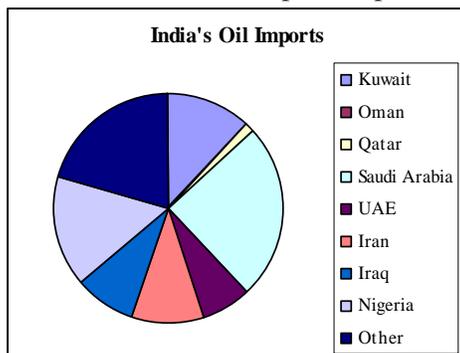


## India and the Gulf: Convergence of Interest

*The countries along the northern shore of the Persian Gulf have become in recent years one of India's major economic relationships, with energy security, financial flows and a large and increasingly diverse Indian expatriate population. These countries account for over half of India's energy imports. In addition, India's military and its security officials are paying increasing attention to this region. The instability in the region between the Gulf and India, leads Indian policymakers to look on this as a region of particular vulnerability for India. U.S. and Indian interests in the Gulf are quite similar, and this is a region where both could benefit from closer consultation.*

**Energy, the heart of the matter:** India's ties with the countries comprising the Gulf Cooperation Council (GCC; Saudi Arabia, Oman, Qatar, Kuwait, United Arab Emirates and Kuwait) go back hundreds of years. But today's relations have their roots in the oil price hikes of the 1970s, which established the region as a global economic player and sucked in international investment.

India's rapid economic growth—over 9 percent in the past two years, with a similar rate widely expected to continue—has increased India's preoccupation with energy security



Source: Planning Commission, GOI

and intensified its attention to energy suppliers. India imports 70 percent of its oil, and this percentage is expected to rise steadily. India is the world's second fastest-growing energy market; official projections of oil demand anticipate at least 6 percent annual growth. According to Indian Planning Commission figures, India imports approximately 45 percent of its petroleum needs from the GCC countries. Saudi Arabia represents nearly a quarter of total imports. Other major suppliers from the GCC include Kuwait and the United Arab Emirates. If one

includes oil imports from elsewhere in the Middle East, the region accounts for 67 percent of India's oil imports.

India is trying to shift its domestic energy use toward natural gas. At present, its only source of imported natural gas is Qatar, with which India has a 25-year contract for the supply of 5 million tons per year of liquefied natural gas (LNG) meets a majority of its needs. In September of 2006, Petronet LNG of India and Qatari-based Ras Gas reached an agreement that would provide an additional 2.5 million tons per year beginning in June of 2009. India has been trying to diversify its sources of imported gas, looking at Bangladesh, Burma and Iran, but so far this has not borne fruit. The Gulf countries and Iran have a sizable cost advantage in the natural gas market, so India will in all likelihood continue to look to them as a major source of imported gas.

In several of its energy supplying countries, India has tried to move upstream, with either its public sector energy company (Oil and Natural Gas Corporation, or ONGC-Videsh) or a private sector company (typically Reliance) investing in production facilities. It sees such investment as providing greater security of supply. Reliance, in partnership with the government of Oman, is exploring an offshore block (7,722 sq mi wide, 9,842 ft deep) off the Omani coast. Another Indian energy giant, Hindustan Petroleum Corp, has expressed interest in working with Saudi Arabian-based Saudi Aramco on its refinery projects in the Gulf region. In 2004, Hindustan expressed a similar interest in participating on the Saudi export refinery at the port of Yanbu off the Red Sea, but was subsequently denied by the Saudi government.

**Investment builds new energy links:** The Gulf countries have attracted a great deal of international investment, and India has been part of that trend. Several dozen Indian companies have offices in the U.A.E., including major business conglomerates such as several of the Tata companies, major manufacturers like Ashok Leyland, banks, engineering companies, consulting firms, and airlines. India's energy-related companies are there as well, including both the public sector (Indian Oil Corporation, which runs India's gas stations) and private enterprise (Reliance, which has major energy assets both in India and overseas).

India is also trying to encourage GCC investment in India. In February of 2004, India hosted the first ever GCC-India Industrial Conference to discuss trade, mutual investment, transfers of technology and greater industrial cooperation. The conference produced the "Framework Agreement on Economic Cooperation" that, among other things, committed both sides to negotiate a comprehensive free trade agreement. The Indian Commerce Ministry has been given permission to discuss individual Free Trade Agreements with each GCC country as well. The two sides also agreed to set up a \$50 million holding company to assist small and medium enterprises to develop joint ventures and trade between India and the Gulf countries.

India is trying to attract GCC investment in Indian infrastructure, especially in the energy field. It is looking for investment in the additional LNG terminals needed to support its growing need for natural gas. India currently has excess refining capacity, and exports of refined oil are already a significant element in trade with the UAE. Reliance is constructing in India what is being described as the largest refinery in the world. The Indian government hopes to expand imports of Gulf oil for refining in India, and as mentioned, gain business building refineries in the Gulf.

The Gulf countries produce relatively few exportable products other than oil. Abu Dhabi represents an important transshipment point, and many observers believe that many of the goods shipped between India and the U.A.E. ultimately go to or come from Pakistan, with which trade is heavily restricted.

**Expats and financial flows:** Some 4 million to 5 million Indians now reside in the GCC states, comprising the largest expatriate group in this region. Because of the small size of the native populations, expatriates assume a far greater importance in the local economy than in other places. Indeed, in some of the smaller Gulf countries, non-Arab foreigners represent close to a majority of the population. Indians are a vital component of the workforce. They work in construction and maintenance sectors, and in professional fields like medicine, nursing, information technology, engineering, accounting, and education. These expatriates remit back to India approximately \$6 billion dollars a year, second only to the Indian expatriate community in North America. These financial flows are particularly important in states that send a disproportionate number of people to the Gulf. Kerala in particular is a case in point.

**The political side:** All the GCC countries are traditional monarchies, and diplomatic and political ties with them rely heavily on personal connections. India has paid particular attention to Saudi Arabia and the U.A.E. It hosted King Abdullah in January of 2006 as the chief guest of their Republic Day celebrations, a particularly prestigious event.

**A growing security connection:** The personal ties India has tried to cultivate with Gulf rulers dovetail with India's security interests. With some 90 percent of the world's oil supplies passing through either the Straits of Hormuz or the nearby Bab el-Mandeb, the security of these waters is of vital importance to India, as it is to the United States. The Indian military has developed high level contacts with the Gulf States, especially with the United Arab Emirates, Bahrain and Qatar. In February of 2007, India's newly appointed naval chief made his first official visit to the U.A.E. In April of 2006, an 8-member delegation from the UAE visited India for the first India-UAE Joint Defense Cooperation Committee as set forth by the India-U.A.E Joint Defense Cooperation Agreement. Indian



*Source: Ministry of External Affairs, GOI*

naval vessels have also been paying high profile visits to Gulf ports for the last few years, including trips to the U.A.E, Qatar, Bahrain and Oman. In August of 2006, two Indian naval vessels stopped in an Omani port during a mission to evacuate Indian citizens from war-torn Lebanon. Indian ships visit the Gulf on a regular basis; it appears that the Indian military wants to keep at least some of its assets close at hand in case a threat materializes.

Counter-terrorism is a major Indian interest in the Gulf. Terrorist organizations in the region have made clear their desire to strike oil interests in the Gulf, including production wells, export pipelines, loading platforms and tankers. While the specific ire is often aimed at the United States with the ultimate goal being severe damage to the U.S. economy, reliance on the very same sources of energy make India just as vulnerable to the impacts of such an attack. This becomes an even greater concern when considering that over 80% of terrorist organizations capable of maritime attacks are located in the near west of India, and 90% of successful attacks were from the same area. This mutual threat has highlighted the need for India and the Gulf to forge stronger counterterrorism ties. In February of 2005, Saudi Arabia hosted the Counter Terrorism-International Conference, with India, the five other GCC nations and over 50 other countries in participation. Among the issues discussed was a Saudi proposal for an International Counterterrorism Center (ICC). Following the historic visit in January 2006, King Abdullah and Prime Minister Singh inked the "Delhi Declaration" that among other things, declared terrorism to be "a scourge to all mankind" and promised that "the two Governments would closely and actively cooperate to fight the menace of terrorism..." The

two sides also reaffirmed their support for the proposed ICC.

**The Pakistan factor:** Pakistan too has important interests in the Gulf. In many respects they closely parallel India's. The Gulf countries are a leading source of energy imports, and remittances from Pakistan's approximately 2 to 3 million expatriates are a major source of foreign exchange. Pakistan's trade and financial flows are roughly half of India's. According to the State Bank of Pakistan, Pakistani expatriates in the Gulf remitted \$2.06 billion in fiscal year 2005-06. Considering India's much larger size, this makes Pakistan's economic ties more important in national terms.

Pakistan considers its relationships with Saudi Arabia and the U.A.E. to be major strategic ties. Pakistani governments have been more successful than their Indian counterparts at cultivating close personal relationships with the ruling monarchs. Several sheikhs from the U.A.E. have residences in Pakistan and like to go on hunting vacations there. Pakistan has traditional military relationships in several of the Gulf countries, notably Saudi Arabia. These include arrangements where Pakistani officers are seconded to the military of countries such as Saudi Arabia. Saudi Arabia, Kuwait and the U.A.E., have been major aid donors to Pakistan over the years, through governmental funds and through the personal generosity of the rulers. After a 2005 earthquake in Northern Pakistan and Kashmir that killed over 80,000 people, Saudi Arabia was the highest donor of aid, giving SR 500 million (134 million USD) to the effected areas. And Pakistan has occasionally asked them for major political favors. For example, Pakistan's former Prime Minister Nawaz Sharif, is in exile in Saudi Arabia at the request of the Pakistan government.

Pakistan and India each have their own assets in their ties with the Gulf countries. Pakistan's Muslim population has a natural bond with those in the Gulf, and in some cases, notably Oman, there are traditions of trade, smuggling, and migration that go back hundreds of years. Indians, on the other hand, are not caught up in local and intra-Islamic rivalries, an advantage at times of political or labor strife. The two countries tend to keep a wary eye on each other's activities, and try to avoid being upstaged in their relationships with the region.

**Little impact on broader international issues:** Neither India nor Pakistan has had much success using its relations with the Gulf countries to advance its position on broader international issues. India, home to one of the world's largest Muslim populations, sought Saudi support for its effort to gain observer status in the Organization of the Islamic Conference. Saudi Arabia deferred to Pakistan, which not surprisingly would not lift its objections to Indian participation. Pakistan has been somewhat more successful in generating sympathy from the Gulf countries for its position on Kashmir, but in recent years Saudi Arabia,

Pakistan's closest friend in the Gulf, has called for bilateral settlement of this dispute, rather than the international mediation Pakistan traditionally preferred.

By the same token, India has not sought to insert itself into disputes within the Middle East, nor have its relations with Israel become an issue in the Gulf.

**India and the United States in the Gulf:** Because the United States is such a major player, and because India wants to keep its distance from U.S. involvement in Iraq, the two countries have really operated in different spheres. This tends to create the impression that there is a significant U.S.-India policy difference. In fact, the opposite is true. India's interests in the Gulf overlap to a considerable degree with those of the United States: energy security, counter-terrorism, and good conditions for trade and investment. The U.S. and India do not really need each other in the Gulf, but they are working more or less in parallel.

— *Joshua Richards & Teresita C. Schaffer*

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