

Context

GCC-India Trade Nexus and Emerging Strategic Issues

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Abstract

Gulf Cooperation Council (GCC), established in 1981, and primarily served two strategic missions: Regional Common Market through Free Trade Area (FTA) concept and providing Regional defence security. Over the years, GCC further evolved to integrate regional economy with global economy- particularly India, by expansion of its Trade portfolios- inclusive mainly of Oil & Natural gas, textiles, food commodities, electronic goods, pharma products, gems & jewellery etc. GCC-India trade ties through several Trade Agreements since 1984 has given and opened up several business opportunities for both partners. This, however, has suffered certain drawbacks due to several Trade-related barriers (viz. tariff, tax structure, customs duty evaluation, measures of standards, service and investment norms/ facilities, IPR regulations etc.) imposed by the members of GCC; as also due to slow progress in the desired level of reforms processes- thereby impacting trade performance. The paper critically examines the ongoing status of GCC-India Trade performance and suggests the various measures to improve the future trade opportunities between GCC and India through constructive trade Agreements, multi/ bilateral Trade negotiations,

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long-term Investment Contracts, joint ventures, organizing Industrial Conferences etc.

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GCC History

Created on May 25, 1981, the Gulf Cooperation Council (GCC) comprises the Persian Gulf states of Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates. The historic and unified economic agreement among the countries of the Gulf Cooperation Council in the Gulf Region was signed on November 11, 1981 in Riyadh, Saudi Arabia. These countries are often referred to as *Gulf Cooperative Countries or more precisely the Gulf Cooperation Council*. A GCC common market was launched on January 1, 2008. The common market grants national treatment to all GCC firms and citizens in any other GCC country, and in doing so removes all barriers to cross-country investment and services trade. The GCC Patent Office was approved in 1992 and established soon after². Not all of the countries neighboring the Persian Gulf are members of the council. Iran is excluded, as is Iraq, although both nations have a coastline on the Persian Gulf. Yemen is (currently) in negotiations for GCC membership, and hopes to join by 2016. All GCC members and Yemen have since joined the Greater Arab Free Trade Area (GAFTA) when that organization was founded. However, this is unlikely to significantly affect the agenda of the GCC as it has a more aggressive timetable than GAFTA

² Wikipedia: Cooperation Council for the Arab States of the Gulf (CCASG)-C:\Documents and Settings\ansarkar\Desktop\GCC\Cooperation Council for the Arab States of the Gulf –Wikipedia, the free encyclopedia.htm

and is seeking greater integration. The geographical locations of the Member countries of GEC are illustrated below (Fig.1.):

Fig.1: Map of GCC



Major Objectives of GCC Formation

The GCC was envisaged, among other objectives, as a *regional common market* with a *defence planning council* as well. The geographic proximity of these countries and their general adoption of *free trade economic policies* facilitated establishment of the GCC.³

The GCC aims:

- To achieve coordination, integration and close ties leading to unity between the Member States;

³GCC -2007: Gulf Cooperation Council-

<http://www.arab.de/arabinfo/gcc.htm>

- To deepen the ties, relations and all aspects of cooperation between the peoples of the region;
- To adopt similar systems and laws in: economics and financial affairs; commercial, customs and transportation affairs; education and cultural affairs; social and health affairs; communication, informational, political, legislative and administrative affairs;
- To encourage progress in the sciences and technologies involved in industry, mining, agriculture, water and animal resources, and to establish scientific research centers and to undertake joint projects.

Organisational Structure of GCC

The structure of the GCC consists of the Supreme Council, the Ministerial Council and the Secretariat General:

- The Supreme Council (the highest authority of the GCC) comprises the Heads of State of the six member countries. The Supreme Council meets once a year in ordinary session. Emergency sessions can be convened at any time by the heads of any two Member States. The Supreme Council is responsible for determining the overall policy of the GCC and for ratifying recommendations presented to it by the Ministerial Council or the Secretariat General.

- The Ministerial Council comprises the Foreign Ministers of the six member countries. The Ministerial Council meets once every three months in ordinary session. The Ministerial Council draws up policies and makes recommendations on means of developing cooperation and coordination amongst Member States in the economic, social and cultural spheres.

- The Secretariat General prepares reports, studies, accounts and budgets for the GCC. It drafts rules and regulations and is charged with the responsibility of assisting Member States in

the implementation of decisions adopted by the Supreme and Ministerial Councils.

– The Secretariat is located in the city of Riyadh. The constitution of the GCC precisely reflects the importance of seeking ways to make the unity of Arab States a reality. The constitution required the organization to provide “the means for realizing coordination, integration and cooperation” in economic, social and cultural affairs.

Regional Policy Focus

Ever since the formation of GCC and having formed the required organizational structure, alluded to above, the GCC have made certain headway towards building operational framework aiming at integrated and holistic development for overall economic prosperity of the region effected through GCC. Some of the salient features of the Regional policy in this direction are spelt out as follows:

Defence for regional Security

In a series of meetings between 1983 and 1987, Gulf States developed plans for mutual defence and launched efforts to form a joint command and a joint defence network. In 1984, the GCC Defence Ministers agreed on the creation of a two-brigade (10,000-man) *Peninsula Shield Force*. This joint intervention force was based in Saudi Arabia near King Khalid Military City at Hafar al Batin under the command of a Saudi officer. In addition to a headquarters staff, the force consisted of one infantry brigade of about 5,000 men with elements from all GCC States in 1992.

Trade & Foreign Investment

A process of complete tariff unification was set in motion in 1994. In June 1998, by which time Member States had agreed on the classification of most goods for external tariff purposes, a technical committee was set up to explore the possibility of a Customs Union. At the 20th Session of the GCC Supreme Council in November 1999, it was agreed that *Customs Union* should be achieved by 2005. In December 2000, the 21st Summit Meeting brought the date forward and the Customs Union was announced on January 1, 2003. The Customs Union stipulates a flat 5% customs duty on imported goods at the port of entry (by harmonizing the existing duty-rates ranging from 4% to 20% in the GCC). Duty on goods and services traded among the six GCC countries (intra trade) has been fixed at zero, i.e. free movement of goods manufactured in any member-State enjoying the same rights and privileges across the Customs Union. In 1998, a *GCC Patent Office* was established to protect *intellectual property rights* in the area. measures, including *foreign investment guidelines*, published in 1997, have been adopted at various times to encourage foreign investment.⁴

Oil policy

Petroleum (Crude oil) and Natural gas are the major resources for building the backbone of the Gulf economy- the same is equally true to the members of GCC- who shares the commonality in approach and intents in the economic union. Efforts to coordinate oil production and pricing policy have

⁴ (http://www.ustr.gov/assets/Document_Library/Reports_Publications/2004/2004_National_Trade_Estimate/2004_NTE_Report/asset_upload_file226_4769.pdf)

been maintained throughout the life of the GCC, with special emphasis on ensuring adequate supplies and the ability of each Member State to fulfill its quota in the event of any production problems with OPEC countries, particularly in the Gulf region.

Ease of Movement within GEC

In 1997, a simplified passport system was approved by the Ministers of the Interior of the GGC Member States.

Coordination of Information policy

From the mid-1990's, Ministers of Information from the GCC Member States met regularly to co-ordinate their work. At their meeting in the United Arab Emirates in 1999, the GCC Information Ministers affirmed the importance of strengthening the external information flow in the GCC States.

India-GCC Relations

The GCC has, over the years, emerged as a major trading partner with India. By virtue of vast potential of Gulf Region, GCC have chosen India as an important Trading destination and investment partner for reciprocal economic growth in future. The GCC countries collectively play host to the largest expatriate Indian community. The GCC offers tremendous potential for cooperation in the sphere of trade, investment, energy, oil & natural gas, petrochemical industries, manpower etc. India maintains traditionally very cordial relations and cooperation with the GCC. To illustrate the point the major

landmarks in GCC-India interaction since 1984 can be enumerated as follows⁵:

- 1984 – A round table was organized (October, 1984) by the Indian Council for Research in International Economic Relations in New Delhi on the theme “New Vistas in Economic Cooperation between Gulf Cooperation Council Countries and India”, attended by Governors of Central Banks, leaders of financial and trade organizations and diplomatic representatives of the six GCC states. They recommended that there was an urgent need to augment cooperation in research and development activities, especially in scientific and technological fields.
- 1989 – GCC Assistant Secretary General for Economic Affairs visited India (January) and met with Commerce Minister, Commerce Secretary and Secretary (West).
- 1989 – A Joint GCC Defence Team visited (July) some of the military installations in India.
- 1990-91 – Increased interaction between the GCC Secretariat and India in the wake of the Gulf crisis.
- 1992 – GCC Secretary General, Dr Abdullah Bishara visited (August) India and called on the PM. He held discussions with MOS (EA), Deputy Chairperson of the Rajya Sabha, Minister of State for Commerce, Finance Minister and Petroleum Minister. He also had meetings with FICCI and JNU faculty.
- August 2003 – Agreement and formalization of a regular/annual structured political dialogue at Foreign Ministers’ level on the sidelines of the UNGA.

Framework Agreement on Economic Cooperation

⁵ C:\Documents and Settings\Desktop\GCC\Embassy of India, Riyadh - India-GCC Relations.htm

As a follow-up of the GCC-India Industrial Conference, as also for giving a boost to their commercial and economic ties, India and Gulf Cooperating Council signed on August 25, 2004 a '*Framework Agreement on Economic Cooperation*' to explore the possibility of a '*Free Trade Area*' between them. The Agreement was signed in New Delhi by Shri Kamal Nath, Hon'ble Minister for Commerce & Industry and His Excellency Mr Mohammed Al-Sabbah Al-Salem Al-Sabbah, the visiting Foreign Minister of Kuwait and Chair of the GCC in the presence of His Excellency Mr Abdulrahman bin Hamad Al-Attiyah, Secretary General of the Gulf Cooperation Council. A 3-member GCC negotiating team visited India and held discussions on November 19, 2004 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.

Economy of GCC: Highlights

This area has some of the fastest growing economies in the world, mostly due to a boom in oil and natural gas revenues coupled with a building and investment boom backed by decades of saved petroleum revenues. In an effort to build a tax base and economic foundation before the reserves run out, the UAE's investment arms, including Abu Dhabi Investment Authority, retain over \$900 billion in assets. Other regional funds also have several hundred billion dollars. The region is also an emerging hotspot for events, including the 2006 Asian Games in Doha, Qatar. Doha is also planning to submit its application for the 2016 Summer Olympic Games.

In 2006, its GDP (nominal) was \$717.8 billion (IMF April 2007), led by spectacular growth in United Arab Emirates and Qatar. In 2007, its GDP (nominal) was \$1,022.62 billion

(IMF- April 2008). IMF predicts its GDP to reach \$1,112.076 billion at end of 2008 and \$1,210.112 billion at end of 2009. Qatar is expected to overtake top ranked Luxembourg in GDP (nominal) per capita next year for the world's top spot. Among other things, the following table depicts a comparative scenario of the the relative economic growth of the regional blocks in terms of country-wise GDP per capita. The following table (1) also serves as a ready -reckoner for making a valid comparison of demographic and socio-economic parameters leading to economic growth for GCC vis-à-vis other major Regional and National economies –both in the developed and developing world (as of 2004).

Table 1: Comparison of GCC with other Regional Economic Blocs

Most active regional blocs (as of 2004, except as noted)								
Regional bloc ¹	Area		Population	GDP (\$US)				Members
	km ²	sq mi		in millions (PPP)	in millions (nominal)	per capita (PPP)	per capita (nominal)	
AU	29,797,500	11,504,879	897,548,804	1,515,000	1,131,850	1,896	1,261	53
ASEAN (2007 est.)	4,497,493	1,736,000	566,500,000	3,115,480	1,173,000	5,541	2,041	10
CACM	422,614	163,172	37,816,598	159,536	84,792	4,219	2,242	5

CARI COM	462,34 4	178,5 12	14,565, 083	64,21 9	24,02 0	4,4 09	1,649	(14+ 1) ³
CCAS G/ GCC	2,285,8 44	882,5 69	35,869, 438	536,2 23	717,8 00	14, 949	20,01 1	6
CEFT A	298,14 8	115,1 16	28,929, 682	222,0 41	122,0 01	7,6 75	4,217	(7+1)) ³
EU (2007 est.)	4,324,7 82	1,669, 808	497,000 ,000	14,95 3,000	16,57 4,000	28, 213	33,48 2	27
EurAs EC	20,789, 100	8,026, 720	208,067 ,618	1,689, 137	1,125, 528	8,1 18	5,409	6
EFTA (2007 est.)	529,60 0	204,4 80	12,660, 623	567,5 00	743,3 00	44, 828	60,00 0	4
GAFT A	9,421,9 46	3,637, 834	280,727 ,416	1,341, 298	N/A	4,7 78	N/A	(16+ 1) ³
GUA M	810,50 6	312,9 38	63,764, 600	456,1 73	106,4 69	7,1 54	1,670	4
NAFTA A (2007 est.)	21,783, 850	8,410, 792	445,000 ,000	15,85 7,000	15,72 3,000	35, 491	35,56 4	3
PART A	528,15 1	203,9 20	7,810,9 05	23,07 4	N/A	2,9 54	N/A	(12+ 2) ³
SAAR C	5,136,7 40	1,983, 306	1,467,2 55,669	4,074, 031	N/A	2,7 77	N/A	8
Unasu r/ Unasul	17,339, 153	6,694, 684	370,158 ,470	2,868, 430	N/A	7,7 49	N/A	12
UN and countri es	Area		Populat ion	GDP (\$US)				Unit s⁴
	km ²	sq mi		in	in	per	per	

for reference²				millio ns (PPP)	millio ns (nomi nal)	capita (PP P)	capita (nomi nal)	
UN	133,17 8,011	51,42 0,318	6,411,6 82,270	55,16 7,630	48,24 5,198	8,6 04	7,524	192
Brazil (2007 est.)	8,514,8 77	3,287, 612	183,888 ,841	1,804, 000	1,067, 706	10, 073	6,842	27
Canada (2007 est.)	9,984,6 70	3,855, 103	33,000, 000	1,274, 000	1,406, 000	38, 200	42,73 8	13
India (2007 est.)	3,287,5 90	1,269, 346	1,120,0 00,000	4,726, 000	1,089, 000	4,1 82	1,004	35
Japan (2007 est.)	377,87 3	145,8 98	127,433 ,494	4,346, 000	4,346, 000	33, 800	38,34 1	47
PR China⁵ (2007 est.)	9,596,9 60	3,705, 407	1,321,8 51,888	7,043, 000	3,420, 000	5,3 00	2,800	33
Russia (2007 est.)	17,075, 200	6,592, 772	142,500 ,000	2,076, 000	1,286, 000	14, 600	9,056	83
USA (2007 est.)	9,826,6 30	3,794, 083	302,000 ,000	13,54 3,000	13,79 4,700	43, 500	45,59 4	50
Source: CIA World Fact book- 2005, IMF WEO Database, IMF nominal figures for 2006 ⁵								

From a critical review and analysis of the above table it would be seen that despite having a very rich potential and strategic reserve of oil & gas, the GDP (in US \$) - especially the per capita (ppp) of GCC/ CCASG is fairly lower as compared to the other developed economics/ FTAs of the world- prominently the EFTA, EU, Japan NAFTA, USA, Canada etc. The major reasons that can be attributed to this are:

- Lack of Techno-economic cooperation among GCC countries
- Lack of Inter-regional cooperation involving greater participation of GCC
- Lack of aggressive and prudential investment policies (including FDI & Joint ventures) within and outside GCC regions
- Lack of liberalized financial, economic and banking policies (through continuous reforms processes) to encourage greater techno-economic and multi-lateral trade-related cooperation with the developed and developing economies of the world
- Clearer Trade policies on production and trading of crude oil and natural gas globally with active support of OPEC & Non-OPEC countries, avoiding geo-politics.

Foreign Trade Barriers

A realistic trade summary position of GCC in the sensitive sphere of *Foreign Trade barriers* is highlighted below to know the ground realities as also the nature of constraints confronted by GCC at this juncture.⁶

⁶ Arab League, 2007- http://www.ustr.gov/assets/Document_Library/Reports_Publications/2006/2006_NTE_Report/asset_upload_file189_9183.pdf

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Trade Summary Position

The Gulf Cooperation Council (GCC) is an economic and political policy-coordinating forum for the six Member states (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates (UAE)). Since the GCC cannot impose trade policies upon the member states, each is free to pass and enforce its own trade laws. However, there has been growing cooperation among GCC member states on issues such as customs duties, intellectual property protection, standards-setting, and intra-GCC investments. As part of an overall plan for greater GCC economic integration, the six GCC members implemented a Customs Union in January 2003, unifying tariffs throughout the GCC. In theory, the Customs Union means the members have adopted unified customs laws and procedures, single point-of-entry with internally free movement of goods, and treatment of goods as national origin within the GCC. However, the practical details of numerous issues have yet to be resolved, including, but not limited to, tariff exemptions, standards, and revenue distribution. The GCC has set 2010 as the target date for adoption of a *single currency*, with 2005 as a deadline for agreement on convergence criteria. The U.S. trade deficit with the GCC was \$12.0 billion in 2003, an increase of \$5.2 billion from 2002. U.S. goods exports in 2003 were \$10.9 billion, up 3.6 percent from the previous year. Corresponding U.S. imports from the GCC were \$22.9 billion, up 32.3 percent. The stock of U.S. foreign direct investment (FDI) in the GCC in 2002 was \$8.2 billion, up from \$6.8 billion in 2001⁷.

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http://www.ustr.gov/assets/Document_Library/Reports_Publications/2004/2004_National_Trade_Estimate/2004_NTE_Report/asset_upload_file226_4769.pdf)

Tariff Policy

At the December 2001 Summit, GCC Heads of State adopted an across-the-board common external tariff of five percent for most products to start in January 2003 as part of the Customs Union agreement. The GCC states also agreed to develop a list of products to which a higher tariff will apply. Currently, some GCC countries maintain tariffs of 15 percent to 20 percent or higher on imported products. However, tariffs on tobacco, pork, and alcohol products can exceed 100 percent in countries where importation of such products is permitted.

In anticipation of the GCC Customs Union, Bahrain reduced customs tariffs to five percent in January 2002 for imported goods, except alcohol (125 percent) and tobacco (100 percent), and exempted a list of

417 food and medical items from customs duties entirely. Oman maintains a maximum five percent tariff on most imported consumer products, including automobiles. However, Oman's tariff on tobacco, pork, and alcohol products is 100 percent. On September 1, 2003, Kuwait increased tariffs from 4 percent to 5 percent on the vast majority of imported goods. Exceptions include 417 food and agriculture items, which will remain free of duties, as well as tobacco products, on which tariffs will remain at 100 percent. Qatar maintains a five percent tariff on a wide range of products. Basic food products such as wheat, flour, rice, feed grains, and powdered milk are exempted from tariffs. The tariff on alcoholic beverages and tobacco products is 100 percent and on 12-millimeter steel bars is 20 percent. Projects funded by the Qatar Industrial Development Bank (QIDB) can be granted a customs duty waiver for the import of machinery, raw materials, and other industrial inputs.

In May 2001, the Saudi Supreme Economic Council reduced Saudi Arabia's tariff rate for most products to five percent

from the pre-existing standard rates of 12 percent and 20 percent. The Saudi government also identified a list of 483 products to which a 12 percent tariff applies in order to protect local industries. Certain textile imports, including carpets but excluding apparel, are among the products to which the 12 percent rate applies. A number of Saudi infant industries enjoy 20 percent tariff protection, including sesame extract, furniture, cooking salt, edible offal, rabbit meat, mineral water, and plastic pipes. In addition, nine agricultural products are subject to a 25 percent tariff on a seasonal basis to protect local production. Saudi Arabia also imposes a 100 percent tariff on dates, long-life milk products, and cigarette imports.

Import Licensing

Locally established companies must be at least 51 percent Bahraini-owned to receive import licenses for retail sales in Bahrain. Foreign companies established before 1975 may be exempt from this rule under special circumstances. Bahrain requires that pharmaceutical products be imported directly from a manufacturer with a research department and that the products be licensed in at least two other GCC countries, one of which must be Saudi Arabia. Drugs and medicines may be imported only by a drug store or pharmacy licensed by the Ministry of Commerce after approval by the Ministry of Health. Bahrain prohibits the importation of weapons (except under special license), pornography, wild animals, radio-controlled model airplanes, foodstuffs containing cyclamates, and children's toys containing methyl chloride (and other articles declared injurious by the Ministry of Health). Bahrain is also taking steps to ban the import of 127 chemicals.

Kuwait prohibits the importation of alcohol and pork products, and requires a special import license for firearms. In Oman, companies that import goods must register with the Ministry of Commerce and Industry, and must be at least 51

percent Omani-owned. Importation of certain classes of goods, such as alcohol, firearms, narcotics, and explosives require a special license, and media imports are subject to censorship. In the UAE, only firms with the appropriate trade license can engage in importation, and only

UAE nationals can get such a license.

Qatar requires importers to have a license for most products, and only issues import licenses to Qatari nationals. Only authorized local agents are allowed to import specific goods produced by the foreign firms they represent in the local market. However, this requirement may be waived if the local agent fails to provide the necessary spare parts and backup services for the product. The importation and distribution of alcohol is the exclusive right of the Qatar Distribution Company (QDC). Pork and pork derivatives may not be imported.

In Saudi Arabia, the importation of certain articles is either prohibited or requires special approval from competent authorities. Specifically, the importation of alcohol, firearms, illegal drugs, and pork products is prohibited, and imports of agriculture seeds, live animals, fresh and frozen meat, books, periodicals, movies, tapes, religious books and tapes, chemicals and harmful materials, pharmaceutical products, wireless equipment, horses, radio-controlled model airplanes, products containing alcohol, natural asphalt, and archaeological artifacts require special approval.

Documentation Requirements

The lack of uniformity in relation to the Trade (Export & Import) related activities within and across GCC region makes the process complicated and certainly a level playing ground for effective regional and inter-regional cooperation.

Norms for Customs Evaluation

Bahrain has notified the WTO Customs Evaluation Committee of its legislation and started implementing the Agreement in January 2002. Kuwait began implementation of the Agreement in September 2003. Oman implemented the Agreement when it joined the WTO in 2000, and currently is working on further enhancing its customs valuation system. Qatar has not yet implemented the Agreement. The UAE was granted an extension to delay implementation until the start of 2004.

Standards, Testing, Labeling and Certification

As part of the GCC Customs Union, member countries are working toward unifying their standards and conformity assessment systems, and have progressed considerably toward the goal of a unified food standard, originally targeted for adoption by 2006. However, each country currently applies either its own standard or a GCC standard, causing confusion among business. GCC standards and labeling practices have restricted trade in many of the GCC countries. In particular, shelf-life standards are set at arbitrary levels that restrict imports of a variety of food products of interest to U.S. suppliers. The Gulf Standards and Metrology Organization (GSMO), the central accreditation organization for the GCC, adopted a resolution in October 2002 to implement an AGCC Conformity Certification Scheme for countries exporting to GCC Member Countries, a conformity assessment program similar to Saudi Arabia's current International Conformity Certification Program (ICCP). Saudi Arabia initiated the ICCP in 1995 as a pre-shipment certification program to monitor and control the quality of certain products imported into the country. The ICCP currently applies to 76 regulated consumer product lines and is managed by a private firm that inspects and tests shipments bound for Saudi Arabia on behalf of Saudi Arabia Standards Organization (SASO). In

December 2002, Kuwait notified the WTO of its proposal to implement the ICCP as well.

The United States and many other WTO members have raised concerns about the ICCP during meetings of the WTO Committee on Technical Barriers to Trade (TBT) and as part of Saudi Arabia's efforts to join the WTO. Among other concerns, the United States and many other exporting countries believe the ICCP

is not consistent with the WTO TBT Agreement, accords favorable treatment of local products manufactured in the Gulf Region, is more trade-restrictive than necessary, charges *ad valorem* fees, and lacks transparency. The United States is working to develop a constructive dialogue with GCC countries on this issue and establish alternative regulatory practices that address clearly-identified concerns raised by GCC countries, while also recognizing a country's right to take appropriate measures to ensure the health and safety of its citizens and the safety of both imported and domestic products.

Export Subsidies

Bahrain has phased out most subsidies for export industries, but permits duty-free importation of raw materials for export products and of equipment and machinery for newly established export industries. All industries in Bahrain, including foreign-owned firms, benefit from government subsidized utilities. The Industrial Bank of Kuwait offers below market rate loans to local industry. Land is also provided at low cost. In the UAE, subsidies for manufacturing firms are available only to those companies with at least 51 percent local ownership.

The Oman Development Bank (ODB) provides export payment guarantees at below local-market interest rates, protecting Oman's few non-petroleum exporters from payment problems on transactions. These guarantees are

subject to ODB approval of buyer and country risk. The Omani Ministry of Commerce and Industry also offers soft loans to projects in the industrial, tourism, health, education, and some other service-related sectors. Land is available at little or no cost, and low interest loans are available from the Saudi Industrial Development Fund (SIDF). Because input prices are relatively low in Saudi Arabia, investment in the production of petroleum and related downstream products is comparatively attractive. The Saudi Government contends that low input prices reflect Saudi Arabia's low costs for domestic oil production. Saudi Arabia began a substantial reduction in wheat production subsidies in 1993. The Grain Silos and Flour Mills Organization (GSFMO) controls wheat production through assignment of production quotas to each of the country's grain farmers.

Intellectual Property Rights (IPR) Protection

The GCC Secretariat has declared protection of intellectual property to be a priority and is working to strengthen GCC laws in the six member states, particularly for patent protection. In this respect, the GCC has adopted a unified patent law with the goal of creating a patent system for all member states. However, concerns remain regarding the law relative to member states' obligations under the TRIPS Agreement. The GCC patent office in Riyadh has received approximately 3,000 applications since it began accepting patent applications in October 1998, and issued its first patent certificates in late spring -2001. Its third round of patents is expected in early 2004. The GCC patent office plans to complete a review of all applications within two to three years of receipt. According to GCC patent regulations, once the GCC patent office grants a patent, all GCC states automatically afford its owner protection. The GCC has also indicated an interest in creating common trademark and copyright laws and regimes.

Services Barrier

Insurance

Bahrain has opened the life insurance sector to foreign competition, but foreign companies may not sell most other insurance products in Bahrain. The Bahrain Monetary Agency, which assumed regulation of the sector in 2003, plans to open the sector to more foreign competition. As part of its WTO accession, Oman introduced legislation allowing majority foreign-ownership of up to 70 percent in most insurance sectors. Oman is also phasing in commitments over a period of years to allow 100 percent foreign ownership for most insurance sectors. In Qatar, the Organization of Foreign Capital Investment Law (Law No. 13/2000) restricts foreign investment in banking, insurance, commercial agencies and the purchase of land. Foreign insurance companies wishing to operate in Qatar are subject to the same laws that apply to foreign firms in all other sectors. Foreign insurance companies can establish a presence in the UAE by operating a branch or representative office. This option allows for 100 percent foreign-ownership, yet generally limits business activities to offshore operations.

In the last two years, the Saudi Arabian Government has implemented a series of laws giving structure to what had been an essentially unregulated sector and mandating certain types of insurance coverage within the Kingdom. In June 2002, the Cooperative Health Insurance Council issued the by-laws of a mandatory cooperative health insurance scheme. In October 2003, the Saudi Arabian Government enacted the Control Law for Co-Operative Insurance Companies. The law requires all insurance companies operating in the Kingdom to be locally registered, publicly owned firms. In keeping with adherence to Islamic principles, insurance companies will

need to operate on a co-operative or mutual basis. Firms will need to register with the Saudi Arabian Monetary Agency (SAMA).

Banking

International financial institutions operate in Bahrain, both internationally and domestically, without impediments. In 2003, Bahrain's central bank issued 10 new licenses (six investments advisory and other financial services institutions, one investment bank, one offshore banking unit, one financing company and one representative office). Under Kuwait's 2001 Foreign Direct Investment law, foreigners may own up to 100 percent of existing or newly formed Kuwaiti banks, subject to approval by the Central Bank. While Oman has laws permitting foreign banks to operate, it has barred new non-GCC banks from establishing operations on the grounds that there is excess capacity in the sector. Oman does not permit representative offices or offshore banking. In Qatar, regulations for local and foreign bank practices are the same, with new licenses available through the Qatar Central Bank application process. In 2003, the Qatar Central Bank allowed foreign banks to establish representational offices and the existing foreign banks in Qatar to open new branches.

Although the Saudi Banking Control Law does not limit foreign participation, for the past twenty years the Saudi Arabian Monetary Agency has capped foreign ownership in commercial banks to 40 percent of any individual bank operation. In the last few years, the Saudi Government has taken steps to increase foreign participation in its banking sector by granting operating licenses to foreign banks. The Bahrain-based Gulf International Bank (GIB), Dubai-based Emirates Bank International, and Kuwait Bank currently operate in the Kingdom. In November 2003, the Saudi Government granted an operational license to Deutsche Bank.

Saudi Arabian investment banking will likely see significant growth when the Saudi Capital Markets Law comes into effect in February 2004. The law provides for the creation of investment banks and brokerages in the Kingdom. With 21 national banks, 26 foreign financial entities, a total 457 branches, the UAE government considers the country overbanked, and is reluctant to further open its financial services sector to foreign competition in the ongoing WTO services negotiations. Figures by the Central Bank show national banks enjoy a stronger financial position than foreign banks operating in the UAE, with assets peaking at the end of March 2003 at nearly \$68.3 billion compared with foreign banks' assets of around \$21.5 billion. The UAE does not allow offshore banking.

Shipping

Bahrain presents no major impediments to shipping. Currently, Bahrain is evaluating procedures for privatizing its two major ports, a decision issued by decree in July 2002. Kuwait has prevented foreign shipping lines access to cargo for government projects by granting the United Arab Shipping Company the right of first refusal on all such cargoes. However, Kuwait no longer applies this requirement to shipments from U.S. ports. Saudi Arabia gives preferences to national carriers for up to 40 percent of government-related cargoes. Under these rules, the Saudi national shipping company and United Arab Shipping Company receives preferences.

Investment Barriers

Bahrain

Bahrain permits 100 percent foreign-ownership of new industrial entities and the establishment of representative offices or branches of foreign companies without local

sponsors. Wholly foreign-owned companies may be set up for regional distribution services and may operate within the domestic market as long as they do not exclusively pursue domestic commercial sales. Protection of foreign investments is strong. The 2001 U.S.-Bahrain Bilateral Investment Treaty (BIT) provides benefits and protection to U.S. investors in Bahrain, such as the better of national or most-favored-nation treatment, the right to make financial transfers freely and without delay, international law standards for expropriation and compensation cases, and access to international arbitration.

Kuwait

Kuwait currently maintains restrictions on direct foreign investment and applies discriminatory taxation policies. In May 2000, Kuwait's National Assembly approved legislation that allows foreign nationals to own stocks listed on Kuwait's stock exchange. Implementing regulations allow foreigners to own up to 100 percent of all listed companies except banks. Under that law, foreign-ownership in banks was limited to 40 percent with the additional restriction that any foreign-ownership above 5 percent must be approved by Kuwait's Central Bank.

Oman

In September 2003, Oman amended its tax law and extended the national tax treatment (i.e., a corporate tax rate of 12 percent) to all Omani and GCC companies regardless of the percentage of foreign ownership. Taxes on branches of foreign-owned companies remained at 30 percent. In addition, Oman exempted companies in the education, health, and aquaculture sectors from taxes. Foreign airlines are now tax-exempt subject to reciprocal agreement. The new tax exclusion also extends to capital gains on disposal of securities listed on the local stock market as well as joint

investment funds. Oman now permits 100 percent foreign-ownership on a case-by-case basis with the approval of the Minister of Commerce and Industry, although no applications for such enterprises had been made through the end of 2003. In Oman, foreigners are permitted to purchase shares on the Muscat Securities Market (MSM). As of mid-year 2003, approximately 15 percent of the MSM's total market capitalization was foreign-owned.

Qatar

Qatar issued a new Investment Law (Law No. 13 of 2000) that allows foreign investors to own up to 100 percent of projects in the agriculture, tourism, education, industry, and health sectors. In the energy sector, foreign companies may own 100 percent of projects subject to approval from the government. The law also gives foreign investors the right to lease land for up to 50 years, which is renewable (also subject to government approval). The new law annuls provisions of Law No. 25 (1990) that restricted origin ownership of limited liability business concerns to a maximum of 49 percent. Foreign equity is limited to 49 percent in other sectors.

Saudi Arabia

In April 2000, Saudi Arabia's Council of Ministers approved a new foreign direct investment code with the goal of facilitating establishment of foreign companies, both joint-ventures and 100 percent foreign owned, in Saudi Arabia. Key provisions allow foreign investors to transfer money freely from their enterprises outside the country, allow joint-venture companies to sponsor their foreign investors as well as their foreign employees, and permit foreign investors to own real property for company activities. The Saudi Arabian General Investment Authority (SAGIA) was established to manage investments under the new code under the guidance of the Supreme Economic Council.

UAE

Except for companies located in one of the free zones, at least 51 percent of a business establishment must be owned by a UAE national. A business engaged in importing and distributing a product must be either a 100 percent UAE owned agency/distributorship or a 51 percent UAE/49 percent foreign limited liability company (LLC). Subsidies for manufacturing firms are only available to those with at least 51 percent local ownership.

E-Commerce

In September 2002, Bahrain implemented an Electronic Transactions law, recognizing the validity of electronic transactions. In a push to make use of this technological opening, the Commerce Ministry has implemented electronic government, banks offer electronic banking, and the parastatal telecommunications company now accepts electronic transactions for bill payments. In October 2003, Oman officially inaugurated Knowledge Oasis Muscat (KOM), an information technology park within its Rusayl Industrial Estate. Qatar has established national committees to explore the possibilities of enhancing electronic commerce and E-Government. Some government services, including immigration services, driver license renewals, and donations to the Zakat Fund are now available online. Some Qatari banks have recently established online electronic banking facilities.

Saudi Arabia is studying various options to incorporate electronic commerce into government and private industry. A proposed National Information Technology Plan encompasses infrastructure, industry, electronic government, and electronic learning. The Ministry of Commerce and Industry completed a national project in 2001 for safeguarding dealers' rights, establishing a dispute-settlement mechanism, and endorsing

digital signatures. In December 2003, the Saudi Government approved an electronic system for the official authentication of documents (similar to notarization) through the Internet. The Law of Electronic Transactions and Commerce No. 2/2002 in 2002, protects certain electronic records and signatures, and some electronic communications. In March 2003, the International Bar Association hosted a conference in Dubai entitled, Middle East Law and the Internet Age. The conference addressed the legal developments related to new technologies, with a focus on electronic commerce in the Middle-East. The Emirate of Dubai has established the Dubai Technology, Electronic Commerce and Media Free Zone (TECOM), which houses both Internet City and Media City, two subdivisions which cater, respectively, to the information technology and media sectors.

Other Barriers

Corporate Tax Policies

Saudi Arabia and Kuwait tax foreign companies, but domestic entities are only required to pay zakat (a charitable donation). Additionally, several GCC countries tax royalties as if they were 100 percent profit and maintain a variety of other tax policies considered unfair to foreign companies.

Bahrain has no personal or corporate taxation, except on oil company profits. There are no income tax or consumption taxes in the UAE. Foreign banks pay 20 percent tax on their profits, and foreign oil companies with equity in concessions pay taxes and royalties on their proceeds. In Kuwait, foreign firms are currently subject to a maximum income tax rate of 55 percent, although the government is currently drafting a new tax law that would reduce the tax rate. Kuwaiti-listed companies are not subject to income tax, but are required to make an annual contribution of 2.5 percent of their net profits to the Kuwait Foundation for the Advancement of Sciences

(KFAS). They must also contribute 2.5 percent of their net profits toward a National Labor Force Fund.

In October 2003, Oman extended national tax treatment to all companies registered in Oman regardless of the percentage of direct foreign investment, i.e., a maximum rate of 12 percent tax on net profits. The Omani branch of a foreign firm is regarded as a foreign firm and is taxed at a maximum rate of 30 percent. These rates do not apply to foreign petroleum companies, which pay royalties according to their concession agreements. Oman now levies a 10 percent tax on services performed offshore for Omani firms.

Qatar levies corporate income taxes on foreign firms at rates from 5 percent to 35 percent of net profits, including profits from majority-owned Qatari joint ventures exceeding 100,000 Qatari riyals (approximately US\$30,000). All Qatari owned firms and joint ventures are exempt from corporate income taxes. Under Law No. 13 of 2002, the Ministry of Finance may grant a tax-holiday of up to ten years for new foreign investments in key sectors. Other foreign companies may be granted tax exemptions on a case-by-case basis by Emiri Decree. In Saudi Arabia, only foreign-owned corporations and the foreign-owned portion of joint ventures are subject to the corporate income tax, which ranges up to 30 percent of net profits. Domestic corporate partners are subject to a 2.5 percent tax on assets, or zakat.

India-GCC Trade Relations

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 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, etc⁸.

Economic and commercial relations

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, and presence of 3.5 million Indian workers in the region, are of vital interest to India. India's economic linkages with the GCC have increased steadily during 1970s, 80s and 90s, especially due to growth in oil imports. These continue to make steady progress to-date. During 2002-03, India's exports to GCC were around US \$ 5 billion. The bilateral two-way trade exceeded US \$ 12.5 billion and was growing at a steady pace. Information Technology exports to GCC stand at US \$ 170 million and were poised for a significant upswing. A table of India's trade with the GCC states during 2001-02 and 2002-03 is enclosed.

Strategic relations

From the strategic point of view, India and GCC share the desire for political stability and security in the region. The common political and security concerns of India and GCC 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

⁸ Embassy of India, Riyadh (2007) India-GCC Trade Relations-
C:\Documents and Settings\ansarkar\Desktop\GCC\Embassy of India,
Riyadh - India-GCC Relations.htm

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 extremism⁹.

India's Trade with GCC Countries

The following Table (2) summarises the total Trade Transactions (in US \$) in terms of Import, Export and the total trade position between India and GCC countries during 2000-2008.

Table 2: India's Trade with GCC (in US\$ Million)

Year	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008
Export	3906.49	3798.05	4913.03	6967.07	9814.93	11775.31	16380.08	21752.68
Import	1680.67	1686.95	1889.25	3252.55	7063.52	7805.04	31033.08	45002.62
Trade	5587.16	5485	6802.28	10219.62	16878.45	19580.35	47413.16	66755.3

Source: Compiled from Export Import Data Bank, Department of Commerce, Govt. of India, New Delhi

The above Table (2) of Indian imports do not include imports of crude oil and petroleum products. It is observed that during Year 2000-08, India has a better overall Export performance vis-à-vis GCC countries indicating greater trade opportunities with GCC countries in future. Furthermore, it is also noted that

⁹ Gulab Tulhab Etaibi (2008), The Gulf Cooperation Council: Arabia's Model of Integration, Boston College, escholarshp@BC, USA

the overall Trade volume combining the Import & Export figures on annual basis it has steadily gone up over the years during the period 2000-2008. Table 3 presents some selected economic and financial indicators of GCC from the year 2002 to 2010 (GCC Economic Outlook, 2008) indicating greater business opportunities for India with GCC member countries in future.

Table 3: GCC's Economic and Financial Indicators

Indicators	2002	2003	2004	2005	2006	2007	2008	2009	2010
Real GDP growth (percent)	2.1	9.1	6.8	6.8	6.2	5.3	8.2	8.1	7.6
Real Non-oil GDP growth (%)	5.9	6.9	7.2	7.3	7.9	7.8	8.5	8.6	8.3
Crude Oil Production (mn b/d)	13.1	14.9	15.4	16.0	16.0	15.4	16.2	16.6	17.1
Gas production (boe)	2.8	3.0	3.3	3.5	3.8	4.0	4.6	5.5	6.2
Fiscal balance (% of GDP)	3.5	5.3	12.6	20.3	22.8	19.8	35.1	36.6	36.7
Consumer Price inflation (av.)	2.0	3.0	4.0	5.0	6.0	7.0	10.8	9.0	7.6
Current Account balance (bn\$)	25.0	52.2	89.4	166.7	196.7	188.3	463.4	554.3	647.5
Foreign Assets (billion \$)	1102	1154	1243	1410	1607	1795	2258	2813	3460

Source: GCC Economic Outlook, June 2008; Samba estimates and forecasts, IMF, IIF from www.samba.com

The two-ways trade between India and Gulf Cooperation Council (GCC) will have the potential of touching a level of \$25 billion by 2010 which at present

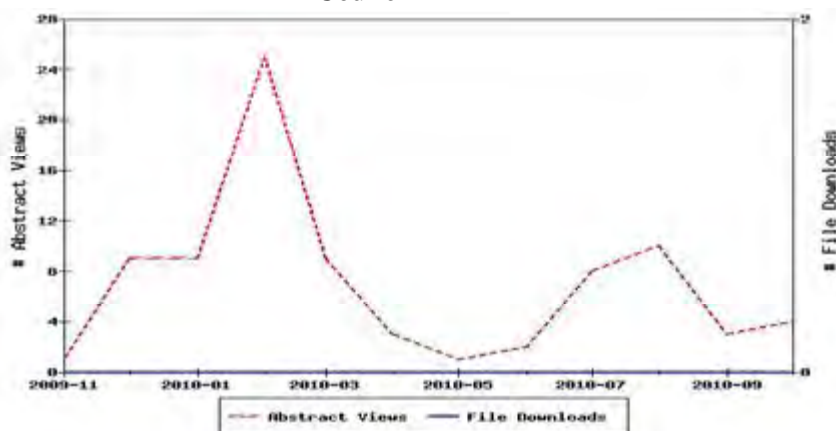
level staggers at \$16.3 billion, according to a White Paper on 'Indo-GCC Trade Prospects' brought out by The Associated Chambers of Commerce and Industry of India (ASSOCHAM). Of the projected estimates of \$25 billion two-way trade between India and GCC, the share of India's exports will touch the level of \$15 billion, while their imports to India will go up to \$10 billion by 2010.¹⁰

¹¹Pradhan explored India's export potential to the six-member countries of Gulf Cooperation Council (GCC) with which a Free Trade Agreement (FTA) is currently under negotiation. Augmented gravity model is used to analyze India's export flows, and the coefficients thus obtained are incorporated to predict India's export potential to the GCC. The model is estimated using the Ordinary Least Square (OLS) technique with panel data. The workhorse gravity model shows that the magnitude of India's export potential is highest with Oman (3.7 times), followed by Qatar (2.7 times), Bahrain (1.5 times), and Kuwait (1.2 times). Moreover, when the RTA (Regional Trading Arrangements) dummy takes the value of one, the results show sharp increase in the magnitude of export potential. However, all the model specifications consistently show no export potential with United Arab Emirates (UAE), and Saudi Arabia. This implies that currently India is overtrading with UAE and Saudi Arabia, as they are the two largest trading partners of India in the GCC and India's export basket to these two countries is not diversified and is confined to limited number of items. In addition, the models using time-specific fixed effects also exhibit favorable trends of India's export potential to the GCC especially during the period 2009-2010 as depicted in Fig 1 below.

¹⁰ India-GCC: Two-way Trade to touch \$ 25 billion by 2010- ASSOCHAM: <http://www.highbeam.com/doc/1P3-986015311.html>- Retrieved on February 12, 2006

¹¹ Pradhan, Samir Ranjan (2009), India's Export Potential to the Gulf Cooperation Council: A Gravity Model Exploration, IUP Journal of Applied Economics, 8(No, 3&4), 2009, pp. 48-71

Figure 1: India's Export Potential to the Gulf Cooperation Council



(Source:
<http://logec.repec.org/scripts/paperstat.pf?h=RePEc:icf:icfjae:v:08:y:2009:i:3-4:p:48-71>)

India-GCC Industrial Conferences on Inter-Regional Trade Initiatives

The GCC Secretariat General at Riyadh and the Confederation of Indian Industry (CII) are organizing a two-day “India-GCC Industrial Conference” on 17-18 February, 2004 at Mumbai. The Conference would focus on four priority sectors or themes: (i) Trade, (ii) Investment, (iii) Technology Transfer (including IT), and (iv) Industrial Cooperation (including SMEs/SSIs). A large number of Ministers, senior officials, industrialists and business leaders from India and the GCC states are expected to attend the Conference. The Conference is expected to provide a new momentum to the strong relations between the GCC States and India, particularly in the field of economic and commercial exchanges¹².

The GCC-India Second Business Conference was convened at Muscat-Sultanate of Oman during the period 25-26th of March 2006, hosted by the Government of the Sultanate of Oman, under the motto “GCC and India-Cooperation and Partnership”. This led to Muscat Declaration. The Muscat Conference recommended for activating the partnership between the two sides through the formation of joint ventures and private investment companies in the fields of industry, energy, petrochemicals, ICT, bio-technology and tourism sector, identifying industries nominated for strategic partnership between the two sides, working towards eliminating all obstacles that hinder the flow of investment and trade between the two sides, enforcing the GCC-India Framework Agreement for Economic Cooperation, and expediting the finalization of the Free Trade Area (FTA) Agreement between the two sides, which includes other

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economical sectors, maintaining regular contacts between the private sectors of the two sides, Benefiting from the experiences of the two sides in promoting the Small and Medium Enterprises, exchanging experiences in the fields of Research and Development, and higher education, between Universities and Scientific Research Institutes; and establishing joint centers for science and technology, exchange of experiences in the fields of biotechnology, health and pharmaceutical. It was agreed to hold the third conference of GCC businessmen and their Indian counterparts in India during March 2007.¹³

This session approved holding regular Senior Officials Meeting (SOM) as a mechanism to discuss develop and bolster cooperation in the field of industry and investment. The 1st round of negotiations took place in Riyadh on March 21-22, 2006 on proposed Free Trade Agreement between India and GCC. It was agreed that the proposed FTA will also include services and investment besides trade in goods. With this objective, four working groups on Trade in Goods, Trade in Services, Investment and Economic Cooperation and Rules of Origin and Customs Cooperation were established. The 2nd round of negotiations took place in Riyadh on September 9-10, 2008. The third round of India-GCC FTA negotiations were held in January 2009 at Riyadh. It opened up the position of the two sides on various issues. India is examining the GCC proposal on tariff liberalization schedule with reference to Category A, B & C goods; finalization of initial offer list; GCC request to conduct negotiations on trade in goods at 8 digit level; GCC text; and the GCC proposal to

¹³ India- GCC Trade -<http://www.cgijeddah.com/cgijed/comm/India-GCC/update-trade.htm>

base ROO on change in tariff classification at 4-digit level or value addition (35% to 40%).

Emerging Opportunities for building GCC-India Trade Nexus

India is currently making attempts to tap trade complementarities with various countries and regions in the world by taking advantage of the trade-creating effects of regional trading blocs. Perhaps the most visible element of the growing Asian-Middle East partnership concerns expatriate workers in the GCC countries. Over 4 million Indians are to be found at every level of occupation on the Arabian Peninsula. Regional economic diversification received a boost when the Gulf Cooperation Council (GCC) and India - which signed a bilateral framework agreement for economic cooperation in August 2004 - announced that final negotiations for a free-trade agreement (FTA) would start this month, to thrash out niggling issues like rules of origin and differential tariffs¹⁴. In emulating the United States and European Union policy of expanding trade ties beyond the immediate region, the GCC - whose trade among the six countries only doubled in 12 years from \$7.5 billion in 1990 to just over \$15 billion in 2002 - concluded an FTA with

¹⁴ Ahmad Dhaif (2004), India – GCC Industrial Conference Opportunities and Challenges, 17 – 18 February 2004:

http://www.industry.gov.bh/moic_portal/DownloadCentre/english/news/indian_gcc.pdf

Lebanon - the first with an Arab country. Apart from the U.S., FTA plans exist with the EU, China, Australia and the like¹⁵.

India too has embarked on an economic diplomacy mission with negotiations on an FTA with the members of the Association of Southeast Asian Nations, affirming commitment for a South Asian Free Trade Area and stretching it to the GCC. On the anvil are FTAs with South Korea and Israel, economic engagement with the Bay of Bengal Initiative for multi-sectoral Technical and Economic Cooperation countries, a proposed Comprehensive Economic Cooperation Program Agreement with Mauritius and a unilateral tariff preference scheme for the least-developed African countries. With India's economy forecast to expand about 7 percent during the current fiscal year, India's proposal for an "Asian Community" implies creating an arc of advantage to rival the EU. While FTAs appear to reduce the efficacy of the World Trade Organization (WTO), they may actually help remove impediments to movement of goods and services and make the WTO more beneficial. The FTAs are in line with New Delhi's "Asian Century" policy adopted in the 1990s. India believes that an Asian economic community would help a huge but integrated market accounting for more than half the world's population and having foreign exchange reserves in excess of the EU and North American Free Trade Agreement together.

While energy is forcing Asia to first look toward the Gulf, it is oil again that is engaging the GCC countries with Asia. The GCC countries account for 45 percent of the world's

¹⁵ bilaterals.orgis(2006)--C: \Documents and Settings\Desktop\GCC\For the GCC and India, escalating opportunities.htm(21st Century), Industry Development, Ministry of Industry, Bahrain, 17-18 February, 2004

recoverable oil reserves and 20 percent of the natural gas resources. Partly as a result of the September 11, 2001, attacks, and partly as a result of the surge of Asian economies, the East is the Gulf's preferred market. Asia imports more crude oil than any other region in the world and it is the single most important market for GCC producers. Over the next five years, half of the incremental global oil demand will come from Asia. The GCC countries are also looking toward Asia because they find that the suspicion and scrutiny that greets Arabs in the West is increasingly an obstacle to do business. Already ranked sixth in global petroleum demand, India meets 70 percent of its energy needs through imports.

By 2010, it is projected to replace South Korea and emerge as the fourth-largest consumer of energy - after the United States, China, and Japan. The bulk of supplies in the past have come from the Gulf and this can change only marginally. Beyond oil, as part of the new "look- East" policy, the GCC chambers of commerce and industry called for prioritizing economic cooperation with Asian countries. The impact of the GCC granting the "dialogue partner" status to India - the first from the developing world and only the fourth partner in the world after the U.S., EU and Japan - is indicative of the dynamic change.

GCC-India relations are strong, given historic links, the presence of about four million Indians in the region and more than \$5 billion in annual remittances. As a group, the GCC is India's second largest trading partner, the largest single origin of imports into India, and the second largest destination for exports from India. Bilateral trade rose to nearly \$20 billion in 2004, excluding energy imports by India worth approximately another \$20 billion. Both parties stand to benefit from an FTA as it will remove restrictive duties and push down the tariffs on goods being traded between them. Though Oman and the U.A.E. are in the advanced, and Kuwait in the preliminary, stages of negotiations with the U.S. for FTAs, all the GCC

countries claim to be committed to collective rather than bilateral negotiations with trade partners. The same is the case with India. However, in trying to avoid discontent such as the one involving Saudi Arabia and Bahrain over the latter's FTA with the U.S., Article 7 of the framework pact states: "Without prejudice to the provisions of the GCC Charter and those of the GCC Economic Agreement, this agreement and any measures taken hereunder, shall in no way affect the authority of the GCC countries to individually undertake bilateral activities with India in the fields covered by this agreement or conclude bilateral agreements with India."

With the GCC-India trade showing a remarkable surge in recent years, speedy and successful FTA negotiations would lead to more intensive economic engagement. Leading up to the final talks, a joint commerce and trade committee has defined the contours of an FTA by focusing on exploring opportunities in areas of oil and gas, petrochemicals, fertilizers, power, metals and pharmaceuticals, knowledge-based products, education, health, banking, avoidance of double taxation, a treaty to promote and protect investment, and infrastructure (India plans to build about 28 new airports), among others. There is also tremendous scope in areas such as tourism, biotechnology and higher education, as well as getting India's expertise in the small and medium enterprises sector. India could be an important source of semi-finished products, which can be improvised and packed by the GCC countries as a way of enhancing domestic trade. But the more conventional approach of viewing India as an extension of the GCC markets and not as an investment destination has to change. The transformations in India will make it an industrial and scientific power. That, combined with availability of cheap and skilled labor and assured political stability, should make India the most favored destination for investment. India also has the potential to help the Gulf countries keep pace with the desired ambitions and goals, especially in the IT

sector. The fact that India will cooperate on the basis of equality and mutual respect is a bonus. Long-term demographics are in favor of the GCC and India. Only if both ensure pragmatism, flexibility and dynamism, will trade relations - with focus on commodities with potential for growth and mutual interest - develop in a manner commensurate with the potential. As both eye partners, it is natural that both look at each other to restore Asia to its rightful place.

Global GCC Large-Cap Fund

Prospective of the fund:

The investment opportunities employing large-Cap funds are simply enormous in certain priority sectors, as may be seen from the following.¹⁶

Increasing oil price

Driven by oil dollars, the stock markets in the Middle-East had been outperforming other market around the world. In 2005, benefit from soaring international oil prices, coupled with the Middle-East region of the country's economic reform programme launched, strong performance of the stock market showed in the Middle East. According to statistics, among the ten best-performing stock indexes in the world, there are eight belonging to the Middle-East countries. In 2008, it is expected that the international crude oil prices may continue to

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<http://www.google.com/search?hl=en&q=Global+GCC+Large+Cap+Fund&btnG=Google+Search>

maintain very high, out of which GCC will achieve fiscal surplus to 162 billion U.S. dollars, a new record high.

Low correlation with the global market

The specialists in the Gulf region point out, low correlation between the global market and the Middle East is the important reasons for fund managers favoring this market when Sub-Prime Financial Crisis erupted. According to Schroder Asset Management Statistics data, it shows that the correlation between the Middle East and the major stock markets is not high, some stock market even negative correlated with MSCI World Index and MSCI emerging markets index.

Economic growth led the market higher

The GCC countries nominal GDP is 11% in 2007, it is expected to increase 14 percent in 2008. At the same year, the Gulf countries are expected current account surplus by 16% to USD 212 billion, a record high. Besides, the infrastructure projects the Middle-East country has become increasingly powerful and rapid expansion in the Middle East country. According to HSBC forecasts, the GCC non-oil sector growth will reach 12.7% and 10.3% in this year and next year, mainly promoted by infrastructure projects and private investment. On the other hand, the IPO and M & A activities become more active in the Middle East. It also brings new market for investment opportunities.

PE is low

For emerging markets investment, it focuses more on the Asia-Pacific Region or BRIC (Brazil, Russia, India and China). After the stock market soared in recent years like China and India, The PE has climbed more than 20 times. However, the economic development of the Middle East region gradually develop, the corporate profitability continued

to improve, the forecast earnings per share growth reach 20%, and the forecast PE is between 10 - 16 times, the investment prospects is more attractive.

Consumer groups become greater in number

GCC member countries are Saudi Arabia, United Arab Emirates (“UAE”), Kuwait, Oman, Qatar and Bahrain and other Arab countries of the Middle East, including Turkey, Israel, Jordan, Egypt and Morocco. Their total population number has reached 230 million people, of which 54% of the working population under 25 years of age, the huge population not only providing substantial labor, but also beneficial to the local consumer and service sectors.

More investment opportunities

Middle East country has become increasingly prosperous; the Government not only improves the infrastructure, but also promotes other service industries, such as tourism, telecommunications and financial industry. According to the World Tourism and Travel Council (“WTTC”) forecast, in 2007-2016, the UAE Tourism Industry will be the average annual growth of about 5%, higher than the global average by one percentage point;

Currency appreciation

In addition, the region's currency appreciation has huge potential, this brought another return growth opportunities; currently there are still many countries in the Middle East peg the U.S. dollar currency, the US dollar continued weakness lead the relevant areas of the national currency value underestimated. Kuwait and Syria has let its currency no more peg U.S. dollar replacing by pegging to a basket of international currencies, in order to avoid rising import costs and inflation. The market is expected that other GCC countries also had the opportunity to follow.

Risk Factors in GCC's Economic Growth

Inflation

It is expected GCC's overall inflation will rise to 6% in 2008. The IMF had expected the UAE inflation will fall to 8%, Qatar inflation will be slightly fall to 12%. Saudi official inflation is more than 4% in 2008. The rising cost of housing market has become the inflation's driving factors for the UAE and Qatar. Non food goods and services is the main factor to stimulate inflation in Saudi Arabia and Kuwait. Therefore, the Gulf Arab countries may adopt strict fiscal policy, by tightening the money supply to avoid inflation.

Political and geographical risk

In addition, the Fund investment should be attention to political risk, despite the investment prospects in the Middle East has huge potential profit, the ground is still developing countries, political and economic instability leads the high-risk investment.

Introduction of Global Investment House

Global Investment House "Global", a leading investment company in the region, is a full-fledged investment company offering products and service ranging from asset management to investment banking. Its underlying foundation is to meet the high expectations of local, regional and international clients, and to enhance the investment service industry in the region. Today, Global is one of the largest investment companies in the region with a market capitalization exceeding USD 2.5 billion and a total of more than 400 employees in Kuwait, Bahrain, Dubai, Abu Dhabi, Jordan and others. The company stock is traded on the Kuwait, Bahrain and Dubai Stock Markets. Global plays an important role in

promoting investment opportunities in the Arabian Gulf Peninsula to investors through expert financial engineering. It provides investors with a diver's scope of international and national investment opportunities, and facilitates those investments by providing clients with services that target their individual needs, and exceed their expectations. With close support from various business sectors, Global is confident that its clients can always acquire the greatest viable performance from the expertise of a well-established team of professionals. The firm's business sectors stretch through a wide spectrum of financial services ranging from asset management, portfolio management, brokerage services, corporate finance and investment funds. "Global" has accomplished much since the company's inception, and has been vigorous in developing the capital markets. The company has acted as a lead manager for Bonds & Islamic Finance deals, in addition to acting as a listing advisor for various companies. The company is also very active in managing an array of investment funds, accommodating to the different needs of our divergent client base.

Arab Investors seeking investment opportunities in India

Lucrative investment options in India are attracting a number of cash-rich private equity funds from the Arab world. If numbers are to be believed, around 15 Gulf Co-operation Council institutions, with a massive fund size of \$10,464 million (about Rs 42,000 crore), are willing to invest a considerable part of fund into Indian equities and other private equity opportunities.¹⁷ The post 9/11 change in the political

¹⁷ Indian Realty News (2008) Arabs seek investment opportunities in India, 2 August 2008, New Delhi.

scenario of America and Europe and the concerns of a likely slowdown in developed economies are encouraging for Gulf-based investors to turn their focus to developing economies like India and China. Some of the prominent factors that are attracting Gulf investors in India are infrastructure and real estate and high returns on equity. India's legal framework which protects foreign investors is one of the best in emerging countries. Arab investors (from GCC countries) are interested in sectors like infrastructure, real estate, financial services, and logistics. According to experts, Government's thrust toward infrastructure development via public-private partnership is likely to bolster further investments in that space. Buoyancy in manufacturing and services sector activities coupled with booming stock markets provide an opportunity for foreign capital to flow in India. Gulf investment in India is on a rise and many more fund pools are waiting on the sidelines to take a plunge. The Qatari Government alone is planning to invest a considerable sum into India. According to Global Investment House data, Abraaj Capital is planning to come out with three separate funds totaling around \$2,700 million; Ithmaar Bank is launching a \$500 million balanced fund, with a view to invest in infrastructure.

India and GCC contours of Cooperation

The Gulf region has historical, political, economic, strategic and cultural significance for India. The GCC countries are moving ahead with their economic integration efforts and offers tremendous potential for cooperation in trade, investment, energy, manpower etc. India has traditional and friendly GCC countries has reached nearly USD 100 billion in FY 2009-10 making GCC as a block our second largest trading partner. GCC countries have mutually beneficial complementarities with India in the field of investments which has already started from these countries both through FDI and FII. Nearly 60% of India's crude oil import is met

from this region in 2009-10. Gulf region based on providing overwhelming part of India's oil and gas requirements play a crucial role in our energy security and pace of economic bid for oil blocks in Yemen, Qatar and Oman. Efforts are ongoing to setup joint ventures in downstream petrochemicals, fertilizer and energy intensive industries in the gulf and in India. The OMIFCO fertilizer plant in Oman and the Essar steel plant in Qatar are good examples. We are working to replicate OMIFCO models or its variants with some other countries. With increasing economic and international profile of India the engagement with the Gulf is on the increase. There has been intensification of high-level interactions. Increasing number of Agreements and MoU has been signed in last few years in wide ranging areas. The Gulf countries provide an excellent market potential for India's manufactured goods and services, especially in project services exports. The trade and investment flows between the two have increased substantially. The oil-rich Gulf States with their massive oil revenues are engaged in an ambitious economic development and modernization programme, which has created a demand in Gulf States for skilled manpower and labour. India, with its surplus manpower resources is a major source of supply.

GCC-India FTA talks 'on track'

Discussions on a *Free Trade Agreement (FTA)* between India and the Gulf Cooperation Council (GCC) countries are expected to make a substantial progress with in a year. The two sides, seeking to boost bilateral trade, have been discussing the FTA since August 2004 when they signed a 'Framework Agreement on Economic Cooperation'. Last year, following visits to India by high level delegation from Gulf countries, the crucial third round of talks, which got almost deadlocked, were revived. As an outcome of the trade talk, India is likely to seek greater safeguards for its chemicals and petrochemical industry. This is being done with a view to

protect domestic players who would find it difficult to handle competition as the cost of crude oil is extremely low in the GCC. Other issues include rules of origin and differential tariffs, while complexities arising from the absence of customs union across the six states, are also hampering efforts to finalize a deal in the past two rounds. If the FTA could be formalized, both parties stand to benefit as it would remove restrictive duties and push down the tariffs on goods being traded between them. Speedy and successful FTA negotiations would lead to a more intensive economic engagement between the two. The Muscat Declaration, issued on March 26, 2006, reiterated the common will of the GCC countries and India to establish strategic economic cooperation in line with the rules and principles founded by the First GCC/India Industrial Conference in Mumbai in February 2004.¹⁸ The UAE has shown interest in investing in the \$90 billion Mumbai-Delhi Industrial Corridor project Dubai. Many UAE investors have shown interest in the mega infrastructure project. There is immense scope for investment in the faced though the Japanese government agreed to contribute project development fund (PDF). India's infrastructure sector requires \$500 billion of investment as the country develops its roads, ports and airports infrastructure. Of this prospective figure, total India-UAE trade totalled \$20 billion in 2006-07 which was 90 per cent more than the previous year. The trade balance in India's favour.

The regional economic diversification plan gets a boost with the Gulf Cooperation Council (GCC) and India — which signed a framework agreement for economic cooperation in August 2004 — announcing final negotiations for a free trade

¹⁸ Indian Realty News (2008) Arabs seek investment opportunities in India, 2 August 2008, New Delhi.

agreement (FTA), starting from January 2006 to thrash out niggling issues like rules of origin and differential tariffs¹⁹. In emulating the United States and European Union policy of expanding trade ties beyond the immediate region, the GCC — whose trade among the six countries only doubled in 12 years from \$7.53 billion in 1990 to \$ 15.14 billion in 2002 — concluded a FTA with Lebanon — the first with an Arab country. Apart from the US, concrete FTA plans exist with the EU, China, Australia and the like. India too has embarked on an economic diplomacy mission with negotiations on a FTA with the members of the Association of Southeast Asian Nations, affirming commitment for a South Asian Free Trade Area (SAFTA) and stretching it to the GCC. On the anvil are FTAs with South Korea and Israel, economic engagement with the Bay of Bengal Initiative for multi-sectoral Technical and Economic Cooperation countries, a proposed Comprehensive Economic Cooperation Program Agreement with Mauritius and a unilateral tariff preference scheme for the least developed African countries. With India's economy forecasted to expand about seven percent during the current fiscal year, India's proposal for an 'Asian Community' implies creating an arc of advantage to rival the EU. While FTAs appear to reduce the efficacy of the World Trade Organization (WTO), it may actually help remove impediments to movement of goods and services and make the WTO more beneficial. The FTAs are in line with New Delhi's 'Asian Century' policy adopted in the 1990s. India believes that an Asian Economic Community (AEC) would help a huge but integrated market accounting for more than half the world's population and having foreign exchange

¹⁹ Janardhan, N. (2008), GCC-India FTA Talks Give Fillip to 'Asian Community', Arab News, 5 January, 2006 (05 Dhul Hijjah 1426)

reserves in excess of the EU and North American Free Trade Agreement (NAFTA) together.

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While energy is forcing Asia to first look toward the Gulf, it is oil again that is engaging the GCC countries with Asia. The GCC countries account for 45 percent of the world's recoverable oil reserves and 20 percent of the natural gas resources. Partly as a result of 9/11 and partly as a result of the surge of Asian economies, East is the Gulf's preferred market. Asia imports more crude oil than any other region in the world and it is the single most important market for the GCC producers. Over the next five years, half of the incremental global oil demand will come from Asia. The GCC countries are also looking toward Asia because they find that the suspicion and scrutiny that greets Arabs in the West is increasingly an obstacle to do business. Already ranked sixth in global petroleum demand, India meets 70 percent of its energy needs through imports. By 2010, it is projected to replace South Korea and emerge as the fourth-largest consumer of energy, after the United States, China, and Japan. The bulk of supplies in the past have come from the Gulf and this can change only marginally.

Beyond oil, as part of the new 'Look- East' policy, the GCC chambers of commerce and industry called for prioritizing economic cooperation with Asian countries. The impact of the GCC granting the "dialogue partner" status to India — the first from the developing world and only the fourth country in the world other than the US, European Union and Japan — is indicative of the dynamic change.

The GCC-India relations are strong enough given the historic links, presence of about four million Indians in the region and more than \$5 billion in annual remittances. As a group, the GCC is India's second largest trading partner and the largest single origin of imports into India and the second largest destination for exports from India. Bilateral trade rose to nearly \$20 billion in 2004, excluding energy imports by India worth approximately another \$20 billion. Though both are beginning to see eye-to-eye politically as well, trade will remain the bedrock of their bilateral ties. When the FTA is formalized, India will become only the third country after Japan and the US to sign a FTA with the GCC. Both parties stand to benefit from a FTA as it will remove restrictive duties and push down the tariffs on goods being traded between them.

Though Oman and UAE are in the advanced, and Kuwait in the preliminary, stages of negotiations with the US for FTAs, all the GCC countries claim to be committed to collective, rather than bilateral, negotiations with trade partners. The same is the case with India. However, in trying to avoid discontent such as the one involving Saudi Arabia and Bahrain over the latter's FTA with the US, Article 7 of the framework pact states: "Without prejudice to the provisions of the GCC Charter and those of the GCC Economic Agreement, this agreement and any measures taken hereunder, shall in no way affect the authority of the GCC countries to individually undertake bilateral activities with India in the fields covered

by this agreement or conclude bilateral agreements with India.”

With the GCC-India trade showing a remarkable surge in the last few years, speedy and successful FTA negotiations would lead to a more intensive economic engagement between the two. Leading up to the final talks, a joint commerce and trade committee has defined the contours of a FTA by focusing on exploring opportunities in areas of oil and gas, petrochemicals, fertilizers, power, metals and pharmaceuticals, knowledge-based products, education, health, banking, avoidance of double taxation, a treaty to promote and protect investment, and infrastructure-India plans to build about 28 new airports -among others. There is also tremendous scope in areas such as tourism, biotechnology and higher education, as well as getting India’s expertise in the small and medium enterprises sector.

The transformations in India will make it an industrial and scientific power. That, combined with availability of cheap and skilled labor, and assured political stability, should make India the most favored destination for investment. India also has the potential to help the Gulf countries keep pace with the desired ambitions and goals, especially in the IT sector. The fact that India will cooperate on the basis of equality and mutual respect is a bonus. Long-term demographics are in favor of the GCC and India. Only if both ensure pragmatism, flexibility and dynamism, will trade relations — with focus on commodities with potential for growth and mutual interest — develop in a manner commensurate with the potential.

Indian attractiveness to GCC Investors

The high GDP growth countries such as India, like the other BRIC (Brazil, Russia and China) countries, are attracting much attention from investors, including those from the Middle East and GCC (Gulf Cooperation Council) countries. But the huge pent-up demand in the GCC for investment

opportunities in the world's most populous democracy, however, stresses some GCC bankers who know that it may not be that easy to realize because of constraints and barriers to business and investments there. GCC investors, including Islamic investment funds, are especially targeting real estate investment opportunities in India. Bahrain-based Gulf Finance House (GFH) in October raised over \$630 million in equity from GCC investors in a placement to fund the development of Energy City India. The issue was oversubscribed by almost 60 percent. According to Esam Janahi, Chairman of GFH, "The success of the exercise to raise equity for Energy City India underscores the strong appetite of our clients for opportunities in India as well as the success of our Energy City Qatar project. Global investors have been eyeing India for some time and are looking for opportunities to invest in India's economic development, particularly after the reforms introduced a few years ago. There is no doubt that the Indian economy is dynamic - you only have to visit India regularly to see the country is changing. With foreign direct investment now allowed automatically in certain sectors of the economy, we see the next few years as an opportune time to invest in more projects that help build the economy of India²⁰". Several other banks have or are in the process of launching investment funds targeted at assets in India, including an Islamic real estate fund by Kuwait-based Gulf Investment House. However, bankers such as Ali Al-Ghannam, head of International Real Estate Department at Kuwait Finance House, one of the most aggressive GCC investors in Asia, warn that India needs to dramatically improve its basic infrastructure, transport links and its notoriously cumbersome

²⁰ Mushtak Parker (2007). India Attracts Attention from GCC Investors, Arab News, Monday 10 December 2007 (30 Dhul Qa`dah 1428)

bureaucracy if its is serious about attracting huge inward FDI flows from the GCC.

India is a dichotomy with a first world economy operating side-by-side with a Third World one. Inevitably, there will always be tensions between the free marketers and the state controllers. The Indian middle class, for instance, is set to increase from the current 150 million to over 400 million by 2011. This together with spiraling domestic demand, say bankers, will ensure the economy continues to grow at a healthy rate. The aspiring middle class will ensure India becoming a magnet for high-end global consumer goods, as already evident by the proliferation of Western style shopping malls springing up in the main metropolitan cities in India. On the other hand, FDI has been concentrated in the southern and western states, where more reform-minded administrations are in power.

The top five destination states for FDI in recent years have been Maharashtra, Delhi, Tamil Nadu, Karnataka and Andhra Pradesh. Indian exports and imports totaled \$123.2 billion and \$184.4 billion in 2006 respectively, resulting in a deficit of \$61.2 billion. This was largely due to higher international oil prices and to demand for industrial inputs and consumer goods. India attracted \$17.5 billion FDI in 2006, which is low by global standards. According to the Department of Industrial Policy and Promotion, offshore Mauritius accounted for 40.8 percent of FDI because of tax benefits, followed by the US and UK. While the IT and computer software sectors have historically attracted much FDI, in 2006/7 these sectors have been overtaken by services - financial services, construction, telecoms, and transport. The IT industry, however, will need to move up the value chain, and the agriculture sector, which employs the bulk of the population, will need to increase efficiency and productivity.

The GCC States and India Perspectives

Opportunities and Challenges

The GCC states and India have enjoyed economic and trade relations spanning over several centuries. Since the oil boom of the early seventies these relations received a new impetus. Relative prosperity and higher standard of living boosted global imports of goods and services. In recent years the global economy has undergone radical changes with important implications for future industrial development and for operations of industrial enterprises in developing countries, particularly the countries of the Asian region. These changes included the transformation of most of centrally planned economies into market economies, the establishment and strengthening of large regional economic blocs with an attempt to liberalization of trade, and increasingly rapid advanced in the application of sophisticated technologies.

In response to regional and global changes, the GCC states member countries had strategically developed industrial infrastructure and basic industries such as Aluminum, Petrochemicals, Oil and Gas, Iron and steel. In addition new polices and policy measures are being developed such as legal framework, financial support services, commercial incentives, and transportation and communication media and methodologies. This lay emphasis on economic reforms and industrial restructuring and to promoting of the private manufacturing sectors.²¹

Where does GCC stand today?

²¹ Govt. of India (2008), India and Gulf Cooperation Council: Agenda for Economic Cooperation, GOI, New Delhi

GCC member state's industrial vision is emphasis on industrial downstream and diversification of the established basic industries, and to add values to the exported industrial products. It is worth mentioning that the industrial structures in the GCC countries are resemble each other, and it was due to the oil booming era. The GCC unified industrial strategy, which was adopted by member states, emphasis on integrating downstream industries between the GCC member states. Information & Communication Technology industry is driving and will drive the knowledge-based economy of the GCC countries in the coming decades e.g. GCC countries spent 6,194,000 billion in 2001 on Information & Communication Technology, and this number is boosting for the coming years due to e-government applications.

It is worth mentioning that Bahrain has liberalized mobile telecom sector, and telecom market will totally be liberalized on July 2004. Telecom liberalization will boost telecom industry in Bahrain and positively effect GCC's ICT industry. Another example of GCC's emphasis on ICT industry is that Dubai government is building semi-conductor manufacturing facility, which will act as basic industry for ICT industry and associate GCC region with global ICT industry. GCC countries lay emphasis on SMEs that have socio-economic effects on GCC societies. GCC member states, by several means, are developing strategies and action plans for developing SMEs and positioning them on the new-knowledge based – economy. Action plan is such as soft loan, developing legal framework that create an attractive environment for SME's growth. Industrial incubator is playing an important role in developing and backing up SME.

Where does India meet GCC?

As you all now, that the GCC region holds more than 460 billion barrel of oil accounting for some 40% of world crude

reserves. In addition, natural gas reserves are of 19trillion cubic meters represent nearly 15% of world total. Currently India receives from the GCC region around 60% of its oil imports. The energy interdependency between the two parties will become more intense in the future. This interdependency is likely to involve both energy investment, and financial arrangements to support hydrocarbon. India & GCC countries compose 1.2 billion markets that export energy to the global market, export information technology and it is one of the biggest markets in the world. We have common interests that should be preserved and developed together. The GCC States Industrial diversification policies are playing a big-role in enhancing economic cooperation between India and the GCC member states.

Opportunities for GCC-India industrial alliance and cooperation

Globalization creates new business opportunities and we need to be ready. There are many factors that strengthen GCC-India industrial alliance and cooperation, these are:

Kingdom of Bahrain will sign “FTA” Free Trade Agreement with the USA in 2004, which open op the largest market in the world for business. Let us ask, are we ready, both parties?

FTA agreement is an opportunity for Indian industry to invest in downstream industries in the GCC. By transferring technology and know-how throw joint venture and/or throw 100% owned businesses, Indian industry will get access to the US market. Both sides are moving towards economic liberalization is an opportunity to create legal & business synergy between two economical blocs.

Foreign ownership of business and property in the GCC:

- Bahrain has effectively dismantled all restriction on foreign ownership
- Dubai has 99-year leases on residential property

Reactivate the economic and technical cooperation agreements that had been signed between GCC states and India and covering different areas such as:

- Cooperation in agriculture (Oman)
- Cooperation in science and technology (Oman)
- Foreign Affairs (Bah)
- Juridical and judicial cooperation in civil and commercial matters (Bah)
- Legal assistance in criminal matters (Bah)
- Promotion and protection of bilateral investment (Bah)
- Extradition treaty (Bah)
- Sales and Purchase Agreement (Qatar)

GCC States are the Home and Host for Investment

The GCC region has a dual role with respect to foreign investments. It is both a recipient and provider of foreign investments, and is thereby a “home” and “host” country. The region is of interest to many multinational companies to relocate some of their production to be closer to the domestic markets. Such investment inflows have been accelerated in recent years after the development of the infrastructure, which gives the investing companies full control over their investment. On the other hand, surpluses from oil revenues may not always have adequate investment opportunity at home. Foreign investment outflows have taken the shape of portfolio investments rather than direct investments as the domestic corporations are still in nascent stage, though this is changing as some of the successful GCC companies have invested in operations in foreign market.

Challenges

In the current reform effort, particularly in the more diversified economics, a new role is to be envisaged for the Government in industrial development. In the GCC states, however, the transformation has been made. Many Governments intend eventually to be less involved in the management of production, and more in the promotion of private-sector production, with more emphasis on the Government's providing support services and introducing incentives and promotional services, measures and legislation. There is however, a need for more correct vision and time schedule for this transfer.

The transformation will also have to be faster, taking into consideration domestic changes and rapid global changes, as well as the following elements:

- Political will to achieve the objectives of MOU signed by the GCC member states.
- Re-activate conventions and MOU.
- Create synergy in the economic systems, taxation, liquidity flow, technology transfer, and exchange of goods etc.
- Demolish bureaucracy.

Futuristic Perspective

Regarding investment, the GCC region welcomes and expects an increased Indian investment in the non-oil industrial activities through direct investment and joint ventures as well as in the services industries sector. Comparative advantage signals that the direction for GCC economic diversification should be the manufacture of hydrocarbons and development of the energy-intensive metal and mineral-based products along with IT industries. These kinds of industries constitute engines of industrial growth. In fact, they generate substantial inter-industry linkages between customers and suppliers. In addition these are great scope for investment in small and

medium size ventures. GCC states have dedicated more than \$41 billions to develop these non-oil industries. In addition a substantial investment has been invested in an industrial service infrastructure to support them. In spite of the heavy expenditure in infrastructure, there will be opportunities in the new phase of development for industries in industrial infrastructure. For example, investments are in Industrial Zones, Water, Power, Internet City, Multi Media City, and others. Furthermore, Indian investors that undertake joint industrial projects in the GCC region will enjoy a stable macroeconomic environment and a world-class package of business incentives. In the field of technology, GCC envision greatly enhanced cooperation with India. Technology transfer from India should focus on Information technology resorting to two-pronged approaches:

- Technology transfer can be achieved through two main approaches; First, by establishing joint applied research and development programs between scientific institutions in India and the GCC.
 - Second, by forming technology-based joint ventures between small and medium size Indian companies and their GCC Countries parts. Technology-based joint ventures would not only generate mutual commercial benefits but also represent an attractive to financial investment and loans.
- In summary, that key issues in the Indian-GCC mutual inter-dependency are the growth and balancing of the trade and investment links.

Comprehensive Economic Pact for sustained GCC-India Trade Partnership

The *bone of contention* of the proposed Comprehensive India-GCC Agreement includes the following Strategic Policy issues concerning Indo-Gulf Interregional cooperation²²:

- *The new arrangement would go beyond signing a Free Trade Area (FTA) agreement*
- *India was also looking at refining oil produced in the Gulf in its facilities*
- *GCC countries were looking at Indian investments in Information Technology, biotechnology, small-scale industry and pharmaceuticals*

India signed a comprehensive economic pact with the six-nation Gulf Cooperation Council (GCC) that covers trade, investment and services as part of its effort to forge closer ties with Asia. Both sides are holding talks that would lead to a Comprehensive Economic Cooperation Agreement (CECA). Addressing the second India-GCC industrial conference, The Commerce Minister of the Government of India pointed out that the new arrangement would go beyond signing a Free Trade Area (FTA) agreement, as it would cover services and investments as well. The oil - rich GCC has Saudi Arabia, Bahrain, Qatar, Oman, Kuwait and the United Arab Emirates (UAE) as its members. Flushed with funds following the surge in oil prices, GCC countries are looking at profitable investments in Asia, including India. India, on its part required foreign investments in power, telecommunications, roads, ports and housing that exceeds \$150 billion. India was also looking at refining oil produced in the Gulf in its facilities. India is already benefiting from the "oil revenue

²² Abdul Rehman Fakri (2004), GCC-India to draw up draft for free trade Pact, [bilaterals.org/india-C:\Documents and Settings\ansarkar\Desktop\GCC\GCC -India to draw up draft for free trade pact.htm](http://bilaterals.org/india/C:\Documents and Settings\ansarkar\Desktop\GCC\GCC -India to draw up draft for free trade pact.htm)

windfall" that the GCC countries were experiencing. According to some analysts, well-known foreign funds are considering floating India-specific funds in the Gulf.

Trade volume

The pattern and volume of India-GCC trade was changing rapidly, with non-oil trade this year expected to touch \$20 billion. On its eastern rim, India's trade with Association of South East Asian Nations (ASEAN) for 2007 was targeted at 30 billion dollars. Seeking to diversify their economies beyond oil, the GCC countries were looking at Indian investments in Information Technology, biotechnology, small-scale industry and pharmaceuticals. For instance, Saudi Arabia is seeking foreign investments in petrochemicals, power, water and transportation. Saudi Arabia's "look east" policy has acquired a high profile after the recent visit of King Abdullah Abdulaziz to India and China. In such endeavour, Strategic relationship with India could be sustained through private entrepreneurship and investments in areas that went beyond oil.

Job opportunities

The manpower requirements in the Gulf countries are changing fast. With burgeoning domestic populations that were entering the job market, governments in the region were reducing employment opportunities for expatriates. Nearly 3.5 million Indian expatriates currently reside in the GCC countries.

GCC and the Issue of Labour Movement

Gulf Cooperation Council (GCC) countries have used petroleum revenues to fund employment programs as a main means for supporting the welfare of their populations. The public sector in GCC countries seeks to provide every national labor market entrant with a job, reflecting the policy of guaranteed employment, higher wages and social status. Until the recent increase in world petroleum prices, the

sustainability of these programs became problematic, especially in view of a rapidly growing national labor force, and increasing fiscal pressures to fund education, infrastructure and other state responsibilities. While the financial constraint imposed by this means of sharing petroleum revenues with citizens has been alleviated in recent times, the fundamental problem of sustaining income levels is not resolved. The responsibility and burden of income generation in the longer-run must rest on the private non-oil sector. Consequently, the recent rise in petroleum prices provides an opportunity to address this longer-run problem. Using a dynamic computable general equilibrium model for Kuwait, a test of policies to make the private sector more profitable is simulated. These simulations capture "market friendly" policies that encourage private firms to increase investment and to employ first best technologies and management practices. We find that even with first best policies, the capacity of the private sector to employ all nationals seeking employment during the 2001-2015 period is unlikely to be realized. A combination of a safety net and target development of business and technical skills should be part of a longer-term human capital policy.²³

GCC Countries and the World: Scenarios projected for 2025

²³ Chemingui, Mohamed Abdelbasset Roe, Terry (2008), Petroleum revenues in Gulf Cooperation Council, countries and their labor market paradox-

C:\Documents and Settings\ansarkar\Desktop\GCC\Petroleum revenues in Gulf Cooperation Council, countries and their labor market paradox.htm

The World Economic Review Report²⁴ examines three possible futures for the Gulf Cooperation Council countries. The project, the result of an 18 month research process involving over 300 experts from the Gulf countries and beyond, outlines three scenarios for the development of the GCC region from 2007 to the year, 2025²⁵. The research team led by the World Economic Forum, in partnership with the Economic Development Board of Bahrain, the Executive Affairs Authority of Abu Dhabi and Olayan Financing Company of Saudi Arabia, asked two key questions concerning the GCC's future:

1. Will leaders in the GCC countries be able to successfully implement the necessary and relevant economic and political reforms and enforce the rule of law, both in public and in private governance?
2. Will GCC countries be able to maintain internal order and stability, in particular vis-à-vis a complex and uncertain regional situation?

The report presents three possible scenarios for the region over the next twenty years: 'Oasis', 'Sandstorm' and 'The Fertile Gulf':

²⁴ The World Economic Forum (2007), Gulf State Scenarios: GCC Countries and the World: Scenarios to 2025, scenarios@weforum.org – C:\Documents and Settings\ansarkar\Desktop\GCC\World Economic Forum Gulf State Scenarios.htm

²⁵ scenarios@weforum.org–C:\-GCC\World Economic Forum- Gulf State Scenarios.htm

Oasis, describes a scenario where regional stability continues to be a challenge for the GCC countries, which are nevertheless able to achieve substantial institutional reforms. The GCC countries develop strong identities and work together to coordinate diplomatic and economic policies through technocratic governance and a stronger internal market.

Sandstorm describes a future where regional instability is the defining factor that affects the ability of GCC countries to effectively carry out necessary institutional reforms. This scenario sees a number of conflating factors that make the surround region significantly turbulent, including conflict between the US and Iran and spillover of violence from Iraq.

The Fertile Gulf describes the rise of the GCC countries as innovation hubs in a global environment characterized by robust demand for energy and increasing globalization. Regional stability gives the GCC countries the opportunity to focus on enhancing their human capital at all levels, investing heavily in education while proceeding carefully with political and institutional reforms to support their growing economies and societies.

"Over the next 20 years the region will continue to draw the world's attention not just in terms of energy security, but also due to its fast-growing capital markets and innovative cities. The world needs to anticipate what forces may throw the region off track, and what opportunities exist to help the GCC countries and the broader Middle East region exceed our expectations" noted Nicholas Davis, who co-managed the project with Chiemi Hayashi, both Global Leadership Fellows at the World Economic Forum.

The *Economic Development Board of Bahrain* and the Executive Affairs Authority of Abu Dhabi are using the scenarios to generate a common basis of understanding with the private and public sector in their countries as well as foreign investors and other stakeholders, in their work

towards a positive scenario for the GCC countries. The Olayan Financing Company is committed to contributing to the well-being of both the country and the region and is using the scenarios to generate new ways of thinking about the future. The *World Economic Forum* will take the results of the GCC Country Scenarios to explore the deeper issues and ramifications of the region's development to international audiences at its numerous regional meetings, including at the inaugural Annual Meeting of the New Champions in Dalian, China in September 2007 and at its Annual Meeting in Davos in January 2008 as well as other future meetings.

Policy Challenges of the GCC Nations

Regional Implications of Adjustment in the GCC Countries

Given the traditional links to the rest of the MENA region, economic diversification and fiscal retrenchment in the GCC countries would be expected to influence the economic performance of the rest of the region through a number of channels: the flow of workers' remittances, financial aid, merchandise trade, as well as the flow of investment to the region²⁶.

Employment opportunities in the GCC countries for foreign labor are likely to become more limited in the short run. The contraction of the oil sector would initially dampen non-oil activities, and large-scale infrastructure development has reached saturation in several countries. Moreover, there is a recent trend in the GCC countries to substitute Asian workers

²⁶ IMF (1996), *Policy Challenges in the Gulf Cooperation Council Countries*, Middle-Eastern Department, International Monetary Fund, May 1996, Washington

for workers from the region. In addition, as mentioned earlier, most of the GCC countries have initiated long-term programs of nationalization of their labor force through employment policies. These factors suggest that with reduced reliance on foreign labor, the larger share of adjustment would possibly fall on workers from the region. In addition to the direct balance of payments impact, there would also be effects on investment and growth associated with the loss of remittances, as these flows have traditionally financed small-scale private investments (mostly in construction) in the recipient countries.

Over the past two decades, the GCC countries have been an important source of financial support for many countries in the region, both directly through grants and soft loans, and indirectly through contributions to regional and Arab multilateral development institutions. During the 1974-94 period, concessional financial assistance from the GCC countries to other developing countries totaled about US\$90 billion, representing 3 percent of donors' GDP. Budgetary constraints have made it difficult to maintain high levels of official financial assistance. Further expenditure restraints would be expected to result in relatively limited, though still sizeable in absolute terms, aid flows to the countries in the region. During 1991-94, the other countries in the MENA region accounted on average for 2-3 percent of total GCC merchandise trade. GCC imports from other MENA countries were dominated by food products, while mineral fuels and foodstuffs comprised the bulk of its exports to the region. In addition, only a few countries in the MENA region accounted for a significant share of trade with GCC. Looking forward, the expansion of domestic economic base and export diversification would be expected to lead, over time, to higher exports from the GCC countries to the other countries in the region, particularly in areas where the GCC countries have a

clear comparative advantage (e.g., secondary and tertiary petrochemical products).

Finally, in several countries in the region, the prospects of macroeconomic stability, supported by simplification of investment procedures and the lowering of the barriers to entry of foreign capital would offer opportunities for increased investment by the GCC countries. Moreover, the prospects of peace in the region, combined with sound economic and financial policies, would improve investment incentives and create opportunities for regional joint projects that have not been fully exploited because of sociopolitical risks. Although most GCC countries would be expected to pursue economic diversification based on domestic investment, their comfortable overall capital position would still allow large investments in the region. There are only a few other capital surplus economies in the region that could benefit from the opening of equity markets and privatization programs in the GCC countries.

Conclusions

As a geopolitical region, the GCC is of utmost significance to India; not least because of the fact that the Persian Gulf is home to abundant supplies of oil and natural gas but due to the fact that the Persian Gulf is also India's immediate neighbour, across the Arabian Sea. In the last five years, India's total trade with GCC countries has risen three-fold from US\$ 5.55 billion in 2001 to US\$ 23.42 billion in 2005-06 due to buoyancy in both exports to imports from GCC countries. A fresh impetus to expanding Indo-GCC economic relations came by way of the signing of the Framework Agreement on Economic cooperation in August 2004. India is in the process of negotiating a Free Trade Agreement (FTA) with GCC and the first round of negotiation was held on March 21-22, 2006. Based on the challenges and the needs of the GCC economies and India's own economic growth, some of the primary areas of greater cooperation between India and

the GCC include investments into infrastructure and SEZs in India by GCC countries, joint investments and ventures in the SME sector, training and education in the IT sector, vocational training and higher education and so on. Gulf Cooperation Council (GCC) countries and India should continue their discussion for reaching a free trade agreement in the forthcoming business conferences. The main aim of the conference should continue to be to strengthen and promote future economic relations between the GCC states and India in the area of investment, trade, tourism, industry and technology on top priority. The conference should therefore discuss issues related to enhancing investment in sectors like tourism, trade, information technology, bio-technology, small and medium sized industries, petrochemical and research and development. Such meets are expected to pave the way for promoting trade, economic relations and investments between GCC countries and India, create opportunities for joint projects, facilitate capital flows and provide favourable conditions for enhancing bilateral trade between both sides. Also, the conference should facilitate exchange of visits between senior officials, representatives of chambers of commerce and industry, besides organizing trade fairs and exhibitions.

Following liberalization of key sectors in India, there have been large amount of foreign funds flowing in sectors like telecommunication, housing and real estate, construction activities and petroleum and natural gas. Since these are the sectors in which GCC economies have huge capability buildup and experience, India presents itself as a natural market for expanding their operations. Following are some of the key sectors that are identified as providing large investment opportunities and also been leading the discussions on the free trade agreement between the two blocs.

Infrastructure: Indian growth policies are centered on infrastructure creation. GCC companies have huge experience in infrastructure creation and maintenance in domestic market. They can thus make full use of the market opportunities in India to expand their operations and reap on economies of larger scale. This can stretch to too many fields like ports, power, roads, real estate construction services, etc. GCC investors can also make use of their capability build up in related high profit sectors like commercial real estate, hotel construction etc.

Agriculture and Food Processing: India is an agricultural country and is geographically very close to GCC. This makes the Indian economy an ideal source for sourcing and developing agro based value chain in the GCC region. GCC, with a presence of an advanced processing and packaging industry, combined with highly developed transportation sector, has huge opportunities in expanding into a cost effective agro based value chain.

IT Services: Indian investors in turn have huge opportunities for investment in knowledge and skill based services in GCC, particularly in fields like IT, space technology, etc. Already India's IT products and services export to the GCC is growing at above 30% rate annually, according to industry estimates.

Education: With greater emphasis on education sector and push for scientific research facilities in the Gulf region, universities and research institutes from India can use their expertise and the market opportunities to expand in the region.

Other economic activities: GCC countries can benefit from India's experience in meeting needs and challenges of Small and Medium Enterprises and turning them into profitable ventures. Indian experience in creating a sound banking system can also be very useful for GCC countries in creating a sound banking system in the region.