India's Trade & Investment Relation with GCC Countries in WTO Era

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ABSTRACT

The dynamic aspect of international trade has been the process of rapid integration of global economy, which came in the form of Regional trade agreements, Free Trade Agreements, Preferential Trade Agreements and Bilateral Trade Agreements. Since 1990 economic reforms, India made significant progress through economic and trade liberalization and achieved 8% growth in GDP in last three years. For maintaining the momentum of economic growth, India has signed various bilateral and regional trade agreements for further prompting its presence in international trade market. In the recent years, India has entered into similar agreements with the Gulf Cooperation Council (GCC), comprising six countries, namely, Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and UAE. The GCC has emerged as a major trading partner of India. The bilateral trade relationship has witnessed impressive growth in recent years. This paper reviews the trade andinvestment relation with GCC counties and provides the strategies for enhancing the trade and investment under the umbrella of WTO .

Key words :Trade, Investment, FDI, and Macroeconomic Indicators.

Introduction

The Gulf Cooperation Council (GCC) countries, viz. Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and United Arab Emirates, are not only important trading partners of India but also major destinations for India's project exports. With the GCC region having witnessed robust economic growth in recent years, boosted by developments in the international energy markets, increased economic activity in the region , would present opportunities to further enhance India's commercial presence in the region. The study, in light of these, analyses recent growth performance and pattern of trade and investment flows in the region, highlights trends in bilateral trade and investment relations as also India's project exports to the region, and identifies potential areas for enhancing trade and investment relations with the GCC member countries. The study further delineates some strategies and recommendations, which would serve to foster increased bilateral trade relations as also India's commercial presence in the GCC region.

Economic Environment of GCC

The GCC countries, in recent years, have witnessed robust economic activity, enhanced primarily by soaring hydrocarbon prices and production. These six countries of the Gulf Co-operation Council are enjoying a spectacular economic boom that we expect to continue over the medium term. The GCC economy was set to surge past $1 trillion in nominal terms in 2008, marking a three-fold increase in only five years. This could push the GCC economy past that of South Korea and put at par with India. From Table 1 it would be noted that the real GDP growth, which has been expected to reach 8.2 percent in 2008[1], has tended to fluctuate in line with oil output (four of the six countries are members of OPEC). The contribution of the non-oil sector has shown more stablility, and has contributed substantially to the current boom. Assuming non-oil GDP growth this year of 8.5 percent, the five-year average for the 2004-08 period would be a robust 7.7 percent, a full percentage point higher than overall GDP

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growth. Financial indicators are also impressive. The average fiscal surplus was expected to reach 35 percent of GDP in 2008, and the aggregate current account surplus near 40 percent of GDP. Net foreign assets were expected to reach almost $2.2 trillion in 2008[2].

The economic outlook for the region is positive. We anticipate further gains in global oil prices as strong demand (particularly from Asia and the Middle East) continue to outstrip incremental additions to supply. Robust hydrocarbons earnings will underpin government investment and private confidence, while the latter will be further supported by continued (albeit haphazard) economic liberalization. This should help to keep real GDP growth at around 8 percent over the medium term.

India's Trade with GCC Countries

India has close economic and trade linkage with Gulf Countries. The geo-strategic location of Gulf region is also important for India from the economic and security point of view. India has been enjoying traditional, cordial and mutual benefitting relationship with GCC countries. Further, large quantum of oil and gas imports and growing trade and investment strengthen the relationship between two countries. Millions of people from India are employed in Gulf and send the large portion remittances to India. In the last two decade, the relationship between India and GCC countries has taken new heights through the massive trade and investment .

The GCC countries are important trading partners of India, and bilateral trade has witnessed

Table-1

GCC: Economic and Financial Indicators 2001-2010

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Real Sector										
Real GDP growth (percent)	5.7	2.1	9.1	6.8	6.8	6.2	5.3	8.2	8.1	7.6
Real Nominal GDP growth (percent)	5	5.9	6.9	7.2	7.3	7.9	7.8	8.5	8.6	8.3
Nominal GDP ($ bn)	333	349.8	405.4	482.9	612.4	718.6	803.5	1151.6	1328.2	1519.8
Nominal GDP growth (percent)	-2.7	5	15.9	19.1	26.8	17.3	11.8	43.3	15.3	14.4
Crude oil production (million b/d)	13.9	13.1	14.9	15.4	16	16	15.4	16.2	16.6	17.1
Gas production (boe)	2.7	2.8	3	3.3	3.5	3.8	4	4.6	5.5	6.2
Dated Brent ($/b)	24.4	25	28.9	38.3	54.4	65.4	72.5	4.6	135	150
Financial Indicators										
Fiscal balance (percent GDP)	0	3.5	5.3	12.6	20.3	22.8	19.8	35.1	36.6	36.7
Consumer price inflation (ave)	1	2	3	4	5	6	7	10.8	9	7.6
Domestic debt, gross (percent GDP)	59	59.8	50.6	40.6	26.6	19.7	14.5	10	8.5	7.7
Domestic debt, net (percent GDP)	67.8	68.2	60.6	45.8	23.3	12.7	1.8	-2.8	5.7	-7
Current account balance ($ billion)	31.9	25	52.2	89.4	166.7	196.7	188.3	463.4	554.3	647.5
Current account balance (percent GDP)	9.5	7.1	12.9	18.5	27.2	27.4	23.4	40.2	41.7	42.6
Foreign assets ($ billion)	1077	1102	1154	1243	1410	1607	1795	2258	2813	3460

impressive growth in recent years. During the last five years, total trade between India and GCC has grown very rapidly. An analysis of India's trade with GCC countries is given in Table -2

Table-2

India's Trade with GCC

US $ Million

S.No.	Exports		Imports	
Year	**2006-07**	**2007-08**	**2006-07**	**2007-08**
Bahrain	183.44	251.82	470.6	829.71
Oman	629.94	937.75	459.83	1134.13
Kuwait	613.87	682.12	5,987.46	7693.63
Qatar	331.1	538.13	2,066.71	2457.42
Saudi Arab	2586.15	3708.3	13,373.44	19410.63
UAE	12022.77	15634.56	8,650.77	13477.1
Total Exports / Imports	**16367.27**	**21752.68**	**31008.81**	**45002.62**

India's exports to the GCC have risen from US$ 16367.27 million in the year 2006-07 to US$ 21752.68 million in the year 2007-08. India's exports to the region witnessed a robust growth with an annual average growth rate of 75% in 2007-08. Among the GCC countries, UAE is the leading market for India's exports, accounting for as much as three-fourth of India's total exports to the block in the year 2007-08, followed by Saudi Arabia, Oman, Kuwait Bahrain and Qatar.

India's total imports from the GCC have also witnessed an increase from US$ 31008.81 million in the year 2006-07 to US$ 45002.62 million in the year 2007-08. UAE is again the leading import source, accounting for 69% of India's total imports from the bloc in the year 2007-08, followed by Saudi Arabia, Qatar, Kuwait, Bahrain and Oman. Though for GCC, India is not so important trading partner, yet the recent years have witnessed some impressive growth in the trade. Total trade volume between India and GCC is likely to go up to $28 billion by the end of fiscal and exceed $ 40 billion by 2010[3], provided free trade agreement between the two regions. The GCC emerged as the third largest trade partners for India after the EU and US. In the past one decade, India trade with GCC has expanded beyond oil, with both exports and imports surging very rapidly. India's trade with GCC countries still dominates in oil spices and manpower. As the trend shows, the economic relations between India and GCC countries which developed during the oil boom period remained limited in composition, despite growth in volume. The GCC countries transacted more extensively with the Western market. But as the decline in oil revenue has forced these countries to diversify their economies by developing the non-oil sector and building capacities to process oil to realize higher value added to their products, India with a market of 100 billion becomes relevant for them. It is not merely energy consumption, but the heavy demand for oil-based products like petrochemicals and fertilizers that has provided the basis for a more asserted beneficial economic relationship between the two.

India's trade with GCC gained the prominence after economic liberalization. Trade and Economic liberalization in India, has created the opportunity for trade and investment in India, which further accelerated the momentum of exports with simplified procedure. In order to promote trade interest India has granted Mutual Most Favored Nation (MFN) status to the Gulf countries. India 's principle exports commodities to this region are tea, spices, fruits, vegetables, tobacco, oil cakes, chemicals, drugs and pharmaceuticals, engineering goods, electronic engineering goods, electrical goods, textiles, etc. For better trade practices, India and GCC countries have formed the bilateral Joint Commissions to review the economic and trade relation. Most important aspect of India's trade with GCC is that large migration of India workers to GCC countries and constant flow of capital in the form of remittances from this region that has linked these economies closely.

Trade Potential in the GCC Region

Based on India's export capability and import demand in the GCC member countries, potential items of export to UAE could include: food products, petroleum products, chemical products, pharmaceuticals, essential oils and perfumery , rubber products, paper and paper board, articles of apparel and clothing, ceramic products, glass and glassware, gems and jewellery , iron and steel products , machinery and transport equipment.

In Saudi Arabia, the potential items for export includes: food products, chemical products, pharmaceuticals, plastic and rubber products, paper and paperboard, articles of apparel and clothing, ceramic products, articles of iron and steel, machinery and transport equipments, electronic data processing equipments. In Kuwait, items such as machinery and transport equipment, food products, petroleum products, pharmaceutical products, perfumery and cosmetics, leather goods, paper and paperboard, articles of apparel and clothing, articles of iron and steel have potential for exports. Similarly in Oman, potential items of export could include: machinery and transport equipments, food products, pharmaceutical products, perfumery and cosmetics, plastic and rubber products, woven fabrics, ceramic products, articles of iron and steel, iron ores, petroleum products, footwears, glass and glassware. In case of Bahrain, the range of products presenting potential for export could include: machinery and transport equipments, food products, petroleum products, pharmaceutical products, cotton and woven fabrics, ceramic products, articles of iron and steel, and aluminium and its articles. In Qatar, potential items of exports could include: machinery and transport equipment, food products, woven fabrics, articles of apparel and clothing, articles of iron and steel and ceramic products.

Investment Potential in the GCC Region

In Saudi Arabia, potential sectors for investment could include: electricity, telecommunications, infrastructure, petro-chemicals, gas, agriculture, IT, railways, housing, and services. The government's privatization programme could also present potential for investment, wherein many sectors and services have been earmarked for privatization, including airport services, operation and construction of new expressways, hotels, educational services, agricultural services, health services. Potential sectors for investment, as identified and promoted by the UAE government, could include: information & communication technology, media & entertainment, financial services, real estate, and travel/tourism.

In Bahrain, focus sectors for investment could include: IT and telecommunications, education and training, tourism, healthcare, financial services, and downstream industries. Potential sectors for investment in Oman could include agriculture and fisheries sector, industry sector, tourism sector. In Kuwait, potential sectors for investment could include: construction, operation and management of infrastructure enterprises in the fields of water, power, drainage, communication, banking, insurance, IT and software development, hospital and medicines manufacturing, tourism, hotels and entertainment, integrated housing projects and development of zones, and real estate. Further, potential sectors for investment in Qatar could include: oil and gas industry, foodstuffs, chemicals, petrochemicals, plastics and rubber, metal industries, education, tourism and healthcare sectors, privatization of state-owned industries and corporations.

According to a report by Kuwait Global Investment House, GCC investors have started focusing on India as an investment destination. India's strong services sector and sustainable 8 percent GDP growth has been prompting the investment for last three year. Government thrust for infrastructure sector will further boost the public private partnerships investment in India. The GCC countries have invested around $406 million constituting around 1 % of the total FDI received by India. Among the GCC, UAE is the largest investor in India, accounting for around 79% ($321.1 million) of the total investment made by the GCC countries followed by Bahrain ($32 million), Oman ($24.51 million), Saudi Arabia ($19.18 million), Kuwait ($8.87 million) and Qatar ($0.09 million)[4]. GCC investors, including Islamic investment funds, are especially targeting real estate investment opportunities in India. Bahrain-based Gulf Finance House (GFH) raised over $630 million in equity from GCC investors, to fund the development of Energy City India. The issue was oversubscribed by almost 60 percent.

India has signed various agreements which includes agreement for avoidance of double taxation and the prevention of fiscal evasion with respect to taxes , that should enhance the economic ties between India and GCC countries.

Strategies and Recommendations to Enhance Bilateral Commercial Cooperation

Strategies and recommendations to enhance India's commercial presence and relations with the GCC region could include the following:

? Enhancing Project Exports through Local Partnership - With a view to further enhance India's commercial presence in the GCC region, an important avenue would be to explore setting up of joint ventures (JVs) by Indian project exporters with local companies in the region, and aggressively bid for projects in the region. Such JVs (with local companies) would not only accord better prospects for securing contracts in the region, but also enhance prospects for securing procurement related contracts in such projects. Further, setting up JVs would facilitate access to funds from local banks/ financing institutions for undertaking projects in the region, and would also serve to obviate the need for a local sponsorship and thereby enhance competitiveness, apart from facilitating level-playing field.

? Focus on Trading Activities in the GCC region - The GCC region is a major trading hub, and Dubai has emerged as one of the most important re-export centers in the world. With the vantage location of the GCC countries combined with the facilities extended for setting up operational bases in the region, Indian companies have set up operations for undertaking trading activities in the region. IFFCO Group, promoted by Allana brothers (NRIs), has emerged as one of the largest processed food groups in the region, Another company, Brunton Wolf Wire Ropes Co, (a subsidiary of Usha Martin Ltd), based in Dubai, is engaged in manufacture of steel wire ropes, and imports raw materials from the parent company in India. There are also other successful companies engaged in trading/ manufacturing activities in the region supporting India's export/import trade, including the Jumbo Group, the EMKE Group, the NMC Group, and the Naranjee Hirjee Group. With tremendous scope for undertaking trading and manufacturing activities in the GCC region, Indian companies could focus on setting up joint ventures or subsidiaries in the region to take advantage of such business opportunities. Further, such operations would generate opportunities for Indian banks and financial institutions to extend trade financing facilities to India-based companies in the region.

? Cooperation in the Banking/ Financial Sector - A few Indian Banks such as State Bank of India and Bank of Baroda have set up branches in the GCC region. In view of the opportunity for enhancing bilateral trade and investment relations with the GCC region, setting up representative offices and establishing correspondent relations with select banks in the region would serve to facilitate India-based business in the region. An avenue of setting up joint venture banks in the region could also be explored. Indian banks and financial institutions could also consider setting up representative offices/joint venture banks in the Dubai International Finance Center (DIFC), which is increasingly emerging as a major hub for financial activities in the region. Further, with increasing focus on fostering economic development in the region through reverse migration of financial assets, physical presence in the region through branches or representative offices, would present opportunities to cater to business arising from such developmental activities. In additional to this would be the opportunity to cater to the financial requirements of the large presence of Non-Resident Indians in the GCC region.

? Linkages with Investment Promotion Agencies - Countries in the GCC region have set up specialized investment promotion agencies to facilitate inflows of foreign investment. Such agencies would include: Saudi Arabian General Investment Authority (SAGIA), Saudi Arabia; Dubai Development and Investment Authority (DDIA), UAE; Economic Development Board (EDB), Bahrain; Omani Center for Investment Promotion and Export Development (OCIPED), Oman; Kuwait Foreign Investment Bureau (KFIB), Kuwait, and Investment Promotion Department, Qatar. Cooperation and linkages with these agencies would serve to enhance access to information about investment opportunities as also prospective joint venture partners in the GCC region. Efforts could also be directed towards building relations with the Chambers of Commerce and Industry in the region.

? Effective Dissemination of Information - An important element of the strategy would also be effective dissemination of information relating to trade/investment opportunities to potential exporters and investors in India as also prospective partners in the GCC region. This can be facilitated through increased visits by trade and industry delegations from India to the GCC region, and vice versa, participating in specialized trade and industry fairs and exhibitions in the member countries of the GCC; organizing buyer-sellers meets and specialized “Made in India” exhibitions showcasing Indian expertise.

? India FTA with the GCC Region “The Free Trade Agreement on Economic Cooperation” signed between India and the member states of the GCC in August 2004 envisages, among others, discussions on the feasibility of a Free Trade Area between the two. Towards this end, establishment of a Free Trade Area (FTA) between India and the GCC region, as resolved during the India - GCC Industrial Conference held in March 2006, would serve to enhance bilateral trade relations. Further, expansion of the scope of the FTA to include services and investment would strengthen investment relations, in light of the fact that the GCC region is an important destination for India's project exports, while India has also emerged as an attractive global investment destination. Bahrain has signed an FTA with USA in September 2004, while Oman and USA also concluded negotiations for an FTA in October 2005. Further, UAE and USA signed a Trade and Investment Pact in 2004, and the two countries are negotiating an FTA.

? Focus on Privatisation Programmes - With a view to enhance the contribution of the private sector in economic development, the member countries of GCC are embarking on privatization of various sectors, activities, as also state-owned enterprises. Sectors earmarked for privatization/ liberalisation include: public transport, tourism facilities, telecommunications, postal services, water distribution, waste water network, electricity, industrial parks, railroad, education, air transport, public utilities, and power projects. Opportunities offered by the privatisation programmes in the GCC member countries can be targeted to enhance commercial presence in the GCC region.

? Interactive Portal - An interactive portal could be developed and hyperlinked with major industry/trade associations and chambers in the GCC region, for identification of project profiles, partner search, match making, etc. The portal could provide information and advisory services on potential export markets/sectors as well as investment opportunities, sector studies, market surveys, events, information on government packages and incentives, and compendium of major importers in the GCC region.

? Entrepreneurship Development - GCC member states such as Saudi Arabia and UAE have evinced interest in development of the SME sector in their countries. Towards this end, India could share its expertise and experience with the GCC member countries, wherein India has developed successful SME clusters. The National Small Industries Corporation, India, already has a presence in Dubai.

? Other Measures - Other measures to enhance commercial relations could include: Closer cooperation with development funds such as the Saudi Industrial Development Fund (SIDF) and the Kuwait Fund for Arab Economic Development (KFAED) to access funds for setting up projects. Targeting Dubai and Kuwait as vantage points to tap the opportunity of getting contracts related to Iraqi reconstruction, through joint ventures and tie-ups with local companies. Exploring the possibilities of setting up technical and vocational colleges and coaching institutes for higher education in the GCC countries. Exploring the possibilities of setting up IT parks, hospitals, hotels and tourist facilities in GCC member countries. Indian IT firms could also share their expertise in providing software programmes and services for banks and financial institutions in the region. Increasing use of the locales of GCC countries for media and entertainment such as film shooting by the Indian entertainment industry.

Footnots

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