

India Takes the Arab and Mediterranean Markets by Storm

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Since independence, the Arab countries have focused on Europe, signing trade agreements with the European Economic Community (EEC) and, later, cooperation, partnership or neighbourhood agreements with the EU.¹ In 2017, the EU accounted for nearly 50 per cent of all Arab countries' trade and nearly 60 per cent of the Maghreb countries' trade. Total trade reached a record \$318 billion (€250 billion) in 2017, making Europe the Arab countries' largest trading partner and turning the Arab countries into a captive market, in which, that same year, the EU had an estimated trade surplus of €74 billion.

Today, the EU's privileged situation is under serious threat from newcomers to the Arab markets: China and India. Indeed, the Chinese have been making remarkable strides in the Arab markets since the early 1990s, with trade increasing from just \$10 billion in 1990 to \$250 billion in 2017² and expected to top \$300 billion by 2025.

But whilst the Arab media³ have been focussing on the new economic relations between China and the Arab countries, another Asian country has been nibbling away larger and larger shares of the Arab and Mediterranean markets, namely, India. With nearly \$140 billion in trade with the Arab countries in 2017, India is now the third most important player, after the EU and China. This article aims to analyse this inexo-

orable rise of India and its recent penetration of the Arab and Mediterranean markets.

India and the Arab Countries

From the start, India's relations with the Arab countries were marred by the Arab Muslim countries' support for Pakistan in the wars of 1947 and 1949. Not only did the Arab countries support Pakistan's independence, they also stand behind it on the issue of Kashmir. Nevertheless, this did not prevent India from participating in the Bandung Conference (18-24 April 1955), alongside many Arab countries, from condemning the tripartite (Franco-Anglo-Israeli) aggression against Egypt in 1956, from founding, on 1 September 1961, together with Nasser's Egypt and Tito's Yugoslavia, the Non-Aligned Movement, from fiercely supporting the Palestinian question, or from establishing diplomatic relations with the independent Arab countries, whilst refusing to establish relations with Israel until 1992.

From 1947 to 2002, India's relations with the Arab countries remained modest and limited to the import of oil, the immigration of Indian workers to Arab countries, particularly the Gulf countries, and the timid entry of Indian companies into Arab markets.

Oddly enough, the first official contact with the League of Arab States, in March 2002, was undertaken by the Hindu nationalist government led by Atal Bihari Vajpayee. Since then, everything has accelerated: an Arab-Indian Cooperation Forum was set up, political

¹ KHADER, Bichara. *L'Europe et les pays arabes: cousins, voisins*. Paris: Publisud, 1992; KHADER, Bichara. *Europa y mundo árabe: una evaluación crítica de las políticas europeas (1958- 2015)*. Barcelona: IEMed-Icaria, 2015.

² KHADER, Bichara. "The Chinese Breakthrough in the Arab and Mediterranean Markets" in *IEMed Mediterranean Yearbook 2018*. Barcelona: IEMed, 2018.

³ Various authors. "Les relations entre la Chine et les pays arabes" in *Al -Mustaqbal al Arabi* (three issues: May, June and July, 2017). Beirut: Centre d'Etudes de l'Unité Arabe, 2017.

consultations are held regularly, investment forums have been organized (the first in 2008), agreements have been signed, and visits, on both sides, have increased.

The Congress Party's return to power in 2004 gave a boost to economic relations between India and the Arab countries, especially as India's energy needs have become increasingly large. Between 2004 and 2014, trade between India and the Arab countries rose dramatically, to more than \$100 billion.

The return of the Hindu nationalists to power, with Narendra Modi, in 2014, did little to hinder the relations. On the contrary, through a remarkable balancing act, Modi has managed to strengthen ties with the Arab countries whilst maintaining excellent relations with Iran, Saudi Arabia's geopolitical rival, and, especially, to take India's relations with Israel to an unprecedented level, regardless of the Arab countries' reactions.

A staunch supporter of the Palestinian cause, India did not establish diplomatic relations with Israel until the end of the Cold War, in 1992. Relations remained timid until 2004. Modi's election gave them new impetus, as witnessed by the first trip to Israel by an Indian president, Pranab Mukherjee, on 13 October 2015, and, especially, Modi's own visit, in July 2017, as well as Benjamin Netanyahu's trip to India in January 2018.

However, whilst Mukherjee made the trip to Ramallah in 2015, Modi did not bother to visit the Palestinian Authority on his trip to Israel in 2017. This was perceived by many Arab and Muslim countries, as well as by many Indians, as a "snub," and it triggered a general outcry. Was it to make amends that Modi travelled to Ramallah on 10 February 2018 to meet with President Mahmoud Abbas? We will have to wait and see. Nevertheless, the fact remains that during his visit to the Palestinian Authority, Modi pledged \$41 million in aid for health and education projects in occupied Palestine and showed great sensitivity to Palestinian rights, even quoting Mahatma Gandhi's words from 1938: "Palestine belongs to the Arabs in the same sense that England belongs to the English and France to the French."

This balancing act was not without contradictions. In 2015, India abstained from a vote by the United Nations Human Rights Council concerning human rights violations by Israel in occupied Palestine, but in 2017 it voted against the US decision to recog-

nize Jerusalem as the capital of Israel, regardless of its American ally's reaction.

Clearly, the Indians no longer want Palestine to be a thorn preventing them from consolidating their relations not only with the Arab countries, but also Israel. But they are no fools: whilst trade with Israel (\$5 billion) accounted for just 1 per cent of India's overall trade (\$560 billion) in 2017, trade with the Arab countries (\$140 billion) accounted for 20 per cent. And everyone knows that Indians have a taste for mathematics!

Thus, India has turned its gaze to the Arab countries. It is from these countries that India imports most of its oil and gas, and it is these countries that are home to a diaspora of more than 7 million Indian migrants, whose remittances to their country range from \$30 to 40 billion each year. It is moreover in the Middle East and the Maghreb that Indian companies find considerable investment opportunities. India's policy of opening up to West Asia (Modi's "Go West" policy) has forged unbreakable ties between India and the Arab countries that the vagaries of the Palestinian, Iranian or Kashmiri questions can no longer strain. Particularly since the Arab countries themselves, especially the Gulf countries, see their interests swinging towards Asia in a sort of "Go East" policy. Meanwhile, the Maghreb countries remain focussed on the European Union. However, without intending to compete with European companies, public and, especially, private Indian companies are beginning to take a serious interest in them.

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Two Case Studies: The Rise of India from the Gulf to the Maghreb

With a population of 1.324 billion, an area of 2,273,190 square kilometres, and a gross domestic product of \$2.4 trillion, today India is the world's fifth-largest

economy, after the US, the EU, China and Japan. It is thus no wonder that India has emerged as an important trading partner for the Arab countries, with trade reaching \$140 billion by the end of 2017. However, not all the Arab countries are equally important to this trade. The Gulf countries clearly occupy a prominent position in the deployment of India's trade strategy. In contrast, the Maghreb countries account for little more than a tenth of India's total trade with the Arab countries as a whole.

India and the Gulf Cooperation Council Countries

With average growth of around 7 per cent, India needs to import a large share of the energy it consumes, as well as find new export markets and investment opportunities. For numerous reasons, the Gulf region has become a major focus of Indian trade strategy since the early 1990s. Not only does the region supply India with oil and gas, it also attracts many Indian investments in a variety of sectors and moreover hosts nearly 7 million Indian workers.

Amongst the Gulf countries, the United Arab Emirates (UAE) ranks first. With a population of 2 million and foreign trade that, at \$569 billion (\$298 billion in exports and \$271 billion in imports), is almost equal to India's, it is the second largest exporter to India (11.5 per cent of the total) and the third largest importer (5.4 per cent).

And yet, throughout the Cold War, trade between the two countries was just a trickle. The pro-American UAE was reluctant to foster relations with a country not only from the socialist camp but also in conflict with a Muslim country, namely, Pakistan, which had trained the Emirati military forces. The end of the Cold War unlocked the floodgates, and the UAE opened its doors wide to Indian investors and workers, welcoming nearly 3 million of them.⁴ Meanwhile, trade saw meteoric growth, exceeding \$60 billion in 2014 and standing at nearly \$65 billion today.⁵

At the same time, relations between the UAE and Pakistan have soured somewhat since 2015, following Pakistan's initial refusal to participate in the Saudi-led "Arab military coalition" in its standoff with the

Houthi rebels in Yemen and, especially, since the January 2017 suicide attack in Kandahar, Afghanistan, that killed five Emirati diplomats.

Unrestricted by its former alliance with Pakistan, the UAE is now free to pursue and develop a productive relationship with India that offers several advantages: market diversification, the ability to take advantage of the huge investment opportunities in the Indian market, where the UAE is now the tenth-largest investor with investments totalling \$8 billion (in 2016), and access to an inexhaustible supply of skilled labour.

Already substantial in 1992, cooperation between India and the UAE received a major boost with Prime Minister Modi's arrival to power in 2014. In 2017, the two countries signed a "comprehensive strategic partnership."

Like China, India has managed to maintain excellent relations with the UAE without renouncing its friendship with Iran, which Modi visited to sign a "Transport and Transit Agreement" as part of an Indian project called the "International North-South Transport Corridor." The project aims to connect the port of Bandar Abbas with Central Asia and is intended to be the Indian response to the China-Pakistan Economic Corridor linking the Chinese province of Xinjiang to Pakistan's Gwadar port.

Although larger than the UAE, Saudi Arabia is only India's second-largest trading partner amongst the GCC countries. And yet their trade relations date back quite far (with the spice trade) and their political relations are well-established, as evidenced by Jawaharlal Nehru's visit to Saudi Arabia in 1955, Indira Gandhi's in 1982, and Manmohan Singh's in 2010. Likewise, Ibn Saud, the founder of the Kingdom of Saudi Arabia, visited India in November 1955. However, India and Saudi Arabia were on opposite sides during the Cold War, and that prevented them from developing significant economic relations.

With the end of the Cold War, relations accelerated, spurred by Saudi Arabia's new market diversification strategy and India's increased need for oil and gas. King Abdullah bin Abdulaziz al-Saud's 2006 visit to India gave a serious boost to cooperation. By 2007, trade had reached \$16 billion, of which \$13.4 billion

⁴ GUPTA, Ranjit. "India's Relations with West Asia: A New Era Dawns." Middle East Institute, 7 March 2017. www.mei.edu/publications/indias-relations-west-asia-new-era-dawns.

⁵ *Khaleej Times*, 12 February 2018.

were Saudi exports. The evolution in trade was accompanied by a massive influx of Indian workers into the kingdom, who today number more than 1.5 million.⁶ At the same time, investments have risen dramatically, particularly in the fields of construction, telecommunications management, medicines and IT services.

In 2016, total trade stood at \$26.7 billion, with a comfortable trade surplus for Saudi Arabia of \$13.9 billion (\$20.3 billion in exports versus \$6.4 in imports). Although in 2013-2014 trade reached a record \$39.2 billion, it was mainly due to soaring oil prices.

Since June 2017, India has found itself unwillingly caught up in a conflict beyond its control: the opposition between Saudi Arabia and Qatar. India has excellent relations with Qatar and is keen to “stay out of the fray” as it buys most of its gas from Qatar (62 per cent of India’s gas imports). Nor is its trade with the emirate negligible (\$16.3 billion in 2016, \$9.7 billion in Indian imports and \$6.6 billion in exports).

Thus, just the UAE, Saudi Arabia and Qatar account for nearly \$100 billion in trade with India. If we factor in its trade with Bahrain (\$1.2 billion), Kuwait (\$6.2 billion), and Oman (\$4.1 billion), the figure climbs to \$111.5 billion, making the GCC countries India’s largest trading partner.

In addition to trade and the large Indian diaspora to which they play host, the GCC countries have become major investors in India, with an estimated stock, in 2014, of \$3.2 billion. Whilst this total accounts for only 1.42 per cent of foreign investment in India, given the rapid progression of economic relations, the Gulf countries’ investment in the Asian country is likely to grow significantly in coming years.

India and the Maghreb Countries

Indians do not usually use the term “the Maghreb.” They prefer “North Africa,” which comprises the five Maghreb countries and Egypt. As early as the 1950s, India supported the independence movements in Algeria, Morocco and Tunisia, whilst the Egyptian leader Nasser and Indian Prime Minister Nehru were the linchpins of the Non-Aligned Movement.

During the Cold War, India remained active in the Non-Aligned Movement. In fact, it was in the context of the meetings of those countries, in New Delhi, that King

Mohammed VI visited India, in 2001 and 2003. In 2015, King Mohammed VI travelled to India to participate in the third India-Africa Forum Summit (24 October-4 November 2015). His talks with the Indian authorities, on the sidelines of the summit, enabled the economic relations between the two countries to take off, as witnessed by the multiple visits on both sides, the most recent being that by Indian Foreign Minister Shri Salman Khurshid (30 January-1 February 2017). However, India’s relations with Morocco continue to be dominated by phosphates. In 2011, out of a total trade of \$2 billion, Morocco had a trade surplus of \$863 million. This is because India has become a major importer of phosphates. In 1999, the Indian company Chambal Chemicals and Fertilizers and the Office Chérifien des Phosphates launched the joint venture “Imacid” for the production of phosphoric acid. In 2005, Tata Chemicals became an investor in Imacid.

However, that is hardly the only Indian investment in Morocco. Tata Motors produces mini-buses in Morocco, whilst GEN Pact, Tata Consulting Services, Wipro, Infosys, IBM DA, KSH and Fire Stone (to name but a few) are involved in the production of software, IT services and information technology. In an entirely different sector, the Oberoi hotel group has also opened establishments in Morocco.

Whilst all these companies are attracted by the opportunities that the Moroccan market offers, they also aim to use Morocco as a platform for reaching European and African markets. At least, that is what an Indian Secretary of State said at the seminar “India and Morocco: Imperatives of Cooperation” held by the Society for Policy Studies on 10 April 2015.

Unfortunately, despite the old relationship, trade between the two countries has levelled off and even declined over the last decade, standing at \$1.36 billion in 2014 and \$1.42 billion in 2016.

Whereas India’s relations with Morocco are dominated by phosphates, its relations with Algeria are dominated by oil and gas. Virtually all Indian energy companies have operations in Algeria: Indian Oil Corporation, ONGC Videsh, Gafarat State Petroleum. In 2008, trade reached \$2.14 billion. However, because of the collapse of oil prices beginning in 2014, it has fallen to just \$1.48 billion, albeit with a surplus for India.

⁶ EL TEMMIMI, Nasser. *Arab News*, 29 July 2017.

Nevertheless, Algeria remains a key part of the Indian strategy to penetrate the Maghreb. Whether in the construction, engineering, computer, pharmaceutical or satellite sectors, Algeria offers broad opportunities for India's private companies.

Tunisia is not a priority target for Indian companies, given the country's size. Indeed, India waited until 1976, 20 years after Tunisia's independence, to open an embassy there. Indira Gandhi did visit the country in 1984, as did Prime Minister Narasimha Rao in 1992. However, since then the visits have been less frequent or limited to ministerial meetings, such as that by Shri E. Ahmed (5-7 November) in the wake of the Tunisian Spring.

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Trade, too, has remained modest. In 2016, it fluctuated around \$370 million, despite the existence of Tunisia-India Fertilizer SA (Tifert), a major joint venture launched in 2006, but which did not start production until 2013. In addition to phosphates, Indians are present in the electricity sector through the companies KEC International and Jyoti Structures.

As in Algeria, Indo-Libyan relations are centred on oil. Of the estimated trade in 2013, in the midst of the Libyan chaos, of \$1.35 billion, oil accounted for the lion's share. In this case, it is Indian public companies, specialized in energy, that operate in the country (BHEL, India Oil Corporation, Oil India, Onur and Vilesh). The few private companies are related to the pharmaceutical sector, such as United Tec and Sun Pharmaceutical, or construction and public works. It is no surprise that Libya is home to the largest number of Indian expatriates in the Maghreb (30,000 in 2013).

Egypt accounts for a surprisingly modest share of India's trade with the Arab world, even though the political relations between the two countries are very old and rather warm. In 1955, India and Egypt signed a Treaty of Friendship, followed by a trade agreement in 1978.

And yet, in 2005, trade stood at just over \$1.2 billion, rising to \$5.45 billion in 2013, before falling off again to \$3.25 billion in 2016-2017. This was despite a stock of Indian investments in Egypt totalling nearly \$3 billion and the presence in Egypt of more than 52 Indian companies, half of them in the textile and construction sectors.

In all, despite the presence of dozens of Indian companies in the North African countries, trade with these six countries stands at around \$7.8 billion. Adding India's trade with Sudan (\$1.3 billion) brings the total figure to \$9.1 billion, or one twelfth the amount of India's trade with the GCC countries (\$111 billion) and only one fifteenth the amount of its trade with the Arab countries as a whole (\$140 billion).

General Conclusion

It is apparent from the above that the rise of India, following that of China, is undeniably one of the highlights of the 21st century. Not only has India become the third largest energy consumer, it has also become the third largest importer. India shares the same ambition with China: to open up to the Arab world as a whole, not only as a source of energy, but also as a source of financing, investment opportunities and, especially, insatiable markets. Trade shows this clearly: \$250 billion in Chinese trade with the Arab countries and nearly \$140 billion in Indian trade (2017).

However, India's dealings with the Arab countries differ from China's due to the involvement of its private companies, which, today, are the main agents of its commercial strategy and which act either by acquiring local companies to access local markets (Egypt or Algeria), by creating joint ventures with local companies (Morocco), or simply by implementing new activities (Jordan, Egypt or Tunisia and the Gulf countries).

India also differs from China in the size of the Indian diaspora in Arab countries, consisting of more than 7 million Indians, mainly in the Gulf countries.

However, although India has seen remarkable growth in recent years, it is still far from competing with Chinese ambitions, especially the new Silk Roads project, or "Belt and Road Initiative," in which it does not participate.