there is a need to educate the school children about each other's culture and civilization.

7. There are around five million Indians living in the GCC countries now. There should be a mechanism for a community dialogue between the Indians and the local people in the respective countries. This would give impetus to cultural understanding. Periodic interaction among people from the same professions from India and the Gulf would lead to better understanding among the communities. The respective GCC governments should also encourage such interactions. Also, participation in each other's religious and social functions would enhance mutual understanding and social and communal harmony.

Diaspora

The five-million strong Indian diaspora in the GCC countries forms a natural link between India and the Gulf region. Indians constitute the single largest community and the largest expatriate community in all the individual GCC countries. According to the Ministry of Overseas Indian Affairs, there are 17,89,000 Indians in Saudi Arabia; 17,02,911 in UAE; 579,390 in Kuwait; 557,713 in Oman; 500,000 in Qatar and 350,000 in Bahrain. Most of the Indian workers in the Gulf are unskilled or semi-skilled. However, in recent times large numbers of highly qualified professionals have entered the Gulf. The presence of a large Indian diaspora in the GCC countries has left an enduring impression in the minds of the local people. Indians have infused a sense of pluralism, social harmony and religious tolerance in the Gulf. The Indian diaspora has provided the GCC countries with cheap and competent manpower in their development process.

The GCC countries acknowledge the contribution of the Indian diaspora towards the development of the countries as well as in strengthening their relationship with India. The Indian diaspora has demonstrated its capability in various fields and is considered to be a useful asset as it has co-opted itself well in a different social and political environment and significantly contributed to building bridges with India.

The Indian diaspora could also play an important role in strengthening the relationship in the fields of trade and economic development, political and strategic relationship, spreading educational and cultural networks, and establishing people to people contacts between India and the GCC countries. Diaspora plays an important role in shaping the perception of the people and governments of the Gulf countries towards India. To some extent, diaspora is the medium through which the Gulf people have shaped their perception of India and its people. The diaspora can help in further improving India's image by increasing interactions with the local media.

Despite important all-round contributions by the Indian diaspora in the region, there remain a number of issues which need to be addressed by the GCC governments for the welfare of the Indian community in the region. The following are some of the common problems faced by the Indian community in the Gulf:

- Non-payment/delayed payment of salaries to the workers by the employers. Sometimes employers do not pay the gratuity on termination of job.
- Employer refusing permission to the worker to travel to India.
- Employers keep the passports of the workers which leaves the workers vulnerable and the employer can exercise undue control over the employee.
- Unsatisfactory living conditions
- Inadequate medical facilities for the employees
- A large number of complaints continue to come from the Gulf region regarding the exploitation, sexual abuse and molestation of the housemaids and women employees. They are made to work beyond the prescribed hours of work and, in some cases, not allowed a weekly day off.
- Complaints of non-payment of insurance money by some of the insurance companies are also reported by the Indians in the region.
- There are hardly any systems to monitor the actual working conditions and environment of the workers in the GCC countries. That is why many workers, particularly unskilled and semi-skilled migrants, continue to face problems in the region. Thus there is a need to put in place a mechanism to monitor the actual working conditions of the workers.

Facing such harassment and discrimination from the employers, some Indian workers in the region have resorted to protests. As workers unions are not allowed in the Gulf countries, it becomes difficult for the employees to express their grievances. Reports of workers' strikes have come from many GCC countries. The protesting workers complain that they resort to protests, despite being aware that these are prohibited by local laws, because of the fact that all their attempts to talk to their managers, supervisors or contractors have failed. A large number of labor-related disputes are pending in labor courts throughout the region.

There are cases of Indian workers landing up in jails in the Gulf because of some unscrupulous employers who take custody of the passports of the employees but do not renew visas in time. In some other cases, workers' stay becomes illegal when they run away from the employers because of nonpayment of salaries for months. But to their relief, the Gulf countries declare amnesty schemes from time to time to either regularize their stay or them deport without penalty or punishment.

As the diaspora contributes significantly towards the India-GCC relationship, it is time their needs and complaints are addressed. The government of India is trying hard to ensure the safety and security of its citizens in the Gulf and is regularly talking to the officials of all the GCC countries in this regard. The following points should be addressed by the authorities in the GCC countries for the betterment of the Indian diaspora in the region.

1. Many Indian workers fall prey to the traps of the greedy employers and recruitment agents. There are cases of non-observance of terms of contracts by employers leading to distress for many Indian workers. Recruitment agents in India are also involved in misleading people by providing them wrong information regarding their salary, living conditions, working conditions and so on. Some people return home if they find the job unsuitable. Thus, effective measures should be adopted by the Government of India as well the governments of the GCC countries to check such recruitment agents in India and the employers in the Gulf.
2. The GCC governments should take seriously the issue of harassment of housemaids, cooks, and domestic help who have become victims of physical and psychological abuse at the hands of their employers. They should also be given proper legal protection as the local labor laws do not apply to them. The offenders should be brought to book and the governments should formulate stricter laws to deal with such cases. Such cases of harassment attract attention in both print and electronic media and moulds public opinion in India in a negative way.
3. The GCC governments must ensure proper living and working conditions for Indian workers in their country. There is a need to put in place a mechanism to check that no worker is exploited in terms of hours of work, underpayment, delayed payment and so on. Some governments have already adopted measures in this direction, this should be followed by others as well.

4. The governments should make provisions to stop the practice of employer taking the custody of the workers' passports. Any other mutually agreed formula should be worked out.
5. The GCC countries with which the government of India has signed labor agreements should periodically oversee the implementation of their agreements and devise ways for improvement.
6. The GCC governments should allow religious freedom to the Indian community in the Gulf. Indians are used to living in a pluralistic and multicultural environment which they find lacking in the Gulf. Though Indians have established a few temples, gurudwaras and churches in some of the Gulf countries, the freedom remains limited.
7. The GCC governments should encourage their citizens in social interactions with the Indian community in their countries. This would develop mutual understanding and trust between the locals and the Indian community.

Conclusion

Both India and the GCC countries have realized the importance of maintaining close ties in the fields of education, culture and diaspora. The number of memorandums and exchange programs signed between the two sides and the exchange of expertise, ideas and people clearly show that both sides want to take the relationship forward.

The greatest advantage in furthering cooperation in the field of education, culture and diaspora is that this would give a push to direct people-to-people contact which is important in the India-GCC relationship. Cooperation in the field of education would lead to interaction among the teachers and students from India and the Gulf region. Such interactions enlighten young minds and increase awareness about the curricula, education system, values and ethics. Similarly, cultural exchange programs enable the appreciation of the cultural ethos and values of the two sides. The diaspora has emerged as a bridge between India and the Gulf contributing in many ways to the India-Gulf relationship.

No doubt, there remain a number of challenges which hinder full utilization of the potential role of education, culture and diaspora in strengthening the India-GCC relationship. Both India and the GCC countries have taken some meaningful steps, but dedicated efforts from both sides are required to amicably resolve the contentious issues and further strengthen the relationship.

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India-GCC Relations: Enhancement of Cultural Ties

Zikrur Rahman

Introduction

India-GCC cultural ties predate their emergence as nation states. People from the Arabian Gulf and Indians interacted with each other even before the advent of Islam. In fact, India's ties with the Gulf region stretch back almost 5,000 years. Archaeological excavations across the region regularly yield evidence of the close maritime and commercial links between the civilizations in Harappa and Mohenjodaro and that of Dilmun in the Gulf. Recent archaeological excavations in Pattanam in the Indian state of Kerala have brought forth a variety of tangible evidence of India's extensive trade links with the Arab World from the first millennium BC.[1] Ongoing excavations on the Red Sea coast continually produce fresh evidence of perhaps even older links. It is not mere coincidence that many distinguished Arab families in some of the Arab countries bear the surname 'al-Hindi,' or that 'Hind' is still a desirable name used by many Arab women. Likewise, there are a number of families in India who still have 'Arab' as their family name. The genesis and spread of Islam, however, fostered these ties tremendously. Early Muslim success enabled Arab tribes to move beyond Arabia and into a large expanse

1. See the brochure published by the Kerala Council of Historical Research, Trivandrum, 2006.

of territory on different continents. Trading and conquest brought Islam to India and the region saw positive developments with Islamic dynamism in maritime trade and cultural interactions.

With extensive inter-regional commerce, India's south-western coast was then a hub of cultural exchanges and a locale of interaction for four major civilizations; the Perso-Arabic, the South East Asian, Indian and Chinese. Cross-cultural mingling resulted in a kind of globality with deep cultural and material commonalities across the civilizations in areas such as food, agriculture, clothing and many others. Solid material and empirical evidence exists for the cultural linkages. But studies backed by archeological evidence appear to be few. Against the backdrop of this academic gap, there is huge scope for a thorough study based on available material proof. Such a historical study definitely would contribute to strengthening present cultural ties.

Besides taking stock of India's cultural ties with the GCC countries, this paper makes an attempt to suggest some measures to improve mutual understanding in the field of culture in view of the fact that age-old people-to-people cultural contacts have not produced a resonance in the development of official cultural links. Therefore, it is necessary to find new areas of cooperation and develop existing ones, such as cooperation in the field of education, media and communication. Strengthening of civil society movements of Indian expatriates and cultural organizations in the Gulf represents a new area which could contribute to furthering mutual understanding through an informal dialogue of cultures. The academic and civil society dimension of cultural relations will be deepened by focusing on areas such as joint academic exercises, cooperation in the media field, co-production in the film industry, and the development of a joint Indian and Gulf art market.

Diasporas and Religious and Cultural Convergences

Complex networks of trade that existed in ancient and medieval times necessitated the establishment of trading settlements of mercantile groups in Indian and Arab port towns. These settlements, in which trading communities and on-site agents had to settle for long periods of time, became real melting pots of cultures. Cultures that often seem so widely divergent were, in fact, in constant exchange with each other.

Each wave of migration had the additional mission of bringing Islam from its original homelands to the outer reaches of the then unknown maritime world. By the 11th century, with a view to laying the foundation stone of a greater Dares-Salam, Muslim mercantile diasporas moved beyond the political boundaries of Islam. The expansion of Islam thus further accelerated the trend of setting up colonies of expatriate merchants in major trading centers. In India, this led to the first Arab merchant settlements all along the western coast including in Calicut, Mumbai and Gujarat.

Indian traders have lived in the Gulf for several centuries. Many Indian trading groups like Bhatias and Baniyas settled in Bahrain, Oman, and other coastal Gulf towns. It is an indisputable fact that the cultural exchange between India and the Gulf has been going on for centuries, each borrowing something from the other. In the ancient and medieval periods, India and the Gulf were recipients of each other's knowledge and culture. However, the colonial period brought a halt to this movement of culture and people.

Cultural Aspects of Gulf Migration

For more than half a century, India-GCC relations have been on a distinct historical trajectory. Both regions have witnessed a series of diverse yet shared movements that have profoundly changed social relations and economic exchanges. There are more than five million Indians in the Gulf countries[2] and the migration process has perhaps been the strongest vehicle for cultural exchange, impacting overwhelmingly on the social life of both the regions. The current migration from India to the Gulf adds a new dimension to existing, age-old cultural relations. The bedrock of goodwill between the two regions allows them to build a strong edifice of substantial contemporary relations. India considers the Arab region's role as being very important in shaping its political, economic, defense and security policies at both the regional and global level. On their side, the GCC states have a "Look East Policy" which has been successfully translated in the cultural realm.

Migration to the Gulf has produced new styles of cultural consumption and novel forms of cultural practices in some parts of India. Successful migrants have invested their considerable savings in culturally significant areas such as marriages, education, and places of worship. They have more successfully challenged existing social relations and altered power and status relations than many of the social engineering programs, which were introduced with the same purpose. This cultural shift is more noticeable and significant in Kerala and parts of Andhra Pradesh whose social and cultural landscapes have been dominated by migration to the Gulf countries since the early 1970s. The migration of Keralites to the GCC countries

2. *The Hindu*, January 9, 2008.

remains a textbook example of people-to-people cultural contact that has flourished through the engagement. The issue of migration is not only one of economic engagement but also one of cultural circulation.

Recent literature on economic migration from India to the Gulf States has addressed the various forms of cultural exchange arising from such a long-distance travel. Yet despite the unprecedented literary upsurge, understanding about the cultural aspects of Gulf migration remains patchy. The impact of Gulf migration on cultural or social exchange is an aspect that has been little dealt with. It is a sad irony that the manifold cultural convergences are not reflected adequately either by the local or international scholarship.

Indian Associations in the Gulf

Indian migrants in the Gulf are, obviously, agents of cultural change. It is true that due to the temporary nature of migration to the Gulf, the migrants continue to maintain close cultural links with their respective places of origin. Migrants are often faced with a conflict between the desire to preserve their former cultural identities and their wish to develop a 'new identity' more commensurate to and consistent with the expectations and modes of behavior of the host nationals. These hybrid identities are more evident in the associations working among the Gulf migrants. They are the real barometers to understand the cultural formation among the diaspora groups. Strengthening such associations is, therefore, a vital part of any move to reinforce India-GCC cultural relations.

Bilateral Cultural Relations

There are many legal and formal frameworks and policy mechanisms that underpin cultural cooperation between two countries or regions. The scope of diplomatic exercise has now been broadened enough to accommodate culture. Cultural diplomacy plays a significant role in facilitating the movement of artists, cultural productions, cultural operators, and related goods and services across the region. Cultural cooperation between India and the Gulf region is supported by a wide range of policy measures. These policy measures find raison d'être from a variety of existing people-to-people connections, historical linkages, shared history or faith, geographical, linguistic or cultural proximity, and commercial interests. In general, the following measures form part of a country or region's cultural diplomacy actions, although some fall under general diplomacy.

Agency for Cultural and Language Promotion

In India, the main actor in developing government policy measures to promote cultural diplomacy and support cultural cooperation is the Indian Council for Cultural Relations (ICCR). Through ICCR, India has constant cultural exchanges with the Gulf countries. Music, dance, theater, art exhibitions, and film shows form a major part of this association. However, at present there is only one Indian cultural center in the entire Gulf region. The cultural center in Abu Dhabi, which was formally inaugurated in December 2009, also acts as a hub for over a 100 Indian cultural and literary associations in the UAE.[3] The idea and scope of the cultural center should be expanded to other Gulf countries with substantial Indian presence like Saudi Arabia and Kuwait. Apart from the programs conducted officially by the Indian diplomatic missions in the Gulf, there are also independent programs and projects initiated and managed by cultural organizations particularly in UAE.

Nonetheless, there is the need for an exclusive agency for the promotion of Indian culture and languages in the GCC countries and Arab culture and language in India. An independent agency along the lines of the British Council would be the best proposition for the propagation of Indian culture in the GCC countries. Such an agency, apart from facilitating the dissemination of Indian culture, would be suitable for the promotion of Indian languages and art forms.

Sister City Model

However, the scope of India's cultural diplomacy in the Gulf region and vice-versa should be widened to accommodate new idioms in the field. Rather than being country-to-country relationships, cultural diplomacy can be extended to establish official relationships between two regions or even cities. The concept of Sister City appears to be the best model for establishing such relationships. The two parties do need to be of the same type. Taking historical and topographical similarities into consideration, an initiative can be taken for the establishment of sister city relationship between Salalah in Oman and Kerala in India.

Institution-to-Institution Agreements

Other significant bilateral cultural cooperation could be in the form of institution-to-institution agreements. Such agreements will help converge the focus of concern of cultural institutions of similar nature in India and the Gulf region. Institutions established with the purpose of promoting culture in one country can sign

3. See www.iccrindia.net for further details.

agreements with institutions of similar nature in the other country. A mechanism to establish institutional links between Indian agencies promoting culture and arts like Indira Gandhi National Centre for Arts or India Arab Cultural Centre and their counterparts in the Gulf region like Abu Dhabi Authority for Culture and Heritage (ADACH) or King Faisal Foundation or Qatar Foundation is necessary.

Cultural Exchange Programs

Cultural exchange programs provide opportunities for artists, cultural performers and authors to learn from each other and contribute to development in their respective cultural fields. They also engender instruments of cultural cooperation to promote increased exchange of knowledge. ICCR has successfully implemented cultural exchange programs with several countries.

Young Leaders Visit Program

This program assists members of the younger generation in both regions to visit each other's country and learn about other's culture. It enables them to develop an appreciation of each other's culture.

Literary Interactions

It is strange that two regions with such age-old cultural contacts have made very little effort to know each other's literature. The medieval and early modern periods, of course, had witnessed frequent and close literary interactions. Many seminal works were translated into each other's language. This literary mingling even led to wider borrowing of imaginations and portraying of the other society and culture in works. This literary interface, however, now has very few takers, as the terms of reference for both literatures has become the western one. In this context, the India Arab Cultural Centre (IACC), Jamia Millia Islamia has embarked on the mission of translating seminal Arabic works into Indian languages and vice-versa.

Cultural Dialogue

Cultural dialogue, an opportunity opened up by the globalization process, is increasingly evolving as an appropriate framework and decisive factor in promoting good relations between nations and regions. In the context of India-GCC relations, strengthening cultural dialogue presently holds much significance as both regions have similar concerns in terms of cultural issues vis-à-vis globalization. At the political level, there are frequent visits of high-level leaders and the first-ever landmark India-GCC Political Dialogue was successfully held on the sidelines of the UNGA on September 26, 2003.[4] The proposed cultural dialogue along this line can add a new dimension to GCC-India relations and provide an institutional mechanism for a structured exchange of views on a regular basis for addressing issues of mutual concern in terms of culture.

Joint Media Groups

Another area in which India-GCC cultural relations can be promoted successfully is media. Although cooperation in the media field does not come under the scope of this paper, regular exchange of media persons between the two regions has a significant role in the promotion of cultural relations. This is also significant in the context of the new world order where there is an increasing trend to have negative stereotypes of Arabs in the media. Such stereotypes can be found in the India media too. Arab media persons based in the GCC countries may also carry such negative impressions about India. Ignorance of each other's culture may be the prime reason behind it. Mutual exchange of journalists on a regular basis would provide a solution to this problem. This is more significant for an emerging nation like India to enhance its unique capital as a soft power.

Exhibitions and Art Markets

The upcoming Riyadh Book Fair (scheduled to take place in March 2011) in which India is the "Guest of Honor" will put India-GCC cultural relations into focus. A similar kind of experiment can be replicated in an art exhibition also. Many famous artists from the Gulf region remain unknown to the art lovers in India. This could be bridged by regular exchange of artists and exhibitions between the two regions. Exhibitions could include costumes and artifacts displays. Setting up museums pertaining to the common shared history of the two regions jointly could be another option.

Joint Cultural Festivals

In 2008, the Ministry of External Affairs worked with the Indian Council of Cultural Relations (ICCR) and the Federation of Indian Chambers of Commerce and Industry (FICCI) to organize the first Indo-Arab Cultural Festival in New Delhi with the support of the Arab League and various Arab governments. The decision regarding this festival constituted a clear political signal from India on pro-

4. See http://www.mea.gov.in/staticfile/GulfCooperationCouncil.pdf

active engagement on a regular basis with Arab countries. This was well-received and there is tremendous potential to organize a Gulf Cultural Festival on an annual basis. Similar festivals can be replicated in many of the Gulf cities.

Cooperation in the Field of Cinema and Theater

Bollywood Cinema

The current phase of globalization has led to shrinking of the globe and eventually brought different cultures into closer contact making it a multicultural world. Gulf cities are the arenas of such cultural mixing where the world's different cultures meet and interact in a creative interplay. Local ethnic and religious cultures survive alongside global culture and, as people and ideas increasingly flow around the world, exist in closer proximity to other cultures. So, 'cross cultural interactions' refers not to the free flow of western culture only – i.e., a one way flow. It is rather the free movement of different cultures. The popularity enjoyed by Bollywood cinema is a classic example of such cross-cultural flows.

Bollywood cinema has, obviously, become a trans-cultural entity. A trans-cultural entity is rooted within the cultural intricacies and specificities of certain communities, but is also increasingly circulated, identified and consumed by other communities. Arabic pop music and Hindi cinema, otherwise known popularly as Bollywood, are the two most common forms of cultural expression from the two regions which have gained global reach. It is interesting to note how Bollywood cinema as a trans-cultural phenomenon is perceived by the people in the Gulf within the boundaries of their imagination and aesthetic sensibilities. This may not be unique to the GCC countries, but there is a spill-over effect all over the Middle East, though the intensity differs.

Bollywood cinema may have caught the popular imagination in other parts of the world due to its 'cultural amalgam' that is appealing to an eclectic mix of population without many ideological hassles. Bollywood is no longer a homogenous entity with a single cultural agenda to promote. It is rather a major locale for the contestation or coexistence of many cultures, tastes, aesthetics and political ideologies making possible a plethora of avenues of imagination. People from different cultural milieu get what they expect.

People in the Gulf can identify with Bollywood as their own cinema. Unlike Hollywood cinema, the liberty that Indian popular cinema takes in story-telling does not go beyond the permissible boundaries of expression. With its episodic nature, its song and dance sequences, and narrative style, Bollywood leads the viewers to a different time and space and transcends several socio-cultural boundaries. With many tender themes of love and separation, it pushes the margins of imagination further.

Film Festivals

Indian regional language films also enjoy a wide and discerning audience among the people in the Gulf countries as is evident from the numerous and frequent film festivals organized in different parts of the region. But films from the Arab world have not yet been showcased properly in Indian film festivals. Modeled on the annual European Union Film Festival being organized in the major cities of India, the GCC Secretariat also can take an initiative to screen films made in the region on a regular basis. Similarly, from the Indian side, there should be an effort to include films from the Gulf countries in some of the prestigious Indian film festivals like International Film Festival of India (IFFI), International Film Festival of Kerala (IFFK) and Kolkata International Film festival.

Co-Productions

Co-productions represent the most happening avenue in terms of India-GCC cultural relations. Many Indian feature films and documentaries have been funded by the cultural agencies in the Gulf countries. *'My Name is Khan'* partly funded by ADACH is the most prominent example. The Qatar Foundation is funding famous Indian film-maker Muzzafar Ali's work on Jalaluddin Rumi. However, the number of such co-productions remains small when compared to Indo-European initiatives. There are many governmental, quasi-governmental, and private agencies in the Gulf countries which support promotion of collaborative art productions across the world. Economically speaking, Indian mainstream cinema with its worldwide popularity is a major emerging arena for investment after Hollywood. Given Bollywood films' extensive market, such investments are viable in monetary terms also. Co-productions are possible in the field of theater also. Interestingly, in regional films like Malayalam and Tamil, a major chunk of financial capital has been coming from the GCC countries through the expatriate producers who live in these countries.

Promotion of Shooting Locations

Malaysia's experience is a testimony to the fact that the consistent effort to promote a destination will find success as it has become a favorite shooting spot for the film-makers from India, especially from the South. Dubai is, of course, a hotspot for the

Indian film industry, but there are many yet untapped locations across the region. Many Indian tourist delights too have the potential to be introduced through the films from the Gulf. Such an initiative will support the flow of tourists also.

Film Remakes

In the past there were frequent releases of films from the Arab world. The Kuwaiti film *Bass Ya Bahr* by Khalid al-Siddiq or *Al-Fallah Al-Fasih*"by the renowned Egyptian film-maker Shadi Abdes-Salam were huge hits at the Indian box office. Likewise, remake of hits from Arabic to Hindi and vice-versa were also very popular. The process of globalization along with trans-national flow of cultural goods has provided a good ground for enjoying films with cross-cultural basis. With the advent of television, many popular programs, serials and shows from the West are being received by the Indian and Arab viewers without too many cultural hassles. The same experiment can be applied to Arab and Hindi films. In fact, Bollywood films are being dubbed into Arabic and shown on TV channels. Television productions from the GCC countries are generally very popular across the Arab world. Indian television channels can remake popular Arabic shows, serials and other programs in dubbed form or borrow ideas from them.

Mutual Utilization of Artists

Hollywood films have successfully utilized the talents of Arab artists like Omar Sharief. But when it comes to Indian cinema, though we had frequent exchange of singers and artists with Arab cinema in the past, the tradition has been on a decline. The revival of such a tradition would be beneficial for both Indian and Arab cinema.

Pilgrimage

Pilgrimage is considered to be the major site for the interaction of cultures. From time immemorial, Haj has been a meeting point of people from many cultures. It must be added that pilgrims for Haj from the Indian sub-continent have always formed one of the largest groups and from the outset the Nawabs of India purchased and endowed large quantities of property in Makkah, Madinah and Jeddah. The Muslim rulers of India in the medieval and early modern period backed the Haj groups by providing both finance and moral support. They also assisted scholars and Sufis engaged in the spread of Islam, be it through the donation of thousands of copies of the Qur'an or sponsoring pilgrims for their once-in-a-lifetime Haj to Makkah. Besides that many Indian Hajis stayed back to trade in the Holy

Land and took local Arab wives. Likewise, a large number of *Moallims* from Hijaz traveled to various destinations in India to finalize deals with Indian Haj groups for their pilgrimage. A number of them married Indians and settled their families in Maharashtra, Gujarat and Andhra Pradesh.

In the post-independence period, successive governments in India continued the practices of supporting Hajis by providing subsidies and incentives to them. The interactions of Hajis on the sidelines of Haj brought in many changes to the pattern of religious consumption. However, in spite of this long history of association between the two regions in respect of Haj, the history of pilgrimages has not been properly recorded by Indian historians or their counterparts in the Gulf. Such a recording would essentially shed light on the oceanic interconnectedness of many civilizational networks. The travelogues and memoirs of pilgrims also form a parallel way to understand the seminal events in the history of the two regions.

Cooperation in the Field of Knowledge Exchange

The matter of knowledge exchange seldom comes to our mind when we think of the potential of close cultural ties between India and the Gulf region. Both the regions have had a history of exchanging knowledge through regular interactions in the ancient, medieval and early modern period. Activities like trade and preaching religion facilitated this two-way flow of knowledge. Nonetheless, the apocryphal perception that cultural interaction is limited to the exchange of cultural goods is getting changed slowly. Both the regions have now sensed the necessity of sharing knowledge and ideas in a globalized era.

Moreover, most GCC states are pursuing an ambitious reform of their general education systems. In particular, this refers to changes in the curriculums designed to increase the proportion of mathematics, engineering and sciences. Curriculums, teaching methods, teacher training, and administrative issues are also the subject of reforms in India, especially in the field of science and engineering. It has been a long, steady process and many lessons have been learnt, some of which might be of interest to the GCC states. Moreover, the Indian Institutes of Technology and engineering colleges possess a great deal of experience in supporting reform in the field of science and technology education in other countries and could provide the GCC states with technical help and personnel if needed.

Many Indian universities and research institutes are engaged in cooperation projects with institutions from the Gulf region, and some of them have even established regional franchises in collaboration with local counterparts. India and the GCC should take this cooperation further and establish regional centers of

Indian universities or institutions of higher learning in the Gulf. Establishing off-campuses by Indian universities would bring a solution to another major issue. Expatriate Indians, especially in Saudi Arabia, have faced problems regarding the higher education of their kids. Expatriate kids are not allowed to be admitted in the local universities after the class XII. This has become a real social problem as many Indian parents are now forced to send back their daughters to their home country for higher education. In such a situation, the governments in such countries should either allow Indian students to be admitted in local universities or Indian universities should be allowed to open full-fledged campuses in the respective country.

Academic Exchange Programs

The cooperation in the field of knowledge exchange can be implemented through establishing a network of Gulf and Indian academics, researchers and experts whose purpose is to provide professionals, organizations and corporations with first class knowledge of current social, political and cultural developments in the Gulf region and to enhance relations in the field of education between India and GCC countries. Another avenue of academic cooperation is regular exchange of academics and researchers between Indian and Gulf universities and their research centers. In the context of serious challenges stemming from globalization and the rapid emergence of knowledge society, both regions can benefit out of such exchanges.

Indology Chairs

There are many academic chairs and programs of Gulf Studies in Indian universities. With a network of academic projects, seminars and workshops, these programs play a significant role in disseminating knowledge about the history, society, politics and culture in the Gulf States. The governments in the Gulf countries also can take the initiative to set up Indology Chairs in association with universities across the region.

Merit Scholarships

Merit scholarship programs instituted at the university level would attract the best students to carry out research in the fields of specialization in both the regions.

17

GCC-India Joint Study Group – Policy Recommendations

Political Engagement

- Political ties have not kept pace with the development of ties in other areas. There is a definite need for increased political discussion at all levels – from high-profile regular meetings to Track Two dialogue – in order to better understand the nuances that define the bilateral relationship with the group and its constituent members.
- The annual India-GCC political dialogue, presently undertaken on an ad hoc basis on the margins of the UNGA, should be institutionalized and take place annually in India and a GCC capital, alternatively. These meetings would propose annual joint action plans, similar to those in GCC-EU relations where action plans have been in place since June 2010. Each action plan would cover different areas and set targets in each area within specified timeframes. To facilitate this, Working Groups may be set up at Ministerial levels to prepare concrete plans for bilateral cooperation.
- A biennial GCC-India summit may be held that would include the country holding the GCC presidency, the GCC Secretary-General and the Prime Minister of India. This would allow for a regular exchange of views at the highest level in addition to providing the relationship with an institutionalized

setting. These summits would be in addition to exchanges of bilateral Head of State/Head of Government visits that should take place regularly.

Security/Defense Cooperation

- Increased cooperation in the area of security should be pursued. This should include exchange of information, training, dialogue at senior and working levels and other confidence-building measures in practical areas of cooperation such as in the areas of counter-terrorism, organized crime, narcotics and maritime security.
- The heads of the armed forces should meet regularly, along with meetings at the level of the Directors General of Intelligence and Operations; joint exercises and training programs should be organized.
- GCC cooperation with the Indian navy should be expanded and include: coastal security, environmental and disaster management, and combating piracy. This would also mean joint exercises and operations.
- An expanded security dialogue in the context of the Indian Ocean Naval Seminar should be considered.

Economic Cooperation

- On the economic front, while trade volumes have increased, considerable untapped potential remains. A more thorough and integrated business approach is needed that would work out a master plan for the promotion of trade, investments and joint ventures. A task force should be set up to identify sector-specific business opportunities and prepare a blueprint for interlinked investment in both the GCC and India. There is also a greater need for the involvement of the private sector as the last meeting of the Industrial Conference took place in 2007 in which a large number of businessmen from both sides participated. This biennial event should meet more regularly.
- There is a need for dedicated bilateral investment funds that can provide the required confidence to GCC business communities to invest in India's development projects.
- A concerted effort needs to be made by both sides to unlock current negotiations over the India-GCC Free Trade Area. Towards this end, a high-level coordination committee to iron out existing differences needs to be established.

- One area of particular importance and relevance is the environment and renewable energy. Here, a joint technical committee needs to be established that can suggest areas of joint activities and define near-term collaborative projects.
- Visa rules for India/GCC businesspersons should be liberalized with the issue of long-term multiple entry visas. Again, the validity of a business visa issued by one GCC country to cover all other GCC countries may be considered.

Education, Culture and Community Welfare

- Educational and cultural ties should be enhanced. Annual cultural exchange programs, bilateral as also with the GCC, should be finalized. These would include: the establishment of Indian cultural centers in the GCC countries; institutional linkages between museums and art institutions; regular exchanges of researchers, journalists and artists, as well as the establishment of Chairs and Centers on Indian studies in GCC universities. The interaction should include regular dialogue between experts in the fields of literature, culture, journalism, cinema, philosophy and history, and translation of Arabic books on art, culture, philosophy, history, literature, etc., into Indian languages as well as the books of Indian writers into Arabic.
- Both sides should work to expand cooperation in the field of science & technology: GCC countries can benefit from Indian expertise in areas such as Information Technology, Telecommunications, Nanotechnology, Biotechnology, and Space technology. India can help in the establishment of Centers of Excellence in GCC countries for the development of scientific manpower and knowledge economies.
- There is a six million-strong Indian community in the six GCC countries, the largest expatriate community in each country. India and the GCC need to cooperate closely to ensure the maximum welfare of the community.
- A particular effort should be made to strengthen the Public Diplomacy effort in order to enhance understanding on both sides about respective issues and policies. This effort, on the Indian side, should be particularly directed at young people of the “Twitter” generation.

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Rather than just stress the present comfort zones, the essence of this book lies in its emphasis on an institutional and practical approach to diversify relations between the Gulf Cooperation Council (GCC) countries and India beyond the economic realm in future. The prescriptions to realize this from two teams of academic scholars and diplomatic practitioners of the GCC countries and India, who interacted as part of a unique Track 1.5 effort, form the core of the book.

Covering the energy, economic, diasporic, political, security, international, social, environmental and cultural dimensions of the relations between the two sides, the chapters outline ways to transform the current engagement into a strategic one. In the process, the book analyzes the ground realities as they are, explores areas to intensify cooperation, identifies obstacles and advocates ways to circumvent them in order to ensure a win-win situation. The fact that the various chapters approach this exercise from different timeframes adds to the novelty of the book. Further, since the effort of all the authors is deliberately geared towards recommending policy-oriented steps to the governments on both sides, it is a treasure trove of workable ideas and options that bears the potential to significantly upgrade GCC-India relations in the short, medium and long terms.

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