Trade relations between India and Gulf cooperation council countries - An empirical Study

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Abstract

India’s relation with Gulf Cooperation Council countries goes back to the centuries and it has been based on mutual trade and business. As both India and GCC are large economic power, the economic trends are reinforcing mutual interdependence. India’s 7 million strong workforces in the GCC countries is a very important link between both the regions. The gulf region is meeting two-thirds of India’s total energy requirements. Similarly, India supplies textiles, food products, spices, machineries, information technology and electrical goods to the GCC market. GCC is a major trading partner of India and the country which does more trade with India is UAE. India’s total trade with the GCC countries rose from US$ 16878.46 million in 2004-05 to US$ 150020.62 million in 2013-14. With regards to trade relations between the two countries UAE is India’s largest trading partner and Saudi Arabia is the second largest trading partner of India in GCC. The main purpose of this research is to analyze the bilateral trade between India and GCC countries for 10 years and improve the trade relations between both the countries.

Key words: Bilateral trade, India-GCC trade, Investment, trade relations, workforce

Introduction

India enjoys traditionally cordial relations and cooperation with the GCC. India’s old, historical ties with GCC states, coupled with increasing imports of oil and gas, growing trade and investment opportunities (Zahid Shahab Ahmed & Stuti Bhatnagar, 2010) . India and the countries of the Gulf region share ancient civilization links and enjoy strong bonds of friendship founded on cultural, religious and economic ties that go back to centuries (Linda Brady Hawke, 2013). The historical legacies of international trade between the two regions points to barter exchanges of textiles and spices in lieu of dates, pearls and semi-precious stones (Samir pradhan et. Al, 2009).

The relative importance of GCC countries (viz. Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and United Arab Emirates (UAE) and India for each other has increased significantly as their economic ties have strengthened (Samir pradhan, 2010). With the emergence of India as a large economic power in recent years and simultaneously the Gulf region witnessing spectacular economic growth, economic trends are reinforcing mutual interdependence (Kumar Rishabh & Rajiv Ranjan, 2012). According to the latest estimation produced by the Alpen Capital currently migrant communities in these six GCC countries are 7 million approximately (alpen Capital, 2013). These huge bulks of migrant population are playing very significant role not only to the host countries (GCCs) but also have major developmental contribution to the place of origin (Naresh Kumar, 2012).

The GCC has emerged as a major trading partner of India. It has vast potential as India’s major trade and investment partner for the future. Now the India’s second-largest merchandise trading partner is gulf cooperation council countries and GCC’s ninth largest trading partner is India. The Countries which do more trade with India are UAE and Saudi Arabia, as they are the two largest trading partners of India in the GCC (Samir Ranjan Pradhan, 2009).
Almost two-thirds of India’s oil and gas requirements are supplied by GCC countries and of course GCC is the major supplier of oil and gas to India. In order to get closer with the Gulf countries, the Government of India adopted a ‘Look West’ policy in the year 2005, in line with the successful ‘Look East’ policy. While announcing the new policy, Prime Minister Manmohan Singh said that ‘the Gulf region, like South-East and South Asia, is part of our natural economic hinterland… We must come closer to our western neighbors in the Gulf’ (Prasanta Kumar Pradhan, 2010).

Trade Relations

The relationship between India and the GCC has grown since the formation of the organization in 1981. (Prasanta Kumar Pradhan, 2010a) Ever since 1947 the bilateral relations between India and the GCC states have evolved greatly to touch almost the $20 billion mark in non-oil trade. (Ginu Zacharia Oommen1 & Khurshid Imam , 2010) According to the department of Commerce, Government of India, the total trade between India and the GCC countries for the years 2013–14 stands at US$150.29 billion with total imports of US$102.06 billion and total exports of US$48.23 billion. (India, Ministry of Commerce and Industry, 2013).

India is the second fastest growing oil consuming nation in the world and the GCC countries are the biggest suppliers of oil and gas. Either India is a reliable oil customer for a long run to GCC or GCC is a reliable supplier of oil and gas to India, and that is why both are interested on each other. India is interested in upstream investments in the GCC oil and gas industry to facilitate its long-term access to GCC oil. GCC countries are interested in downstream oil and gas investments in India, which will help with sales of their crude and refined oil products. (Nader Habibi, 2011)

Trade relations between India and GCC have also strengthened over time as both have diversified their trade reach geographically; table 1 shows the total trade between India and gulf cooperation council and the growth percentage for total trade, import and export.

<table>
<thead>
<tr>
<th>Trade</th>
<th>Year</th>
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<tbody>
<tr>
<td>Export to GCC</td>
<td>9814.93</td>
</tr>
<tr>
<td>Export Growth %</td>
<td>19.97</td>
</tr>
<tr>
<td>Import from GCC</td>
<td>7063.53</td>
</tr>
<tr>
<td>Import Growth %</td>
<td>10.5</td>
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<tr>
<td>Total</td>
<td>16878.46</td>
</tr>
<tr>
<td>Total Growth %</td>
<td>16</td>
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</tbody>
</table>

Source: Ministry of commerce
In this table the trade between India and GCC was US$ 16878.46 million in 2004-5 which has a growth rate of 16% in the next year. The results as shown in the year 2006-7 indicate that there was a high growth rate of 141.92% which was decreased to 41.14% in the year 2007-08. The lowest growth rate is in the year 2009-10 which is -8.35% and if we compare it to the first year then we see that there is a growth rate of 975.49%. The growth rate in the years 2010-11, 2011-12 and 2012-13 was 39.79, 24.07 and 9.27 respectively. Again in the last year it is apparent that the growth rate is -5.57 and there were no good growth of trade in this year. Import-Export and total growth percentage are shown in Graph 1 and graph 2. Please refer to graph 1 and 2.

Graph 1: India – GCC Trade (Import – Export)

This graph shows the import-export growth between India and GCC countries. From 2005-06 to 2006-07 there was a sharply increase. There was a steady decrease in import growth in 2007-08. There were declines in 2009-10 and 2013-14 which shows a minus growth percentage. There was a smooth growth in export. The export growth percentage is minus same as import in 2009-10 and 2013-14.

Graph 2: India – GCC Total growth

This graph shows the total growth between India and GCC. In 2004-05 there was only 16% growth but in the next year the growth percentage increased steady from 16 to 141.92. In 2007-08 it is decreased steady to 41.13 which is more than the first year. There was a minus in growth percentage in 2009-10 and suddenly from -8.35% it grew up to 39.79% in 2010-11. From 2010-11 it was decreased year by year and finally in 2013-14 it was declined to -5.57.
India – United Arab Emirates Trade Relations

Since 2007 till 2012 UAE was India’s largest trading partner except 2011 but in this year and last year china has overtaken from UAE and China is India’s largest trading partner. There have been long trading links between India and UAE. The bilateral trade relation between both the countries have strengthened and stabilized over the years. During the last year (2013-14), India’s export to the UAE accounted for 9.70 percent of India’s total exports and 63.29 percent of India’s export to GCC countries. (Samir Ranjan Pradhan, 2006)

The items which are exported to UAE mainly are Gems and Jewelry, engineering goods, meat, tae, fruits, vegetables, spices, chemicals, rice and textiles. The items which are imported to India mainly are precious and semi precious stones, transport equipments, crude & petroleum products, gold & silver, pearls, electronics goods, metal ores and metal scrap. (Economics & Trade, 2014)

India – Saudi Arabia Trade Relations

Trade and cultural links between ancient India and Arabia date back to third millennium. In 1947 after India gained independence the formal diplomatic relations were established between contemporary India and Saudi Arabia. Relations between the two countries have strengthened considerably owing to collaboration in regional affairs and trade. One of the largest exporters of Oil to India is Saudi Arabia and in the GCC region India’s second largest trading partner is Saudi Arabia. (India – Saudi Arabia Trade Relations, 2014)

Since 1990’s when India liberalized economically, Saudi Arabia supplies 175 million barrels of crude oil to India which is a quarter of India’s needs. In 2013-14 the total bilateral trade between India and Saudi Arabia was 48622.6 Million US$ which 12218 Million US$ were exported by India and 36403 Million US$ were imported. Main Indian export to Saudi are textiles, garments, mineral fuels, Mineral oils, Iron and steel, machinery, basmati rice, meat and edibles, and the major imported products are organic and inorganic chemicals, fertilizers, leather, gold and oil. (India – Saudi Arabia Business Relations, 2014)

India – Qatar Bilateral Economic Relations

There are friendly relations between India and Qatar which has a long history that marked by people to people contacts and commercial ties. Recently, both the countries have been trying to build a stronger relation and expand their bilateral relations. In 2013-14 the bilateral trade between the two countries has been steadily growing and exceeded $16.70bn. India imports 7.5 million metric tonnes of LNG from Qatar annually. Qatar imports from India were worth $ 969.06 million dollars in 2013 – 2014. (India – Qatar Bilateral Economic Relations, 2011)

The major Items which India exports to Qatar are Transport equipment, food products, textiles, minerals and ores, machinery and equipments, ships, Boats and floating structures. The main items which Qatar exports to India are mineral fuels, mineral oils, plastic and articles, inorganic chemicals, organic chemicals, earth and stone, lime and cement, Aluminum and articles.

India – Kuwait Trade Relations

Centuries ago the first country which established business with Kuwait was India but as other countries started exporting goods to Kuwait then India lost its leading position. Cultural affinities, geographical proximity, historical trade links and presence of a large number of Indian expatriate in Kuwait have all sustained a long and strong relationship over the years.

Both the countries continued to make the trade relations stronger than before. While Kuwait discovered oil then it started exporting Oil and pharmaceutical products to India. The major items which are imported from India to Kuwait are Cereals, nuclear reactors, boilers, electrical machinery, meat and edible, Articles of Iron or steel. Currently, Kuwait is the second largest oil supplier to India from the GCC countries and meets about 10-12% of India’s energy need. The bilateral trade between the two countries was $727.38 million in 2004-05 and in 2013-14 it has steady increased to $18218.66 million which is a high growth rate. (Brief on India – Kuwait Trade and Economic Relations, 2013)
India – Oman Trade relations

The Sultanate of Oman is a strategic partner in the gulf and both the countries are depended to each other historically, geographically and culturally. India and Oman enjoy intimate and sincere relations which go back to historical maritime trade linkages. (India and Oman Bilateral Relations, 2014) Over the past ten years the bilateral trade between both the countries has skyrocketed. In 2013-14 the bilateral trade between India and Oman was $5763.45 million which $2812.27 million were imported from India and $2951.18 million were exported to India.

The major items which were imported from India are Iron & steel, electrical equipment, plastic and ores. And the major items which were exported to India are mineral oils, mineral fuels, fertilizers and organic chemicals.

India-Bahrain Trade relations

India and Bahrain have had excellent bilateral relations for centuries. In ancient time the Bahraini pearls were exported to India and Indian spices were imported from India. The higher standard of living and relative prosperity in Bahrain caused a dramatic increase in imports of goods and services from all over the world, including from India. (India – Bahrain bilateral Relations, 2014) India is one of Bahraini’s leading trading partners, especially for the export of oil. (P.R. Kumaraswamy, 2013)

During 2013-14 bilateral trade between the two countries stood at $16375.59 million. India’s export to Bahrain was US$ 641.97 million whereas import from Bahrain was US$ 564.97 million. India’s main exports to Bahrain included inorganic chemicals, cotton yard, fabric rare earth metals, precious metals, machinery, boilers and cereals while India’s imports were Aluminum and articles, earth & stones, salt, fertilizers, lime & cement, iron & steel, ores, slag and ash. (Government of India, Ministry of commerce and Industry, 2014) Table 2 shows the bilateral trade between India and GCC countries individually for the year 2004-05 and 2013-14 and also it shows the total trade of each country. Please see table 2.

<table>
<thead>
<tr>
<th>Table 2: India- GCC countries Trade individually (Amounts are in US$ / Million)</th>
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<tr>
<td><strong>India – Saudi Arabia Trade Relations</strong></td>
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<tr>
<td>Total Trade</td>
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<td>Growth %</td>
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<td><strong>India – UAE Trade Relations</strong></td>
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<td>Total Trade</td>
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<td>Growth %</td>
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Conclusion

The fast economically growth of India and GCC countries made them mutually interdependence and the bilateral trade between the two regions has increased. But this interdependence was too light in Bahrain and Oman’s bilateral trade with India. UAE was India’s largest trading partner having a bilateral total trade of US$ 440794.16 million from 2004-05 to 2013-14 while only in 2013-14 UAE had a bilateral trade of US$ 59540.24 which is 63.9% of India’s total trade to GCC countries. Oman was India’s smallest trading partner having a bilateral total trade of US$ 30779.21 million from the mentioned period.

Saudi Arabia is India’s second largest trading partner which had a bilateral trade of US$ 48622.6 million in 2013-14 but if compare to the period of 10 years from 2004-05 to 2013-14, Kuwait is India’s Second largest trading partner with having a bilateral trade of US$ 261760.54 million and a growth rate of 2404.15% which is the most highest growth rate in the period of 10 years. In 2013, the bilateral trade between India and Bahrain was US$ 1202.60 million which was the lowest between GCC countries. In the period of 10 years Bahrain had the lowest growth rate with India which was 332.34 and the second lowest was UAE which was 396.62. If UAE continues like this then Kuwait will overtake from UAE and will be India’s largest trading partner in GCC region.

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