



## Trade and Capital Flows – GCC and India

May 02, 2012



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*Alpen Capital was awarded the “Best Research House” at the Banker Middle East Industry Awards 2011*

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**H.E Hamad Buamim, Director General, Dubai Chamber of Commerce and Industry, answers for Alpen Capital's Trade paper questions on relations between India and the GCC**

**Question:** How do you view India as a trade partner? How have the trade relations between India and GCC evolved over the past decade?

**Answer:** India is Dubai's top most trading partner. We share historic trade ties with the country and over the past decades this relationship has evolved into a strategic partnership thanks to the sincere and added-value activities of the Indian businessmen as Indian companies play a major role in helping drive Dubai's economic growth.

Also, Indian companies engage into very productive activities and use Dubai as a base to carry out trade in the region hence the country's ties with our GCC partners has seen a remarkable growth in the past decade and is slated to ascent higher due to rising population and urbanization, oil wealth and strong household consumption.

**Question:** What are the trends you are seeing in capital inflows between UAE and India and of Indian companies setting up in the UAE?

**Answer:** Dubai is home to 21,955 Indian partnership and ownership companies. The trend of setting up businesses in Dubai has always been on the rise as Indian companies find attractive investment environment in the emirate which offers a business-friendly set-up, world-class infrastructural and financial services, unconditional government support and tax-free income which can be repatriated to other countries. The Emirate's non-oil trade with India reached AED 180.7 billion during the first 10 months of last year and is an indicator of the two long-time trading partners' strong trading future.

**Question:** What are the steps the government is taking to enhance growth in trade and capital flows between these two regions?

**Answer:** Indian businesses are benefiting from the outstanding incentives and facilities granted by the Dubai Government to all its investors including the business-friendly environment, tax-free income, transfer of capitals and profits as well as world class infrastructural, logistics and financial services. Investing in Dubai provides businessmen with a strong potential to market their businesses and products regionally and globally through the emirate's open and competitive market. Moreover, investors could benefit from all the unique commercial services which the Dubai Chamber provides enabling them to carry out their business easily, rapidly and more effectively.

On its part, Dubai Chamber is working actively with the Indian Business Professional Council in the development of Indian investments and businesses while it has been facilitating Indian companies to further their business interests in the region and beyond by offering world-class services including business networking opportunities and by opening up new emerging markets for them to explore and reach out to clients in upcoming economies of the world.

Meanwhile, Indian companies are making the maximum use of Dubai's status as an East meets West destination and a gateway to the region to reach out to end users in Europe, North America and the African Continent.

*"GCC houses the largest Indian population outside India, which makes it an attractive investment destination for Indian FMCG companies. The infrastructure in the region is second to none and the geographical location makes it an attractive hub for exports. There is no currency fluctuation risk for investors as most local currencies are pegged to the dollar and free trade agreements offer duty free trade to the MENA region."*

*"While there has been a growth in the number of Indian companies investing in the region, there is still a limited awareness in India about the attractiveness of the GCC countries as investment destinations. Efforts by the GCC governments to market the potential of the region and steps like long term investor visa can attract more Indian FDI to the region."*

**Mohit Malhotra**

CEO

Dabur International

*"There is significant potential for growth in both trade and capital flows between GCC and India, provided both parties work along a strategic intent with clearly articulated long term goals."*

*"Prevailing tax structures for corporate and individuals remain a challenge for GCC companies establishing in India. On the other hand, Indian companies in the GCC will benefit if the corporate ownership structure allows majority controlled resident companies and to work based on global legal framework."*

**Suresh Krishnan**

Managing Director

Zuari Industries Ltd

*"GCC is an attractive investment destination due to its proximity to the Middle East and African markets. It has an excellent infrastructure with abundance of land and natural resources."*

*"Since there is limited domestic consumption in the GCC, one of the key factors for investors is the ability to use the region as an export hub for other locations. In this regard, investors would welcome initiatives by the governments to rationalize operating costs like energy costs which will enable the locally produced products to compete internationally".*

**AK Saraogi**

Chief Financial Officer

JK Cement

*"Today, bilateral trade between the two regions has grown significantly with the UAE becoming the single largest trade partner of India. However, while bilateral trade has grown, capital flows between the two regions remain miniscule. We foresee a tremendous opportunity for growth for Indian companies to set up in the GCC to take advantage of the availability of natural resources and the geographical location as well as for GCC companies to set up in India to take advantage of the booming economic growth".*

**Rohit Walia**

Executive Vice Chairman and CEO

Alpen Capital and Sarasin-Alpen

## 1. Executive Summary

The GCC enjoys strong cultural and historic ties with India. Led by India's economic liberalization after 1990 and the "look east" policy of the GCC in the recent decade, the trade relationship between the two economies has flourished. With both regions emerging as the fastest growing economies in the world, the mutual cooperation is expected to increase underpinned by the complementary nature of their economic profiles and the rising interdependency. While India's energy demand is burgeoning and the funding need for infrastructure development is at an all-time high, economic diversification, creating ample job opportunities and food security are the major priorities for GCC countries. Although investments from GCC into India have grown in the recent past, India has been unable to attract considerable investments from the deep pocketed GCC investors. This is largely because of restrictive policies and cumbersome procedural issues. Nevertheless, India has undertaken commendable steps lately to liberalize its investment regime—it now allows investment by automatic routes in numerous sectors, including some of those considered as politically sensitive. On the other hand, the GCC states have taken rapid strides toward opening up their economies and liberalization in a bid to diversify their economy away from oil. Establishment of numerous economic zones and incentives continues to attract many industries as well as professionals and skilled laborers from India. While both the blocks have been unable to reach any agreement on a potential Free Trade Agreement (FTA), they remain committed to take their relationship to a new level.

### 1.1. Scope of the report

This report studies the economic relationship between the GCC and India as well as the current state of affairs related to trade and investments. It analyzes the development of bilateral trade (both merchandise and services) and investment capital flows over the last 10 years, thereby highlighting key attributes that have helped foster stronger economic cooperation between the two economies. Additionally, it covers the future growth potential of trade and capital flows (both within and outside the existing domain) and highlights the major initiatives undertaken by both the blocks to encourage mutual participation. The study also analyzes the key challenges hindering free flow of trade and investment, which if addressed can further reinforce the GCC-India relationship.

### 1.2. Trend Analysis

While disclosures on trade in services between the GCC and India remain sparse, the two-way merchandise trade has grown significantly (CAGR of 35.9% over 2001–10 to USD88.8 billion). Trade intensity between the regions has also risen led by numerous bilateral trade agreements signed in the recent past. Although the trade relationship between India and the GCC remains largely concentrated around oil, other tradable items are also slowly gaining importance due to the latter's diversification drive. Amongst the GCC nations, Saudi Arabia and the UAE remain the largest trading partners for India. Furthermore, the analysis of the development in services trade by both regions globally indicates the demand for India's services is rising strongly in the GCC.

However, cumulative investments from the GCC in India totaled just USD2.6 billion over 2001–11, despite a sharp rise in investments lately. The power, services and construction sectors continue to account for the largest share of FDI inflows from the GCC to India. On the other hand, information from individual investment agencies of GCC countries suggests that India is one of the major sources of FDI in the region. Software development and engineering services, tourism, readymade garments, chemical products, agricultural and allied services continue to generate majority of the interest from Indian corporates.

Thus, the inter-regional business ties are seen as growing although majority of this has been largely led by the large Indian diaspora in the GCC.

### **1.3. Growth potential and enablers**

ASSOCHAM estimates the bilateral trade between India and the GCC could exceed USD130 billion by 2013–14. Mutual cooperation beyond oil may help provide a major fillip to trade and investment flows. There are certain key non-oil sectors that warrant higher cooperation including infrastructure, energy-intensive manufacturing, oil & gas engineering, mining and mineral-based industries, tourism & hospitality, healthcare, financial services, agriculture & food processing, and education & labor force.

Both the GCC and Indian governments are liberalizing their regulatory regimes in a bid to promote trade and investments. Increasing interdependency led by a discernable change in the economic profiles of both economies (in turn dependent on the GCC's diversification drive and India's surging domestic consumption) have helped build a stronger relationship. Apart from this, both regions have prioritized the development of free economic zones and numerous bilateral trade agreements have been signed, thereby strengthening the investment links. However, an agreement on the potential Free Trade Agreement is yet to be reached.

### **1.4. Challenges**

- Both regions are WTO members and have granted each other "Most Favored Nation" status. However, it appears that India follows a more protectionary policy regime—customs rates charged on GCC exports by India are relatively higher compared to nominal duties imposed on Indian exports by the GCC. In addition, there exists a multi-tier sales tax regime despite the government's initiatives to introduce a single national Goods and Services Tax (GST), which has been delayed since April 2010.
- Non-tariff related barriers such as import licensing, quantitative restrictions and export subsidies exist in both the economies. Both India and the GCC also lack effective intellectual and copyright laws. Also, the absence of a single currency in the GCC has been hindering trade flows from the block level perspective.
- Tougher regulatory restrictions have emerged as major barriers to trade in services in both the blocks.
- Poor infrastructure, cumbersome procedures and red-tapism are some of the key challenges that GCC investors face in India. On the other hand, political instability in countries such as Bahrain, and lack of official publications and updated database are seen as key threats by Indian investors. Also, there have been instances where procedural hurdles and red-tapism in the GCC have hindered investments.

While both the governments are working to tackle these issues, there is a long road ahead. With the economic forecasts pointing to strong GDP growth in both the economies, we emphasize that there is an ample scope of strengthening economic ties between GCC and India. While the GCC needs to promote more SME participation in order to realize its diversification dream and create jobs for its rapidly expanding population, India needs to further improve its basic infrastructure and reduce complexity and cumbersome in the regulatory practices. We also recommend GCC investors to further diversify their investment portfolio by taking positions in the promising Indian investment avenues as the return on investment remain relatively robust.

## 2. Bilateral Trade Growing Strongly

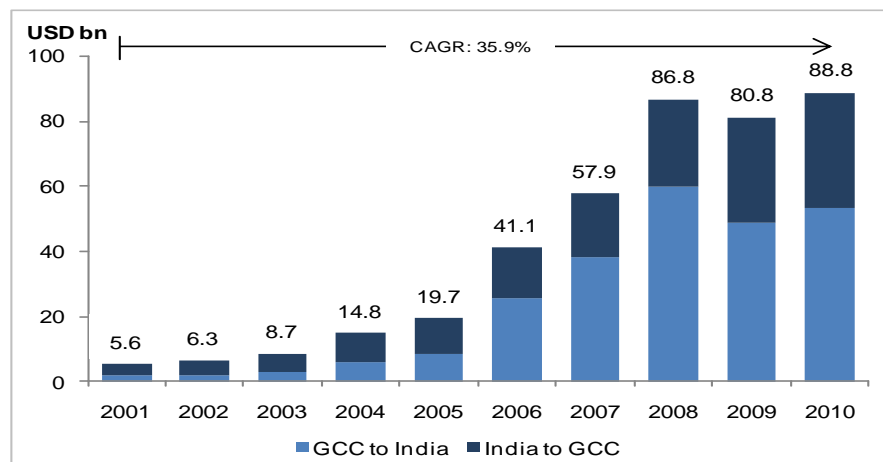
Economic relations between India and the GCC date back to several centuries when barter exchanges of textiles and spices in lieu of dates, pearls and semi-precious stones prospered along the Silk Road trade route. However, the two-way trade (exports and imports) between India and the GCC has strengthened materially only over the last decade. This is particularly due to the substantial economic power attained by these regions on the global map following the spectacular economic growth since 2003. Moreover, the “Look East” policy of GCC countries and the ever growing desire of India to secure energy supplies encouraged the two regions to forge stronger economic and business ties for mutual benefit.

### 2.1. Merchandise Trade grew at a CAGR of 35.9% over 2001–10

Bilateral merchandise trade between India and the GCC has grown substantially over the last decade to USD88.8 billion in 2010 (refer exhibit 1) from just USD5.6 billion in 2001, implying an impressive CAGR of 35.9%. The growth in bilateral trade between the regions has been more prominent particularly after 2005, led by numerous bilateral trade agreements, including energy security commitment given by Saudi Arabia during the ‘Delhi Declaration’ in 2006.

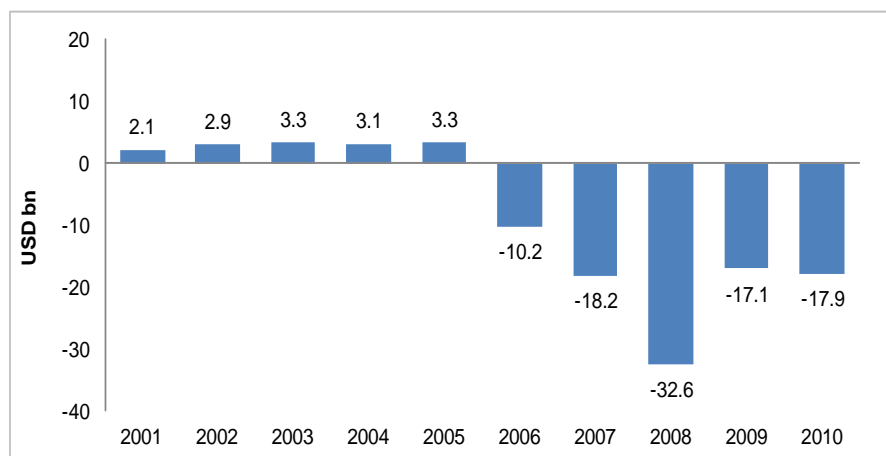
*Led by numerous bilateral trade agreements, merchandise trade picked up pace after 2005*

**Exhibit 1: Bilateral Trade between India and the GCC, by value**



Source: United Nations Commodity Trade Database, Alpen Capital

**Exhibit 2: India's trade balance with GCC**



Source: United Nations Commodity Trade Database, Alpen Capital

*India's trade balance with the GCC turned negative since 2006 as oil trade took precedence over all other goods imported*



Trade between the GCC and India has been successful largely due to the complimentary nature of the economic profile of both the regions. India is one the fastest growing economies and the fourth-largest consumer of oil globally (meets nearly three-fourth of its annual oil demand through imports). GCC has the world's largest oil and gas reserves and is in close proximity to India. Consequently, following the 'Delhi Declaration' in 2006, oil continues to be the largest trade category, accounting for nearly 40% of the total bilateral merchandise trade value. The post-2005 era also marks a tectonic shift in India's trade balance with the GCC—it moved from the positive to the negative territory as oil trade took precedence over all other goods traded (refer exhibit 2).

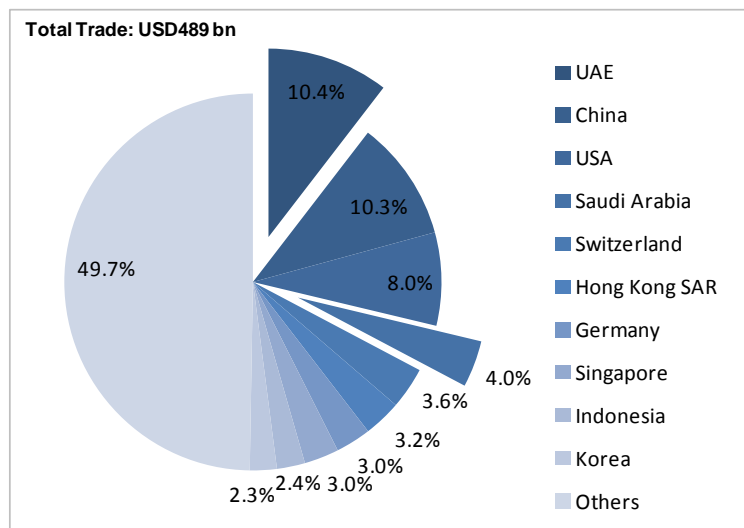
Exports from the GCC have increased steadily, except in 2009 when slump in oil prices dented export values. Crude prices capitulated from a high of USD145 per barrel in mid-2008 to USD40 per barrel in March 2009, representing a fall of more than 70% in a matter of nearly nine months as the global economic slowdown adversely affected demand. Although the trade flow recovered in 2010, it trails the highs of 2008. On the other hand, exports from India have increased consistently (up 17.7% even in 2009) as exports of pearls, precious stones and metals continued to rise despite recession.

#### UAE the largest trade partner of India

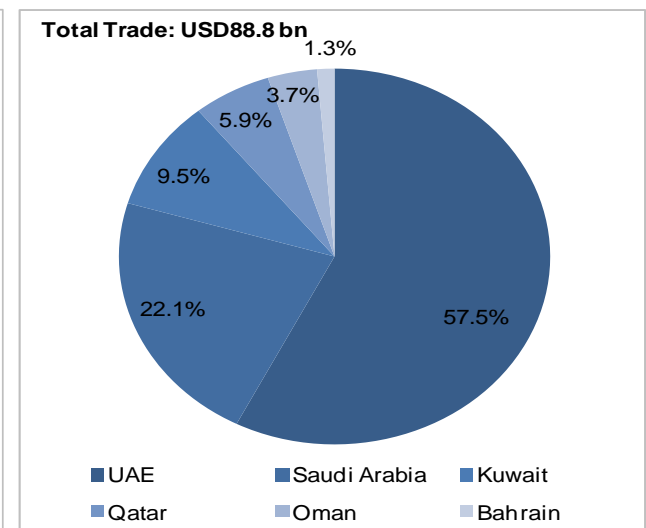
The UAE continues to be the single largest trading partner of India globally (refer exhibit 3). Two-way trade between the two countries stood at USD51 billion in 2010 (remarkably up from just USD3 billion in 2001), accounting for 57.4% of the total two-way trade between the GCC and India, and 10.4% globally. Saudi Arabia, a distant second, accounted for 22.1% of the total two-way trade (refer exhibit 4). On the global level, Saudi Arabia was the fourth-largest trading partner of India, accounting for 4.0% of total trade in 2010.

**Globally, UAE remains the largest trade partner for India, while Saudi Arabia ranks fourth**

**Exhibit 3: Top 10 trading countries with India (2010)**



**Exhibit 4: GCC and India trade (2010)**



Source: United Nations Commodity Trade Database, Alpen Capital

#### 2.1.1. GCC's exports to India

Exports from the GCC to India were valued at USD53.32 billion in 2010, up from USD1.75 billion in 2001. The region's exports expanded at a CAGR of 46.2% over 2001–10.

The GCC currently accounts for around 20% of the overall imports into India. The contribution has grown several notches since 2001 when the region accounted for a

**GCC exports to India expanded at a CAGR of 46.2% over 2001–10**

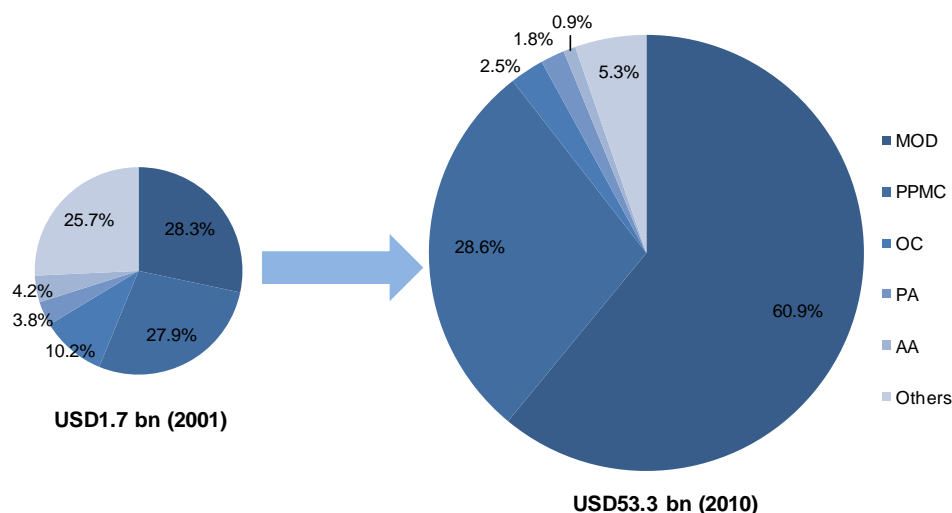
**Oil, precious metals and organic chemicals remain the largest trade categories from GCC to India**

meagre 3.4% of India's total imports. The UAE and Saudi Arabia are the leading exporters, accounting for over 70% of the exports from the GCC to India. While the UAE was the leading export partner from the region for the majority of the period, exports from Saudi Arabia were higher in value during 2006–08 due to increased oil exports amid rising oil prices.

### Major export categories from the GCC to India

Nearly 100 categories of products are exported annually from the GCC to India. However, the top five categories – (i) Mineral fuels, oils, distillation products, etc (MOD); (ii) Pearls, precious stones, metals and coins, etc (PPMC); (iii) Organic chemicals (OC); (iv) Plastics and articles thereof (PA); and (v) Aluminium and articles thereof (AA) – accounted for close to 95% of the total trade in 2010 (refer exhibit 5). Amongst the other categories, iron & steel, fertilizers, and inorganic chemicals & precious metal compounds form the major export categories (together account for 2% of total trade value).

**Exhibit 5: Breakdown of exports from GCC, by product (2010)**



Source: United Nations Commodity Trade Database, Alpen Capital

MOD, PPMC and OC are the largest export categories, accounting for around 92% of total exports from the GCC to India. During the last decade, MOD exports increased at a CAGR of 59% to reach USD32.5 billion in 2010 led by growing industrialization activity and expanding refining capacity in India as well as the energy security commitment given by Saudi Arabia at the 'Delhi Declaration' in 2006. On the other hand, PPMC trade expanded at an annual rate of 46.6% to USD15.2 billion, while OC trade rose at 25.3% to USD1.4 billion during the same period. In fact, since 2006, PPMC trade, which is carried out almost entirely between the UAE and India, has increased at a higher CAGR of 59.3% relative to MOD (13.3%), largely due to the rising dominance of both regions as major re-export destinations.

### 2.1.2. India's exports to GCC

**India's exports to GCC expanded at a CAGR of 27.9% over 2001–10**

India's exports to the GCC increased steadily at a CAGR of 27.9% over 2001–10 to reach USD35.43 billion. The UAE is by far the largest export destination in the region for India. Exports from the UAE continue to grow at a higher rate relative to other nations, largely due to a relatively more conducive trade relationship. The UAE overtook the US in 2009 to become the top export destination for India.

The GCC accounted for 16.1% of the overall exports from India in 2010, nearly double from 8.8% in 2001. While the overall exports from India to the world fell in 2009, the

exports to the GCC increased 17.5% Y-o-Y, mainly due to a 33% rise in exports to the UAE. Notably, the UAE alone accounts for over 77% of India's exports to the region, while Saudi Arabia accounts for nearly 13%.

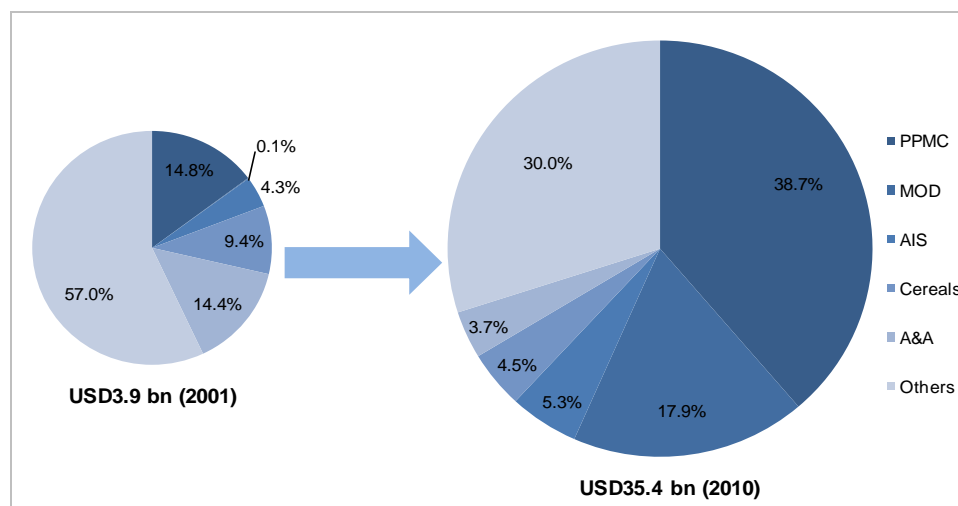
### Major export categories from India to the GCC

In terms of trade with the GCC, the list of India's export items is relatively more diversified than that of its imports. This is evident from the fact that the top 10 export categories from India to the GCC represented around 81% of total exports to the region in 2010 (refer exhibit 6). On the other hand, the top 10 import categories from the GCC to India accounted for 98% of the total imports from the block.

India also exports nearly 100 categories of products annually to the GCC region. The top 10 product categories are: (i) pearls, precious stones, metals, coins, etc (PPMC); (ii) mineral fuels, oils, distillation products, etc (MOD); (iii) articles of iron or steel (AIS); (iv) cereals; (v) articles of apparel, accessories including knit or crochet (A&A); (vi) machinery, nuclear reactors, boilers, etc (MNB); (vii) electrical and electronic equipment (E&E); (viii) copper and articles thereof (CAT); (ix) iron and steel (I&S); and (x) inorganic chemicals, precious metal compound, isotopes (ICPI).

*Precious metals, refined petroleum products, iron & steel, cereals and apparels remain the major export categories from India to GCC*

**Exhibit 6: Breakdown of exports from India, by product (2010)**



Source: United Nations Commodity Trade Database, Alpen Capital

PPMC, MOD, AIS, Cereals and A&A are the largest export categories, accounting for around 70% of total exports from India to the GCC. While PPMC exports have increased at a CAGR of 42.8% to USD13.7 billion over 2001–10, MOD exports expanded at a CAGR of 128.5% to USD6.3 billion. Exports of both the categories have surged significantly, accounting for over 46% of total exports, as the country has transformed itself into one of the major re-export hubs globally in these categories. During the same period, AIS, Cereals and A&A exports increased at a CAGR of 31.0% (to USD1.9 billion), 17.7% (to USD1.6 billion) and 10.0% (to USD1.3 billion), respectively.

## 2.2. Trade Intensity

Trade intensity<sup>1</sup> (a statistic that highlights the trade share of a country or a region to the share of world trade with a partner) between India and the GCC has been healthy over the last few years, ticking significantly over one on a consistent basis.

<sup>1</sup> Value lies between 0 and ∞. Values greater than 1 indicate an 'intense' trade relationship.



*Steady rise in trade intensity led by growing cooperation*

**Exhibit 7: Trade Intensity between India and GCC nations**

Country	2007	2008	2009	2010
UAE- India	7.0	6.4	10.5	10.4
Kuwait- India	6.4	6.6	7.0	6.3
Bahrain- India	2.5	4.0	2.0	4.8
Qatar- India	2.9	3.2	4.1	3.9
Oman-India	2.8	2.5	4.2	3.6
Saudi Arabia- India	4.6	4.3	3.5	3.4
<b>GCC-India</b>	<b>5.3</b>	<b>5.1</b>	<b>6.2</b>	<b>6.1</b>

*Source: United Nations Commodity Trade Database, Alpen Capital*

The opening up of the Indian economy and numerous bilateral negotiations has strengthened the company's relationship with the GCC economies. However, trade intensity between India and the UAE remains the highest among all GCC nations. The ratio has been growing to more than 10 in the last two years as UAE's trade with India has grown at a higher rate than the world buoyed by surging PPMC trade (refer exhibit 7). The UAE is followed by Kuwait and Bahrain as India's exports to these countries have widened lately. Although Saudi Arabia is India's fourth largest trading partner globally and the second largest among the GCC countries, its trade intensity with India is the lowest among GCC nations. This is mainly because Saudi Arabia's share of trade to the world is relatively higher than with India vis-à-vis other GCC countries. Trade intensity between India and the GCC as a whole was in the range 5.1–6.2 over 2007–10.

The trade intensity figures prior to 2007 were not computable due to data constraints across countries.

**2.3. Trade in Services**

Since services have long been treated as non-tradable, they have been omitted in the Balance of Payments statistics in the developing world. Consequently, the disclosure and details of trade in services between GCC and India is sparse. Thus, we have analyzed the state of trade in services with the world, in both geographies, to understand their comparative advantages and the avenues where both trading regions can benefit mutually.

**India stronger in commercial services**

Compared to merchandise trade, India has a relative advantage in commercial services over the GCC. This is largely because it is amongst the leading global exporters of commercial services – ranked 10<sup>th</sup> in value terms, with a global market share of 3% in 2010<sup>2</sup>. IT services account for almost half of the total services exports from India, fueled largely by the country's competitive advantage in knowledge-based services. This has helped India to maintain a positive trade balance in the past years.

On the other hand, GCC countries have a relatively less-developed services sector, and are largely dependent upon imports. Accordingly, the trade deficit has widened from USD70.5 billion in 2009 to USD82.4 billion in 2010. The GCC countries have stepped up their appetite for services in the areas of information technology (IT), software development, telecommunications, education, training and healthcare services, tourism and hospitality, and banking and financial services as they attempt to diversify their economy beyond oil and create job opportunities. Tourism, in fact, has become a key catalyst for promoting the country's services offering. For instance, in Dubai, earnings from

<sup>2</sup> Source: WTO

*Bilateral trade in services remains largely one-sided*



***Saudi Arabia remains the largest market for services imports in GCC***

***IT-enabled services continue to motivate trade ties***

tourism have by far exceeded that from oil. Currently, tourism directly contributes around one-fifth (and indirectly around 35%) to Dubai's GDP against 6% contributed by oil<sup>3</sup>.

#### **Saudi Arabia the biggest market for services imports**

Saudi Arabia remains the biggest market for services imports from the world in the GCC. The region accounted for 51% share of travel services, 38% of transport services, 80% of communications services, and 56% of the financial services imports in 2010. UAE was the second biggest market for imports of services, with 29% share in travel services and 21% in transport services.

#### **IT-enabled services facilitate trade between GCC and India**

Based on our study, we conclude that while oil and other merchandise trade continues to lead the economic relations between India and GCC countries, exports of services in areas such as education, IT, tourism, healthcare, biotechnology, telecommunications, banking & financial services and other skill-based industries continue to motivate trade ties.

Over the last several years, India has been able to capitalize on its strong capabilities in IT-enabled services sectors to increase its share of services exports to the GCC countries. According to industry estimates, India's IT products and services exports to the GCC countries have been increasing at a growth rate of above 30% annually. Lower costs and English language skills remain the prime advantage for the Indian IT sector. India continues to offer skill-based services at 50–80% lower cost than their source locations and 10–30% cheaper than other low-cost destinations. Consequently, IT sector revenues from exports have risen at a CAGR of 25% over the last 10 years in India.

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<sup>3</sup> Source: Dubai Department of Tourism and Commerce Marketing

### 3. Investment Capital Flows – GCC and India

#### 3.1. Capital Flows

Apart from developing strong trade relationships, both entities have also been increasingly investing in each other's economy to benefit from the attractive returns on investments. Diversification and spectacular economic growth recorded by both the regions over the recent decade have helped boost cross border investments. Nevertheless, even though FDI from GCC to India has picked up pace in recent years, it remains negligible relative to trade flows in terms of magnitude.

##### 3.1.1. FDI to India from GCC

Capital flows in the form of FDI from GCC to India have gathered pace in recent years, cumulating to USD2.6 billion over April 2000 to January 2012. Accordingly, its contribution to total FDI inflows into India (on a cumulative basis) has increased from 0.6% in 2005 to 1.7% as of January 2012 (refer exhibit 8). Even during the recession of 2009, India, which was one of the least affected nations, witnessed stronger FDI inflows, a mark of reposition of confidence in the country's growth story. Investments from the GCC jumped up by USD651 million in that year (an impressive growth of 65.7%), higher than the growth recorded in the prior couple of years.

*FDI from GCC to India has picked up pace in recent years, but remains negligible relative to trade flows in terms of magnitude*

Exhibit 8: Cumulative FDI to India (Apr 2000 to Jan 2012)

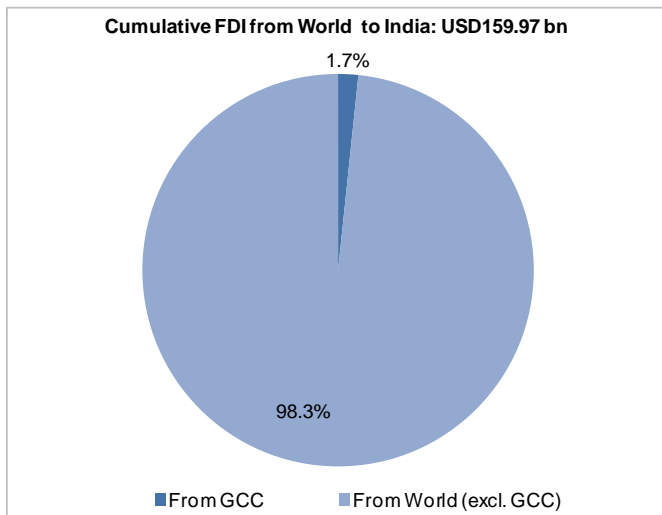
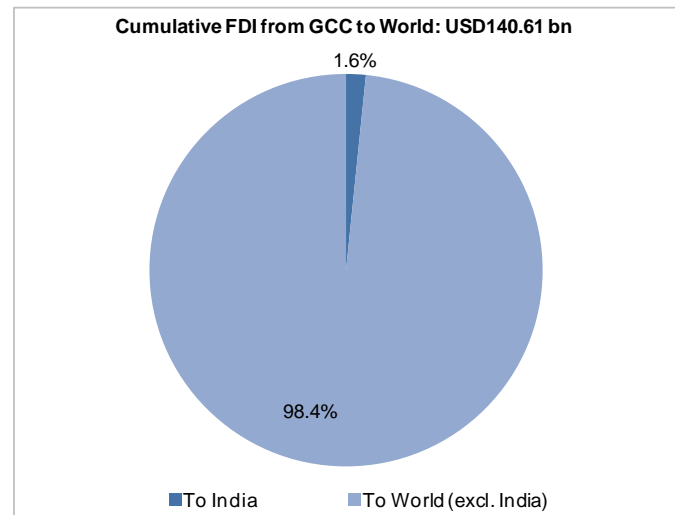


Exhibit 9: Cumulative FDI from GCC (Dec 2000 to Dec 2010)



Source: Indian Ministry of Commerce and Industry, United Nations Commodity Trade Database, Alpen Capital

#### FDI investments remain minuscule

Although FDI investments have increased over the last decade, they remain minuscule relative to the magnitude of trade flows between the regions and largely represent rising investments by expatriates. Cumulative FDI investments (April 2000 to January 2012) represented less than 3% of the annual bilateral merchandise trade flows reported in 2010. Furthermore, investment into India represents just a small percentage of total FDI from GCC countries to the world (refer exhibit 9). Except Oman and UAE, investments from other GCC countries into India remain negligible compared to their global investments. This signifies that India has been unable to attract sufficient level of interest from the deep pocketed GCC sovereign funds, despite the rising trade cooperation. However, India has encouragingly stepped up efforts to attract investments by further relaxing regulatory restrictions and inviting GCC investors to actively participate in India's robust growth story

and benefit mutually. For instance, the Indian government recently invited the UAE-based Abu Dhabi Investment Authority in January 2012 to invest in its infrastructure projects.

UAE and Oman are the only two leading GCC states investing meaningfully in India (refer exhibit 10). In fact, the UAE is the 10<sup>th</sup> biggest FDI investor in India, and leads among GCC nations, accounting for well over 80% of the total investments flowing into the country from the region. Oman is the distant second among the GCC nations, and is ranked 26<sup>th</sup> among the biggest investors in India. Saudi Arabia ranked 46<sup>th</sup>, followed by Bahrain (50<sup>th</sup>), Kuwait (57<sup>th</sup>) and Qatar (88<sup>th</sup>).

**Exhibit 10: Cumulative FDI into India, since April 2000, by country (USD mn)**

Country	2005	2007	2009	2011	Jan -2012	Rank*
UAE	141.0	588.4	1,507.2	2,090.9	2,219.8	10
Oman	24.0	53.5	64.0	338.6	339.5	26
Saudi Arabia	19.1	15.3	29.1	33.8	33.8	46
Bahrain	32.7	24.7	25.8	27.0	27.0	50
Kuwait	6.1	6.7	15.3	17.4	17.8	57
Qatar	0.1	0.1	0.1	1.6	1.6	88
<b>GCC</b>	<b>223.0</b>	<b>688.7</b>	<b>1,641.5</b>	<b>2,509.2</b>	<b>2,639.5</b>	<b>10</b>

Source: Indian Ministry of Commerce and Industry, Alpen Capital

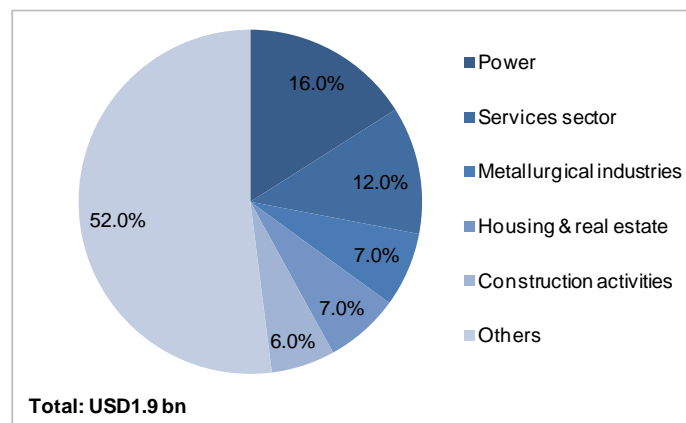
\*Ranking is in terms of total cumulative FDI into India between April 2010 and Jan 2012, by country

#### Power and services sectors favored

Due to the non-availability of data on FDI from GCC to India on a sector basis, analysis of FDI inflows from the UAE (having the largest inflows from GCC) would, therefore, give a fair estimate of the region's investment preferences for India. Over January 2000 to December 2010, the Indian power sector attracted the most investments from the UAE, followed by services and metallurgical sectors (refer exhibit 11). The top five sectors, which also include housing & real estate and construction activities, accounted for 48.0% of the total FDI from the UAE into the country during the period.

**Indian power sector, services, metallurgical, housing & real estate, and construction are the most favored FDI destinations for UAE investors**

**Exhibit 11: Share of top sectors attracting FDI from UAE (Jan 2000 – Dec 2010)**



Source: Ministry of Commerce and Industry – Government of India, Alpen Capital

#### GCC companies in India

**Saudi:** According to Arab News, there are around 55 Saudi companies or joint ventures operational in India with a total investment of USD200 million. These companies operate in diverse fields such as paper manufacturing, chemicals, computer software, granite processing, industrial products and machinery, cement and metallurgical industries.

**Steady increase in Gulf companies' participation in India**

**UAE:** Major UAE companies that invested in India are DP World, Emaar Group, Al Nakheel, ETA Star Group, SS Lootah Group, Emirates Techno Casting FZE, RAK Investment Authority, Damas Jewellery and Abu Dhabi Commercial Bank. Furthermore, in January 2012, the Indian government invited Abu Dhabi Investment Authority to invest in the Delhi-Mumbai industrial corridor and other infrastructure projects.

**Oman:** Omani companies in India are present in diverse areas such as oil & gas, manufacturing, IT & telecom, hospitality, healthcare and financial services. Mitsubishi Heavy Industries and Suhail Bahwan Group of Oman entered into a joint venture agreement in September 2011 to establish an engineering company in order to participate in India's industrial and infrastructure projects. The new company, MHI Engineering and Industrial Projects India Private Limited, has been set up with an initial capital of USD20 million.

Although a number of major companies from Qatar, Kuwait and Bahrain operate in India, a large portion of investments from these regions has been indirect. As a result, a larger number of investment funds exist that help in channeling capital from the regions, particularly from Kuwait to India. Some India-related funds launched in Kuwait include: (i) India Fund established in October 2005; (ii) Tijari India Fund established in December 2006; (iii) India Equity Fund established in January 2007; (iv) Kuwait India Holding Company; (v) Indian Private Equity Fund; (vi) India Private Equity Fund; (vii) 3rd Real Estate Islamic Fund established in May 2007; and (viii) Mayur Hedge Fund established in August 2008. In July 2009, UTI Asset Management Co. and Kuwait's Noor Financial Investment Company established a USD500 million private equity fund to invest in unlisted Indian infrastructure companies. Although Qatar Investment Authority has invested about USD500 million in India in the past five years, these investments were solely in the stock markets. However, the authority has indicated that it may invest up to USD10 billion in India over the next few years<sup>4</sup>.

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<sup>4</sup> Source: SWF Institute





**Exhibit 12: Top 25 FDI Inflows received from the UAE (From April 2000 to January 2011)**

Foreign Collaborator	Indian Company	FDI Inflow (USD mn)
Various NRIs*	Adani Power Ltd.	243.98
Crown Capital Ltd.	India Bulls Financial Services Pvt. Ltd.	67.41
Various Investors	IL&FS Transportation Networks Ltd	49.66
Dubai Ventures Ltd.	Bharat Hotels Ltd.	38.93
Axiom Telecom LLC	Convergem Communication Ltd.	34.98
Various Investors	DB Reality Pvt Ltd	33.06
Istithmar PISC	Spicejet Ltd.	32.68
RAK Investment Authority	Anrak Aluminium Ltd	30.87
Asian Broadcasting FZ-LLC	Balaji Telefilms Ltd.	29.26
Abu Dhabi Investment Authority	Infrastructure Leasing & Financial Services	28.23
Various NRIs and FII's	Gitanjali Gems Ltd.	27.67
Jayesh N Sheth, Pallavi Sheth	Ajanta Manufacturing Ltd.	27.44
DP World FZE	India Gate Terminal Pvt. Ltd.	21.80
Essar Projects Ltd.	Essar Construction Ltd.	20.41
Al Bateen Investment Co. LLC	Development Credit Bank Ltd.	19.68
Alliance Industries Ltd.	Peoples International and Services Pvt. Ltd.	19.41
Pan Atlantic Investments Ltd.	Sobha Developers Pvt. Ltd.	18.93
Eta Star Holdings Ltd.	Milky Way Developers Pvt. Ltd.	15.84
Dubai Financial LLC	Thomas Cook Ltd.	15.75
Dubai Ventures Ltd.	Time Broadband Services Pvt. Ltd.	14.18
Fersa Energias Renovables	En Wind Power Pvt. Ltd.	13.78
Network Digital Distribution FZ LLC	Tata Sky Ltd.	13.57
Fersa Energias Renovables	En Renewable Energy Pvt. Ltd.	13.56
Galaxy Terminal LLC	Hind Terminals Pvt. Ltd.	12.92
Emirates Merchant Bank Ltd.	ICICI Infotech Services Pvt. Ltd.	12.80
<b>Total</b>		<b>856.80</b>

Source: Ministry of Commerce and Industry – Government of India, Alpen Capital

\* Non Resident Indian

**India remains one of the major sources of FDI inflows into GCC**

**3.1.2. FDI to GCC from India**

Although GCC states have an abundant capital base, which is likely to grow further due to stronger oil prices, they are dependent on foreign investments. This is particularly because they are open to investments in technology, new expertise (as they aspire to diversify beyond oil), managerial know-how and marketing networks internationally. India, which has developed core competencies and has made a global mark in the field of services and manufacturing, presents itself as one of the natural partners to GCC countries. Moreover, the global financial meltdown and the ongoing economic crisis in the US and Europe are enticing Indian companies to turn to GCC, which has become a compelling investment destination due to a low tax rate environment, well-developed physical infrastructure and logistics capabilities.

Although FDI data from India to the GCC is not widely available, general information from individual country's investment agencies reveals that India has been one of the major sources of FDI flows into the GCC and is the third-largest investor in the UAE. Due to the lack of data availability on the GCC level as well as the country level, we have presented a comparison of FDI inflows from India and the World to Saudi Arabia (KSA) only. Although India's FDI participation in the Kingdom is growing strongly, it remains miniscule. FDI outflows from India to Saudi Arabia reached a high of USD182 million in 2008. The drop during 2009 was primarily due to the global financial crisis that forced India, among other



*Software development, engineering services and tourism among the most favored destinations for Indian investments in GCC*

nations, to adopt a protectionary policy. Despite growth over the years, cumulative FDI (over 2001–09) from India represented just 0.3% of the total FDI inflows (USD154.1 billion) into Saudi Arabia. Of the total FDI outflows from India (USD91.6 billion), the Kingdom represented just 0.4% during the same period.

Main sectors where Indian firms have been making investments in GCC countries include software development services, engineering services, tourism, readymade garments, chemical products, and agricultural and allied services. In addition, Saudi Arabian General Investment Authority (SAGIA) has issued numerous licenses to Indian companies for joint ventures/100% owned entities in a range of sectors such as management and consultancy services, construction projects, telecommunications, information technology and pharmaceuticals. Apart from these, a number of Indian companies have collaborated with national players in the areas of designing, consultancy, financial services and software development.

#### **Indian companies in GCC**

Indian business houses have developed a larger footprint in the GCC compared to the GCC business community in India. An increasing number of establishments, JVs and branch or representative offices have been set up in the region by India-based companies. This has largely been facilitated by GCC's liberalization and diversification efforts, rising Indian expatriate population and growing preferences for Indian products in the region. By far, UAE is the most favored and popular nation in the GCC, encouraging lot of Indian businesses and traders to establish a base in the emirate.

**UAE:** Extensive business sops and promotion of numerous free trade zones providing world-class infrastructure and logistic capabilities have catapulted the UAE as the major re-export hub in GCC. This re-export hub is today increasingly leveraged to access attractive neighboring markets such as the rest of the Middle East, Africa, Afghanistan, Pakistan and the Commonwealth of Independent States (CIS) countries, which includes former Soviet Republics. Indian companies have made huge investments in free trade zones such as Jebel Ali, Hamriyah, Fujairah, Ajman and Ras Al Khaimah. According to Dubai Chamber of Commerce, over 21,000 Indian companies were registered with it as of December 2010.

*GCC's liberalization and diversification efforts have attracted a large number of Indian companies*

UAE, in fact, has the most diversified base of Indian corporates, ranging from manufacturing, industrial, engineering and construction to consumer goods, services and education. More than 40 leading Indian companies, including Bharat Heavy Electricals Ltd., Engineers India Ltd., Indian Oil Corporation Ltd., Infosys Technologies Ltd., Larsen & Toubro, NTPC, Reliance Industries Ltd., and Tata Consultancy Services, have presence in the form of either branches/representative offices or JVs. In addition, almost all major Indian banks (such as Bank of Baroda, State Bank of India, Punjab National Bank, Axis Bank, ICICI Bank, IDBI Bank, HDFC, Canara Bank and Kotak Mahindra Bank) have presence in the UAE. Notable investments over the last decade include around USD17 million investment by Dabur to set up three manufacturing plants in Sharjah, Dubai and Ras Al Khaimah, a factory worth USD50 million set up by Ashok Leyland in Ras Al Khaimah, and the acquisition of Dubai-based ETA Star Cement Company by UltraTech Cement for an estimated enterprise value of around USD340 million. Furthermore, in November 2011, JK Cement announced plans to invest USD150 million to set up a white cement plant in Fujairah Free Trade Zone in the UAE.

**Saudi Arabia:** Between mid-2000 and end-December 2009, Saudi Arabian General Investment Authority (SAGIA) issued 357 licenses to Indian companies for joint ventures/100% owned entities. These entities are expected to bring total investment of USD1.6 billion in the Kingdom. According to Arab News, around 190 Indian companies are active in the Saudi market currently, with investments totaling USD1 billion. Of the total

companies, 39 are in industries, 54 in services and 93 in agriculture; others are in construction, information technology, designing, consultancy and financial services. Indian companies have invested USD2.07 billion in Saudi Arabia between 2000 and 2009<sup>5</sup>. Furthermore, there are several companies willing to expand in the region. For instance, Tata Communications plans to invest around USD200 million to develop its telecom operations in the Middle East region by 2012. As part of the investment, the company is constructing the Tata Global Network (TGN) Gulf cable system in partnership with Mobily (Saudi Arabia), Etisalat (UAE), Qatar Telecom, Nawras (Oman) and Bahrain Internet Exchange.

**Oman:** There are around 140 Indian companies in Oman and more than 1,500 Indian-Omani joint ventures that cover 13 socio-economic sectors. Of the total investment of USD7.53 billion in these sectors, Indian participation is estimated at around USD4.52 billion. Major Indian financial institutions such as Bank of Baroda (operational in Oman since 1975), State Bank of India (since 2004), New India Assurance Company, LIC, ICICI Bank and HDFC Bank also have representative offices in Oman. Notable investments in Oman over the last decade include the establishment of Oman India Fertilizer Company (a USD969 million venture and one of India's largest joint ventures abroad) in 2002 and the acquisition of Oman-based Shadeed Iron & Steel Co LLC by Jindal Steel & Power Ltd., India's third-largest steel maker, for USD464 million in 2010.

A large number of Indian companies are also present in Qatar, Bahrain and Kuwait. These firms are active in a number of sectors including manufacturing, industrial, engineering & construction, consumer goods and services.

### ***3.2. Indian diaspora, a strong link forging co-operation***

The commercial engagements between India and GCC countries have grown steadily over the last 40 years, fueled largely by the growing bilateral trade and huge Indian expatriate population in the region. India's large expatriate workforce is now increasingly integrated in the socio-economic fabric of the GCC, contributing to wealth and prosperity of both regions.

The GCC region is now home to over six million expatriates from India; Saudi Arabia and UAE house most of the expatriates (refer exhibit 13). Indians today form the largest single national group in each of the six GCC countries. Over the last 15 years, the economic boom in the GCC region has created a huge demand for skilled and semi-skilled workforce (for instance, from India) as the region traditionally faces a huge crunch of workers and professionals. Although a significant number of Indians are blue-collar workers, an increasing number of white-collar workers and professionals are now part of the Indian expatriate population in the region. The GCC nations are increasingly recruiting Indian professionals, particularly in the fields of financial services, health services, management, accountancy, engineering and architecture.

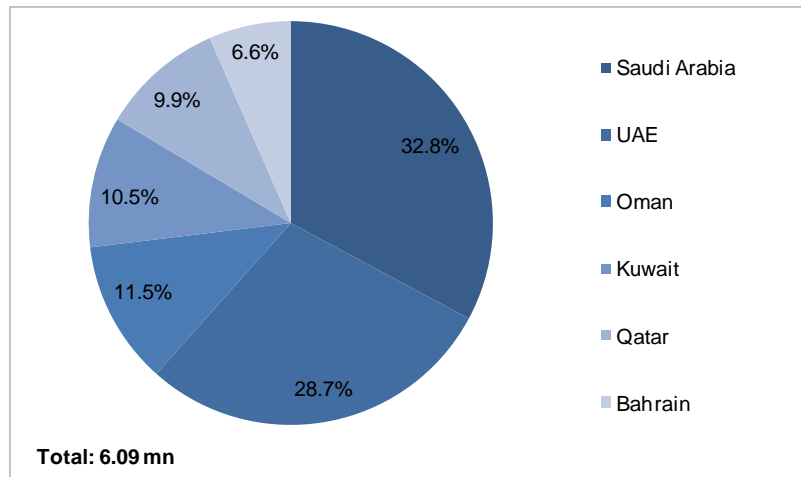
***Expansion in business ties largely supported by the Indian diaspora in GCC and growing bilateral trade negotiations***

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<sup>5</sup> Source: The Economic Times

**Indians form the largest single national group in each of the six GCC countries**

**Exhibit 13: Indian expatriate population in the GCC**



*Source: Indian Embassy in respective countries, Alpen Capital*

With around 2.0 million Indian expatriates living in Saudi Arabia and 1.7 million in the UAE, the concentration of Indians residing in the GCC is extremely high in Bahrain, Qatar and the UAE, constituting nearly 36%, 35% and 34% of the country's total population, respectively. Furthermore, compared to almost 90% of Indians, who were blue-collar workers in the GCC during 1970s and 1980s, the white-collar workers (such as engineers, doctors, bankers, accountants and other professionals) today form over 35%. Increasing number of Indians are employed at senior and mid-level positions in several of the business organizations in these countries, and occupy important positions in socio-economic institutions. While this has ensured steady and flourishing ties between both regions, remittances to India have grown to massive proportions. According to the World Bank, India is the world's largest recipient of remittances, receiving USD55 billion annually. Of this, remittances from the GCC accounted for a staggering 30% in 2010, which is a sizable portion and much larger than many individual tradable items being shipped between these countries.

Indian businesses have been able to establish a strong presence in the GCC, prominently in the UAE, Oman, Saudi Arabia and Bahrain, due to the huge Indian diaspora in the region. Indians, who initially focused on retail and trading, have successfully expanded their engagements into manufacturing and services. Indian entrepreneurs have created several billion dollars worth of world-class businesses in the GCC; the top 30 richest Indian-origin entrepreneurs in the GCC have an accumulated wealth of nearly USD20 billion. Although India's investments in the GCC have been largely driven by Non-resident Indians who had historically set up businesses in the region, businesses of Indian origin are also increasingly setting up footprint in GCC.

## 4. Growth Potential

### 4.1. Where the world is investing in India and GCC

*Although India's services sector remains the top investment target, other sectors are steadily gaining importance*

#### Global investments in India diversifying beyond services sector

India's inward foreign investment climate changed remarkably following a series of economic reforms that were ushered in about two decades back. Since then, the country has established itself as the most preferred destination of foreign investment in the South Asian region. The country's services sector remains the top investment target. However, its share of total FDI inflows is on a declining trend due to a rise in share of other sectors such as power, housing & real estate and drugs & pharmaceuticals (refer exhibit 14).

**Exhibit 14: Sectors Attracting Highest FDI Equity Inflows in India (USD mn)**

Sector	2011*	% of Total
Services Sector (Financial & Non-Financial)	5,145	18.0%
Drugs & Pharmaceuticals	3,417	12.0%
Construction Activities	2,327	8.2%
Telecommunication	2,325	8.1%
Power	1,808	6.3%
Metallurgical Industries	1,742	6.1%
Housing & Real Estate	770	2.7%
Computer Software & Hardware	770	2.7%
Automobile Industry	743	2.6%
Petroleum & Natural Gas	217	0.8%
Other Activities	9,274	32.5%
<b>Total Inward FDI Flows</b>	<b>26,192</b>	<b>100.0%</b>

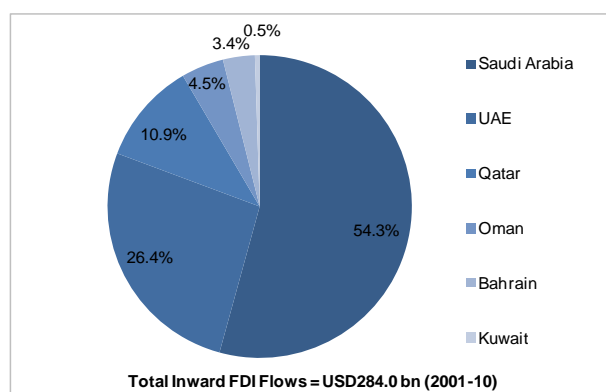
Source: Ministry of Commerce and Industry – Government of India, Alpen

\* Based on latest available data from February 2011 to January 2012

#### Global investments in GCC expanding beyond contracting and real estate

Saudi Arabia and the UAE are major FDI destinations in the GCC region. However, over 2009 and 2010, Qatar attracted more funds than the UAE to claim the second spot. Given the lack of details on FDI data in each GCC country on a sector basis, we have analyzed FDI inflows in Saudi Arabia in detail to understand global investment preferences in the region.

**Exhibit 15: Distribution of cumulative Inward FDI Flows by GCC States**



Source: UNCTAD, Alpen



**Foreign investments in the GCC distributed over a wide range of economic sectors; however, contracting remains the most favored**

Although high-tech projects and services sectors were the major attractions for investors globally in 2010, FDI inflows in Saudi Arabia, were generally distributed over a wide range of economic sectors such as real-estate investment and infrastructure, building contracts, chemical & petrochemical industries, transportation, telecommunications and information technology, quarrying, mining, oil and gas exploration as well as banking and insurance (refer exhibit 16).

**Exhibit 16: Sector-wise Inward FDI Flows in Saudi Arabia (USD mn)**

Sector	2010	% of Total
Contracting	5,874	20.9%
Real Estate	3,485	12.4%
Chemical & Petrochemical Industries	2,417	8.6%
Transport, Storage & Communications	2,024	7.2%
Trade	1,574	5.6%
Computer & Related Activities	1,433	5.1%
Refined Petroleum Products	787	2.8%
Mining, Oil & Gas	675	2.4%
Finance Services & Insurance	281	1.0%
Electricity, Gas and Water Supply	84	0.3%
Other Activities	9,471	33.7%
<b>Total Inward FDI Flows</b>	<b>28,105</b>	<b>100.0%</b>

Source: SAGIA (Annual Report of FDI into Saudi Arabia 2011) , Alpen

## 4.2. Ample scope for co-operation besides oil trade

With forecasts pointing to strong economic growth in both blocs going forward, there is significant scope for mutual cooperation between India and the GCC given their complementing economic profiles. Over the years, GCC has developed capabilities and experience in energy, telecom, construction, real estate and infrastructure sectors. These sectors are also growing fast and offer potentially attractive opportunities in India, which has strong expertise and scale in commercial services (financial, ITES) manufacturing, small and medium scale enterprises, food processing, and education, among others. The GCC is relatively lacking in these areas and increasingly looking for technological know-how, managerial expertise and foreign collaborations to build sustainable models for development. Growing Indian businesses could invest in several of high prospect avenues in GCC and use the region as a strategic hub to access regional markets in Africa, Iran, Iraq, and CIS countries amongst others. As part of the diversification plan, the GCC is prioritizing export of high order goods (finished goods). Thus, Indian corporates could participate and use the GCC region as a re-export hub for their refining operations (value added products), mainly as the lower input cost and robust infrastructural support in the block offer favorable investment environment. Moreover, due to strong cultural, historical and bureaucratic familiarities, GCC nations believe the scope for cooperation with India is better relative to any other Asian economy (including China).

### 4.2.1 Opportunities for India in GCC

#### a) Energy-intensive manufacturing

India and GCC nations can harness strong energy relationship by extending their partnership to manufacture value-added products such as refining, petrochemicals, plastics, fertilizers and pharmaceuticals. India's technological excellence in refining (evident from the fact that India is the 5<sup>th</sup> largest refining country accounting for 4% of the



*GCC corporates can harness India's technological excellence in value-added products*

*Rising investments in exploration projects could generate common interests*

*Growing investments in mineral development projects may facilitate cooperation*

*Indian service providers could benefit from the rapidly evolving GCC tourism and hospitality sector*

world's refining capacity as well as Indian companies, such as Reliance Industries, operate one of the world's largest and most sophisticated grassroots refineries) complements GCC's vast energy resources for promoting investments in these energy-intensive manufacturing sectors. Saudi Aramco's recent refinery deal worth USD10 billion with China's Sinopec Group could prove to be a landmark in this direction. Furthermore, GCC is expected to attract an investment of USD57 billion into the petrochemical industry over the next five years, according to a study conducted by UK-based Ispy Publishing. Other energy-intensive industries, such as aluminum and steel, may also continue to appeal Indian conglomerates largely due to the abundance and cheap supply of natural gas, which materially reduces manufacturing costs.

#### **b) Oil & Gas engineering services**

Within the oil & gas sector, rising investments in exploration projects in the GCC region can generate common interests. Recently, Indian conglomerates, such as Reliance Industries, have found potential for cooperation in the region's off-shore oil exploration ventures. Although Reliance Industries recently relinquished an offshore drilling block (Block 18, a 21,140 square kilometer (sq km) concession located off the Batinah coast in the Sea of Oman) in 2011 on failure to develop any encouraging prospects, it still has explorations undergoing on Block 41, a 23,800 sq km concession off the Sharqiya coast in Oman. Larsen & Toubro also won a contract worth around USD150 million in September 2011 to establish a gas processing facility for Petroleum Development Oman at the Lekhwair gas field in Oman.

#### **c) Mining and mineral-based industries**

Due to GCC's historical focus on developing hydrocarbon resources, mineral wealth, including abundance of gold, silver, iron ore, copper, bauxite and magnesium, remains under-exploited. Investments in GCC mineral development projects are on an upward curve, given its untapped nature and ability to create employment opportunities. This provides a potential investment opportunity for miners in India looking abroad to countries such as Africa to broaden their mineral offerings. Saudi Arabia-based Ma'aden partnered with US-based Alcoa to construct a USD10 billion integrated bauxite mine and aluminum smelting complex in Saudi Arabia's Eastern Province. The project is expected to commence production in 2013.

#### **d) Infrastructure**

In the GCC, although the global financial crisis and the debt crisis in Dubai dented the momentum slightly, several billion dollar investments are planned in the current decade in a bid to further improve sea ports as well as air, rail and road network. Saudi Arabia, which is expected to account for the largest chunk of this investment, has already made provisions for around USD100 billion in investments over the next 10 years<sup>6</sup>. This presents an attractive investment avenue for Indian construction giants. In April 2012, Punj Lloyd was awarded a contract to construct a bulk oil terminal at Jebel Ali (Dubai) and lay a 60 km jet fuel line to the Dubai International Airport.

#### **e) Tourism and hospitality**

Although the GCC's tourism and hospitality industry has evolved in the recent years, the sector has strong growth potential backed by huge investments and world class infrastructure support. Apart from tourist inflows from the developed world, the GCC is expecting huge attraction from Asia for its tourism and hospitality industry. Growing middle class in Asian countries such as India and China as well as smaller but growing African

<sup>6</sup> Source: [SAGIA](#)

middle class population bode well for the region's tourism sector. The GCC, particularly the UAE, has already seen major inflow of Chinese tourists in the recent years. India, with its vast population and large Muslim minority, should continue to be a major attraction in the near future. Apart from developing a world-class tourism experience, GCC governments are also encouragingly bidding for international events (such as the Olympic Games and the Football World Cup), which would help develop their tourism sector. GCC corporates are already eying huge potential from the recently won bid for FIFA World Cup 2022 by Qatar.

#### f) Healthcare

Driven by the rising incidence of lifestyle diseases, increasing healthcare awareness and insurance penetration and rising income levels as well as strong population growth in the GCC, healthcare expenditure in the region is expected to remain upbeat in the near future. According to the WHO, total expenditure on healthcare in the GCC expanded at a CAGR of 13.7% during 2007–09 to USD34.3 billion. While the majority of this expenditure (over 70% of total expenditure) was financed by the GCC governments, private sector participation has increased in recent years, albeit at a slow pace. This is largely ascribed to favorable regulatory reforms by the governments. Saudi Arabia is expected to remain the largest GCC market. It is also expected to be the fastest growing market along with the UAE. Overall, we estimate the healthcare services market in the GCC to expand at an annual rate of 11.4% to USD43.9 billion by 2015 from an estimated USD25.6 billion in 2010 (refer Alpen Capital's "GCC Healthcare Industry Report" published on 13 December 2011 for further details). Accordingly, the GCC presents huge potential for the Indian healthcare companies to explore these markets and benefit from the rising public as well as private expenditure. Recently, India-based Nova Medical Centres announced plans to invest more than USD20 million in the GCC in the next three years to benefit from the rising medical industry in the region.

#### g) Airports

GCC governments have been investing in upgrading airport infrastructure to support the region's tourism potential. GCC countries have planned major airport expansion projects that would not only increase capacity of Gulf airlines, but also help in attracting new source markets for tourism. Major expansions underway are shown in exhibit 17 below.

*Rapidly growing healthcare market in GCC presents an attractive opportunity for Indian healthcare companies*

*Growing investments in GCC Airport infrastructure to attract Indian airport service providers and construction giants*

**Exhibit 17: Some major airport expansion underway in the GCC**

Country	Expansion Plans
UAE	Abu Dhabi Airports Company is expanding Abu Dhabi International Airport's capacity to 20 million passengers per year by 2015 and the new Al Maktoum International Airport in Dubai is being built to handle 80 million passengers per year by 2025
Bahrain	Bahrain International Airports Company announced plans to increase the country's international airport's capacity to 28 million passengers by 2030 from around 7 million (currently)
Oman	Oman Airports Management Company plans to increase capacity at Muscat International Airport from 4.5 million passengers at present to 12 million passengers by 2014 and then to 48 million by 2050
Qatar	Qatar expects to increase New Doha International Airport's capacity to 50 million passengers per year beyond 2025 from 24 million (estimated to have reached in 2011)
Saudi Arabia	The General Authority of Civil Aviation announced plans to expand the region's existing airports (including those at Riyadh, Jeddah and Medina) and add a new airport at Taif over the next several years





Kuwait	Kuwait plans to nearly double its international airport's capacity from 7 million to 14 million passengers per year over an unspecified time-frame
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Source: GCC aviation authorities, Economist Intelligence Unit, Alpen Capital

*Huge Indian diaspora in the GCC warrant cooperation in community financial services*

*Ample opportunities in terms of expanding into a cost-effective agro-based value chain due to complementary profiles*

*India, with its sound education system and skilled labor force, may continue to play an important role in the GCC's economic development programs*

**h) Financial services**

India, which has a well developed as well as sound banking and financial services sector, is actively looking to expand into GCC countries, which is rapidly expanding and hosts a large population of Indian expats. For instance, Reliance Capital (among India's top four private sector financial services and banking groups in terms of net worth) is investing in the GCC region, to build a USD2 billion business over the next five years.

**i) Agriculture and Food Processing**

Being an agricultural country (India ranks second globally in terms of agricultural production after China), and located in close proximity to GCC countries compared to other Asian nations, makes the Indian economy an ideal sourcing and development partner for agro-based value chain in the GCC region. This is also particularly important as soaring international food prices due to production difficulties in certain supplying nations have heightened food insecurity concerns in the GCC region. Due to significant scarcity of water supplies, harsh climate and poor soil conditions, GCC economies traditionally depend on imports, which are expected to rise. We estimate that due to population growth and increased per capita income, food consumption in the GCC would reach 51.5 million tonnes, registering a CAGR of 4.6% over the period 2011–15, while the food consumption per capita would increase at a CAGR of 2.1% over the same period (**refer Alpen Capital's "GCC Food Industry Report" published on 28 June 2011 for further details**). Given the region's import dependency (GCC countries import almost 90% of their food requirements), spending on food imports is expected to rise significantly. As per EIU, total spending on food imports in the GCC is projected to more than double (from USD26 billion in 2010 to USD53 billion) by 2020. The food insecurity in the GCC is further heightened by the fact that the land suitable for cultivation is just 1.7% of the total land area in Saudi Arabia and 3.0% in the UAE compared to 51.6% in India<sup>7</sup>.

With an advanced processing and packaging industry coupled with highly developed transportation sector, GCC and India have huge opportunities in expanding into a cost-effective agro-based value chain. During the Third India-GCC Business Conference (Industrial Forum) held on 29-30 May 2007 in Mumbai, a huge potential of cooperation (from trade and investment perspective) was identified in the agriculture and food processing sector by both blocks. We believe cooperation in the sector may be further promoted in the 4th India-GCC Industrial Conference scheduled to be held in Saudi Arabia in 2012.

**j) Education and labor force**

Considering economic development programs in the GCC region lay greater emphasis on the education sector, Indian universities and research institutes with their expertise in the education field can expand in the region. Presence of a sizable Indian population in the region can be a strong facilitator as they seek to provide good quality Indian education to their children. Indian education brands, such as Kidzee, EuroKids, Kangaroo Kids, Shemrock, Delhi Public School and Shemford schools, have already forayed into the Gulf region to cater to Indian Diasporas. In addition, Indian universities, such as BITS Pilani, Manipal University, S.P. Jain, Amity University, and Mahatma Gandhi University, have established their footprint for higher education in the GCC.

<sup>7</sup> Source: Food and Agriculture Organization

Around 13 million people are estimated to enter India's urban labor force (stood at approximately 478.3 million in 2010) every year. Furthermore, India has younger population, not only in comparison to advanced economies, but also in relation to large developing countries. Hence, labor force in India is expected to increase 32% over the next 20 years, while it would decline 4% in the industrialized economy. As it is already known that Indian expatriates form the single largest expatriate community in most GCC nations, the GCC region is likely to continue to demand skilled Indian labor force with its high growth potentials and expanding job opportunities.

**Exhibit 18: Distribution of annual labor outflows from India, by destination**

Country	2002	2004	2006	2008	2010	CAGR ('02-10)
Saudi Arabia	99,453	123,522	134,059	228,406	275,172	13.6%
UAE	95,034	175,262	254,774	349,827	130,910	4.1%
Oman	41,209	33,275	67,992	89,659	105,807	12.5%
Qatar	12,596	16,325	76,324	82,937	45,752	17.5%
Kuwait	4,859	52,064	47,449	35,562	37,667	29.2%
Bahrain	20,807	22,980	37,688	31,924	15,101	-3.9%
<b>World</b>	<b>367,663</b>	<b>474,960</b>	<b>676,912</b>	<b>848,601</b>	<b>641,356</b>	<b>7.2%</b>

Source: Ministry of Overseas Indian Affairs, Alpen Capital

## 4.2.2 Opportunities for GCC in India

### a) Oil Trade

GCC's relationship with India is expected to be largely centered on oil for most part of the foreseeable future.

India is the fourth largest energy consumer in the world after the US, China and Russia. Energy trade constitutes the largest portion (~70%) of overall trade inflow from the GCC into India. The GCC also accounts for around 45% of India's total petroleum requirement. Therefore, the region (which owns nearly 40% of world's oil and 23% of natural gas reserves) would continue to play a key role in determining India's energy security in the future.

According to the Approach Paper on India's Twelfth Five Year Plan (2012-17), India's commercial energy supplies may grow 6.5%–7.0% per annum to sustain the GDP growth of 8%–9%. India's energy consumption is expected to grow 41.0% over the next five years. Given India's limited capabilities in power generation, dependence upon imports is expected to rise further. As for petroleum, India's import dependence is expected to rise to 80% in the Twelfth Plan (refer exhibit 19).

*India is the fourth largest energy consumer while GCC is among the largest oil producers in the world*

**Exhibit 19: Primary Commercial Energy Requirement (mn tonnes of oil equivalent)**

	2010-11	2016-17
Oil	164.32	204.80
<i>Of which imports</i>	<i>76.4%</i>	<i>80.5%</i>
Natural Gas & LNG	57.99	87.22
<i>Of which imports</i>	<i>19.0%</i>	<i>28.4%</i>
<b>Total Energy</b>	<b>522.81</b>	<b>738.07</b>

Source: Planning Commission – Government of India

Strengthening trade ties with GCC countries such as Saudi Arabia should help India secure its energy supply for the foreseeable future. Besides GCC, India is also

considerably relying on Iran for its crude supplies. However, Iran's growing isolation from the international community amid sanctions is posing significant payment-related challenges for India. Consequently, India recently lifted an anti-dumping duty on Saudi Arabian polypropylene in order to avoid disruption of oil shipments from the Gulf nation. On the other hand, Saudi Arabia has extended support to replace any shortfall in oil supply from Iran. Saudi Arabia has already confirmed that the region could increase production by about 2 million barrels per day (bpd) almost immediately.

#### **b) Infrastructure**

The private sector investment in infrastructure in India presents a huge opportunity for foreign investors. According to the Approach Paper on India's Twelfth Five Year Plan (2012–17), India's Planning Commission expects infrastructure investment to rise to around 10.7% of GDP during 2016–17 from about 8.4% during 2011–12 (refer exhibit 20). Accordingly, total investment in infrastructure is estimated at about USD1 trillion during the Twelfth Plan period. Private and PPP investments' share is expected to increase from over 30.0% of total investment in the Eleventh Plan to 50.0% in the Twelfth Plan.

**Exhibit 20: Projected Investment in Infrastructure during the 12<sup>th</sup> Five Year Plan**

	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
As a % of GDP	8.37	9.00	9.50	9.90	10.30	10.70
Investment (USD bn) @ Rs50/\$	105.66	123.89	142.54	161.91	183.61	207.91

*Source: Planning Commission – Government of India, ASSOCHAM, Alpen Capital*

In January 2012, Indian government invited UAE-based Abu Dhabi Investment Authority, the world's largest Sovereign Wealth Fund, to invest in the Delhi-Mumbai industrial corridor and other infrastructure funds that required investments of at least USD90 billion. Kuwait has also invested a large number of funds in the infrastructure sector in India and has shown further inclination to increase its exposure. India and Oman established the Indo-Oman Joint Investment Fund in 2010 to promote cross border investments. The Joint Investment Fund, operated by State General Reserve Fund in Oman and State Bank of India, started its operations with an initial seed capital of USD100 million and has the provision to go up to USD1.5 billion.

#### **c) Downstream sector**

While prospects of India's upstream sector remain limited, investments in the downstream sector have been rising at a commendable pace, which has helped position the country as a competitive refining hub globally. Despite being dominated by PSUs, India's downstream sector has observed strong growth in investments from the private sector in the recent past. As per OECD/IEA estimates, India is set to surpass Singapore as Asia's largest refined product exporter by 2012. In addition, it would remain one of the two largest refined product exporters from the region for the foreseeable future, buoyed by refinery investments from both public sector and private sector<sup>8</sup>. Thus, there remains significant potential for GCC refiners and oil majors to gain by investing in the country's downstream sector. In addition, by establishing a venture in India, they can serve the large and buoyant markets in South Asia. In an attempt to boost investments, in February 2012, the Indian government invited Saudi participation in its petroleum downstream sector, including OPaL's petrochemical project at Dahej and OMPL's petrochemical project at Mangalore. Separately, GCC technology and engineering conglomerates in the oil & gas sector, such as Qatar-based Consolidated Gulf Company, have increased efforts to extend cooperation

<sup>8</sup> Source: India's Downstream Petroleum Sector - OECD/IEA 2010

in the upstream sector in India. In 2011, Consolidated Gulf Company bagged its first project in India from ONGC, Asia's largest oil exploration and production company.

**d) Financial services**

A large Muslim population in India presents a strong opportunity for GCC to promote their Shariah compliant financial services in the region. Muslims comprise around 13% of the Indian population. There are more number of Muslims in India than in the GCC region as a whole. As a result, India offers a large economic opportunity for Islamic investors who follow Shariah investment. Even the Indian government is seen taking interest in this form of finances such as interest-free banking for the inclusion of Muslims in the financial sector.

**e) Agriculture and Food Processing**

The advancement of the agro and food processing industry is as important for India as it is for the GCC. While such an advanced agro and food processing industry would benefit India in terms of exports, it would help in securing food supplies for the GCC. Having an established expertise in the food processing industry, the GCC companies can extend cooperation to the Indian counterparts by setting up independent or joint ventures. With its agricultural advantage, India presents an attractive avenue for the same. Expanding cooperation in the agro and food processing arena has been one of the important agendas in GCC-India industrial forums.

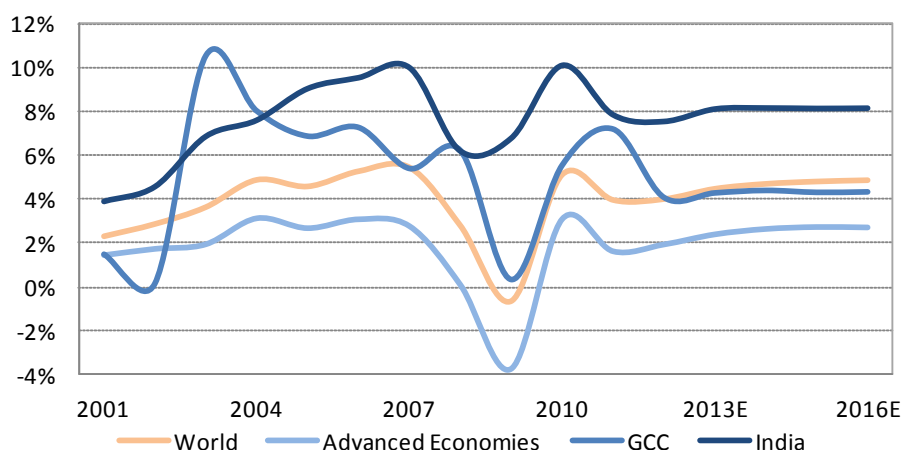
**Both GCC and India have gained substantial economic power in the last decade**

## 5. Growth Enablers

### 5.1. GCC & India: Discernable change in economic profile

GCC nations and India have gained substantial economic power over the last decade driven by spectacular growth, especially since 2003. While GCC states benefited from rapid economic and structural changes following their diversification drive, India's liberalization efforts have provided a fillip to the country's economy. Strong domestic consumption patterns also helped India weather external shocks relatively well. As observed during the recent global financial crisis that ensued in late-2008, India managed to grow strongly despite the downturn (refer exhibit 21). Although GCC nations witnessed a sharp decline in the growth rate due to oil-linked cyclicalities, the region managed to grow marginally due to stronger performance by non-oil sectors.

**Exhibit 21: GDP growth rate (at constant prices)**



Source: IMF

Note: Advanced Economies constitute 34 countries as per IMF's classification)

As per IMF estimates, while India's GDP is likely to continue exceeding the global average, GCC nations may grow at par. It is estimated that GCC's and India's contribution to the global GDP may have risen from around 1.2% and 1.5% in 2000 to 1.9% and 2.6% as of 2011 (source: IMF). India's Planning Commission expects the country's contribution to the global GDP to rise to around 5.2% by 2020 and 7.1% by 2025—the Planning Commission expects the global GDP to grow to USD110.5 trillion by 2020 and USD140.5 trillion by 2025). GCC's contribution to the global GDP is also expected to rise to nearly 2.5% by 2025, assuming it grows 4.2% beyond 2016.

#### GCC: Diversification, structural reforms driving growth

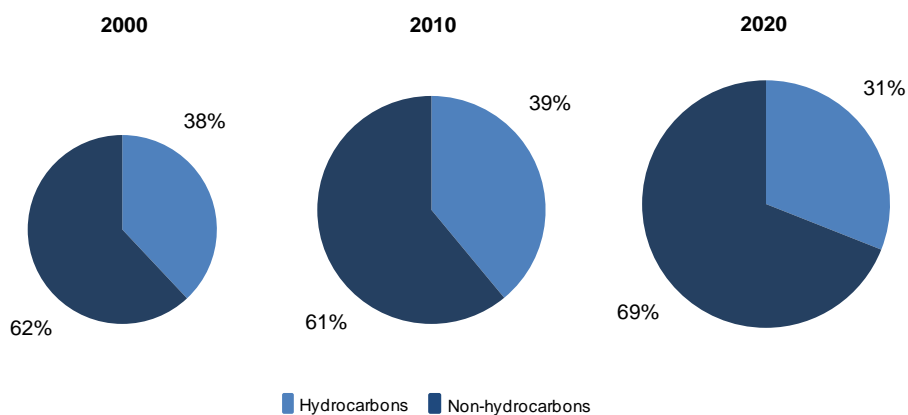
Economic vulnerability to oil price volatility coupled with limited contribution towards employment generation are the key factors driving GCC nations to diversify away from their mainstay oil and gas (hydrocarbons) business. Over the past two decades, GCC economies have undergone massive transformation. Government policies and structural reforms have increased diversification within GCC economies.

Although GCC governments have managed to deploy oil surpluses effectively during 2003-2008, diversification is still underway. GCC's diversification away from oil is also crucial for overall employment generation in the region. The region's population has risen from just over 29 million in 2000 to an estimated 42 million in 2011, intensifying the need to create job opportunities. While the GCC economy is expected to remain heavily dependant on hydrocarbons in the near future, a higher growth rate in the non-hydrocarbons sector

**Apart from oil, diversification and structural reforms driving growth in GCC**

(forecasted to average 5.1% per year against 3.3% annual average growth expected in the oil and gas sector, according to Economist Intelligence Unit) offers substantial job creation opportunities and increased scope for regional cooperation (refer exhibit 22). Furthermore, within the hydrocarbons and allied sectors, the GCC is increasingly focusing on moving up in the value chain by investing in downstream projects such as in refining, petrochemicals and fertilizers, which should create additional growth opportunities and jobs in the region.

#### Exhibit 22: Structural development of GCC's GDP (Nominal)



Source: Economist Intelligence Unit

#### GCC's proximity to the Middle East and Africa

Historically, the GCC region has benefited as a hub for trade purposes. While its proximity to advanced European countries was a major attraction for South Asian traders earlier, new growth markets in the neighboring Middle Eastern and African countries are also generating increased interest. As these markets are politically sensitive, establishing corporate control centers in the GCC region appears as the most viable alternative to promote products and services in the neighboring Middle Eastern and African countries.

#### Availability of land and natural resources

GCC countries are characterized by ample natural resources such as oil & gas, which are also made available at low prices in order to promote energy-intensive manufacturing industries. This is facilitating massive investments into manufacturing industries in the region, particularly petrochemicals, downstream sector, cement, etc. Also, the region offers competitive advantage in terms of vast land area (around 259 million hectares) for businesses. In fact, existence of vast land area has been a major force in promoting the expansion of free trade zones in the GCC region.

#### Large Indian expatriate population

Indians comprise the largest single national group in each of the six GCC countries (refer exhibit 13). This has been an influential factor in attracting Indian businesses into the region as presence of large Indian expats implies ready demand for Indian products. Accordingly, significant potential exists for growth in Indian products.

#### Currency fluctuation non-existent

Unlike many nations, such as India, currency impact is not a concern in GCC countries, except Kuwait. This is because all of the local currencies, except Kuwaiti Dinar, are pegged to the US dollar that, besides keeping inflation in check, also acts as a shield for fluctuating investment returns.

*GCC's world class infrastructure support remains a key attraction for inter-regional cooperation for growth*

*Massive population and strong consumption patterns continue to fuel India's growth story*

## World class infrastructure support in the GCC

GCC countries have invested heavily in developing infrastructure, particularly over the last decade. Such initiatives continue to attract industries around the globe.

- **Ports:** Most countries in the GCC were developed as ports. Thus, the port infrastructure of GCC nations remains excellent by international standards—the UAE is the most advanced in this regard and accounts for around 60% of maritime cargo handling in the GCC. At the 'Gulf Maritime and the Mastech International Marine and Technical Conference' (held at Sharjah in December 2011), maritime experts cited that another USD15 billion investments are planned over the next five years toward further expansion of ports in the GCC<sup>9</sup>.
- **Airport, Rail and Road:** The GCC countries are developing their airport infrastructure in a bid to become a major global aviation hub in the near future. The region has earmarked an estimated USD90 billion for airport development over the next few years, with the UAE taking the lead in the development of freight links<sup>10</sup>. Besides this, GCC governments have increased focus on improving connectivity through rail and road networks. These developments are intended to cater to the anticipated huge tourist inflow during the 2022 FIFA World Cup in Qatar. While rail line connectivity in the GCC is largely underdeveloped, road connectivity remains robust with the length of roads (all almost 100% paved) aggregating 291,313 km (of this, around three-fourth is in Saudi Arabia). The most ambitious development project in the pipeline is the rail network (Gulf Cooperation Council Railway Project), which will connect all six GCC countries. According to official sources, the construction of this rail network (which will stretch nearly 1,940 km<sup>11</sup>) is scheduled to begin in 2013 and complete by 2017; the project is estimated to cost around USD30 billion.
- **Power:** The region's power infrastructure has been largely developed over the last decade and remains industry friendly with well established and cheap sources of electricity supply. In fact, electricity rates in the GCC are among the lowest in the world. There is no electricity shortage on an aggregate level in the region. In fact, there are some regions (such as Qatar) with surplus capacity. The establishment of the GCC Interconnection Grid in 2009 has further improved electricity supply across the region<sup>12</sup>.

## India: Domestic consumption and demographics supporting growth

India's robust economic growth has been supported by growing domestic consumption. The key factors driving consumption are the country's large population base and rising income levels among the middle class. Domestic consumption accounts for more than 50% of India's GDP. The country is expected to surpass China and become the most populous country in the world by 2030. Interestingly, India's middle-class population may almost triple to 600m by 2030, providing further impetus to domestic consumption. This, in turn, would require significant investment in building physical infrastructure. The Government of India has chalked out a plan to invest around USD1.5 trillion towards improving infrastructure over 2007–17. In addition, the country's rapidly growing service sector is likely to provide further impetus to an already burgeoning economy. India's Vision 2020 Plan envisages the services sector's share of total GDP reaching 60% by 2020, followed by industries (34%) and agriculture (6%). This is significantly above levels observed during FY01-02, when the services sector contributed 46% and industries 26%.

<sup>9</sup> Source: Expo Centre Sharjah

<sup>10</sup> Source: [Gulf News](#)

<sup>11</sup> Source: [Arab News](#)

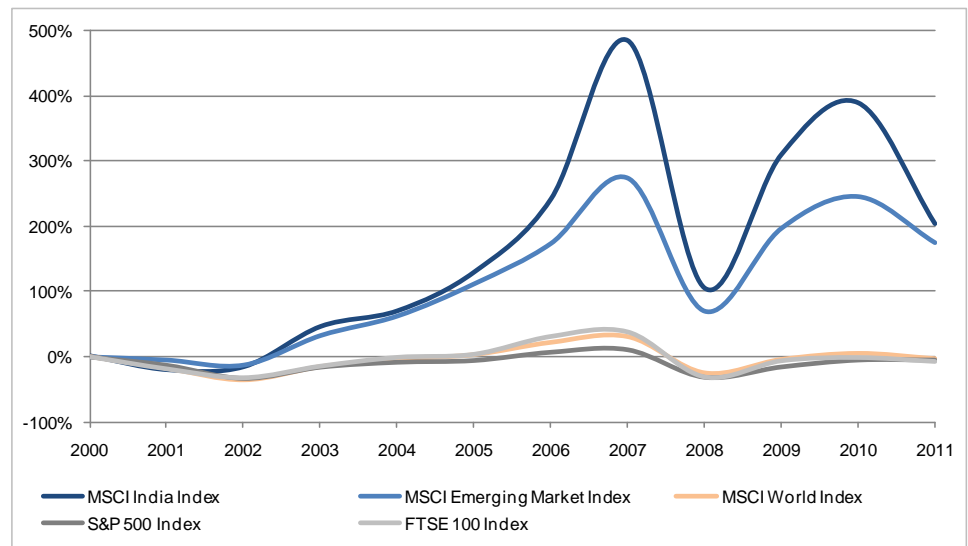
<sup>12</sup> Source: Oman Observer

*Poor investment returns in developed markets prompting GCC investors to diversify into risky, yet high-growth developing economies such as India*

## 5.2. Shifting investment preference in GCC region

GCC countries traditionally invested oil surpluses in international banking systems and US and European treasuries. However, a noticeable shift in this trend is observed during the recent oil booms. With growing sophistication in the GCC banking sector, fast integration of emerging markets into the world economy and growing emphasis on portfolio diversification, the risk appetite of GCC investors has increased significantly in the last decade. GCC investors are now increasingly looking beyond Western countries to maximize yield on their portfolio by venturing into riskier assets in emerging countries. Asian economies such as India are fast emerging as attractive destination for GCC investors, given that the return on investment in these emerging economies has outpaced that in the west, particularly over the last 10 years (refer exhibit 23). This is largely driven by the substantial progress in liberalizing capital accounts as well as strengthening the business environment. This is further complemented by long-term Public Private Partnership (PPP) programs, rapid export growth and surge in corporate profitability, which has opened up an array of new investment opportunities for Gulf investors. GCC has nearly 14 Sovereign Wealth Funds (SWFs), which collectively accounted for around 45% of the total value of the top ten global sovereign funds (valued at USD3,180 billion) in 2010. The economic slowdown and extended debt crisis in the Western World encouraged GCC SWFs to increasingly scout for high yielding growth opportunities in Asian economies such as India and China.

**Exhibit 23: Return on equity investments (rebased on values in 2000)**



Source: Bloomberg

## 5.3. Regulatory reforms

Since 1991, India has undergone a series of regulatory reforms that have transformed the country's prowess on the global landscape—it has become one of the most attractive investment destinations in the world. Privatization and liberalization of foreign capital inflows coupled with reforms related to trade policy were the major regulatory developments initiated by the government in the last decade. For instance, India reduced its simple average Most-Favored-Nation (MFN) tariff rate<sup>13</sup> from 15.1% in 2006–07 to 12% in 2010–11 to boost trade flows.

*GCC and India undergone a series of regulatory reforms that continue to facilitate cooperation*

<sup>13</sup> MFN tariff is the custom duty that a member of the GATT/WTO charges on a good to other members



GCC states also started introducing structural reforms following a sharp drop in oil prices in 1998–99. Unlike India, reforms in GCC countries were more focused on fiscal consolidation, privatization, liberalization of restrictions on foreign capital inflows (such that it could support privatization), labor market reforms (to prevent unemployment pressures), and closer integration of economies and collective policy reforms.

## **5.4. Trade Policy/Agreements and Economic Zones**

Apart from structural reforms that help in lowering regulatory barriers on cross-border trade and capital flows, establishment of infrastructural support such as Special Economic Zones or Free Economic Zones have also played a crucial role in promoting investments for mutual benefits.

### **5.4.1. Trade Agreements**

India and GCC states have also signed specific bilateral agreements that, in turn, have boosted economic ties and trade relations until date. However, in order to further promote mutual interdependence, India and GCC states are mulling over a Free Trade Agreement (FTA), which could significantly enhance the trade relationship. The agreement would be entered with GCC as a group. Although India and GCC signed the 'Framework Agreement on Economic Cooperation' in August 2004 in New Delhi, formal FTA negotiations commenced in March 2006. The first round of FTA negotiations took place in Riyadh on March 21–22, 2006. The negotiations expanded the scope of FTA beyond goods to include services and investment. Accordingly, four working groups – Trade in Goods, Trade in Services, Investment and Economic Cooperation, and Rules of Origin and Customs Cooperation – were established to study the potential. According to India's Ministry of External Affairs, the government is currently examining the tariff liberalization schedule with reference to Category A, B & C goods; finalization of the initial offer list; GCC's request to conduct negotiations on trade in goods at an eight-digit level; and GCC's proposal to base Rules of Origin (ROO) on change in tariff classification at a four-digit level or value addition (35–40%).

### **5.4.2. Special Economic Zones or Free Economic Zones**

Amid Asian counterparts, India is considered as the first mover in terms of promoting exports based on the Export Processing Zone (EPZ) model with Asia's first EPZ set up in Kandla in 1965. However, the model posed some barriers such as multiplicity of controls and clearances, poor infrastructure, insufficient logistic support and an unstable fiscal regime. To overcome these issues, the country formed the Special Economic Zones (SEZs) Policy in April 2000. Until early 2006, SEZs functioned under the provisions of the Foreign Trade Policy. However, to impart additional stability to the SEZ regime, the Special Economic Zones Act was formulated which was converted into a law in June 2005. Currently, there are around 143 SEZs in India. Liberal economic laws, 100% foreign ownership, tax exemptions/holidays and duty-free import are some of the important incentives offered by SEZs to foreign investors.

In the GCC, private/foreign investment promotional models are known as Free Economic Zones (FEZs). Among GCC states, the UAE has the highest number of FEZs. Currently, more than 30 FEZs are functional in the emirate, with Jebel Ali Free Zone Area in Dubai considered a worldwide benchmark for this form of operation. Furthermore, around 20 FEZs are under development in the UAE, of which 14 have been planned in Dubai, four in Ras Al Khaimah and two in Abu Dhabi (Khalifa Industrial Zone Abu Dhabi and Masdar Carbon Free City). Although Saudi Arabia has no FEZs in operation currently, it is developing four economic cities – King Abdullah Economic City, Prince Abdul Aziz bin Mousaed City, Knowledge Economic City and Jazan Economic City – at a cost of more

*Apart from regulatory reforms, numerous trade agreements and economic zone initiatives have helped develop stronger economic ties*



than USD60 billion; consequently, these cities are estimated to contribute USD150 billion to the Kingdom's GDP in the coming years<sup>14</sup>.

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<sup>14</sup> Source: SAGIA

## 6. Challenges/Inhibitors

Despite a significant improvement in India's regulatory regime, particularly during the last year, the country's ranking in the IFC-World Bank's 'Doing Business Index' remains low at 132 (according to the 2012 report). Although the current standing implies an improvement of seven notches from 139 in the 2011 report, the country does not fair well on major criterion such as "starting a business", "dealing with construction permits" and "enforcing contracts." On the other hand, GCC countries enjoyed impressive rankings—Saudi Arabia ranked 12 on the overall "ease of doing business", followed by the UAE (33), Qatar (36), Bahrain (38), Oman (49) and Kuwait (67)—in the 2012 report.

### 6.1. Key Trade & Investment barriers faced by GCC in India

#### Policy barriers

- a) **Tariff related barriers to merchandise trade:** Although the GCC has already been granted the MFN status, the custom duty imposed on the merchandise imported from the region appears high relative to a nominal duty of 5% on India's exports to the GCC. Apart from these tariffs, GCC importers also are subject to state-level taxes such as Value Added Tax (VAT) and the Central Sales Tax (CST). Although VAT was introduced (in April 2005) to end multiple state-level tax structure and promote the idea of common market, India continues to impose CST of around 2%. Moreover, the differences between the states and the Union related to the compensation for revenue loss following the reduction in CST has stalled the enactment of GST (Goods and Services Tax). The endorsement of GST (which is expected to supersede all taxes) has been delayed since April 2010 and the current target of April 2012 is also likely to be missed—amendment to the Indian constitution on GST is still pending with the Parliament.
- b) **Non-tariff related barriers to merchandise trade:** Apart from the tariff-related barriers, India imposes several non-tariff norms such as import licensing, quantitative limits, mandatory testing (such as for tyres), export subsidies (tax holidays and financing at preferential rates for export-oriented enterprises and exporters in SEZs) and certification for a large number of merchandise items. With regards to import licensing, the country has a number of items on "negative list", including tallow, fat and oils of animal origin (these are banned), livestock products, certain chemicals (restricted) and petroleum products, and some pharmaceuticals (limited to imports only by government trading monopolies). Although India and the GCC have consistently opined that the free-trade agreement (FTA) between them is on track, certain issues have continuously stalled the negotiations. Both parties still do not have convergence of views, primarily because of India's demand to include petrochemical products in the "negative list" to which the GCC states (particularly the UAE and Saudi Arabia) are in disagreement. India believes the inclusion of petrochemicals in the "negative list" would be in the interest of the domestic chemicals and petrochemical industry which is set to face tough competition from GCC players that have access to low cost crude supplies. Besides these, the country's Intellectual Property Rights (IPR) enforcement infrastructure remains exposed to counterfeiting and piracy issues, despite some improvements in this area. India's government procurement practices also lack transparency and are structured to benefit state-owned enterprises. This makes it difficult for foreign players to bid and win government contracts.
- c) **Barriers to trade in services:** Despite the recent privatization drive, there is still large government ownership in major services industries such as banking and insurance. Such sectors continue to lack foreign participation. In addition, there are limitations on foreign participation in key services areas such as telecommunication and legal

*GCC imports face a multi-level tariff barrier in India*

*Import licensing, quantitative limits, mandatory testing, export subsidies and preferential treatments are some of the key non-tariff related barriers faced by GCC in India*

*Investment regulatory paradigm has improved commendably, but still remains restricted in certain areas*

*Other key barriers include poor infrastructure and cumbersome government procedures and red tape*

services, despite the commitment by the Indian government in the WTO Doha Round to further liberalize these sectors. The recent 2G spectrum scandal has only added to the woes.

- d) **Investment barriers:** Although FDI through automatic route is allowed in almost all sectors, investments mostly require government approval. In addition, FDI in certain politically sensitive sectors such as railways, agriculture, retail trade (especially multi-brand retailing) and real estate remain prohibited or severely restricted. However, despite the lack of political will to pursue reforms in these sensitive areas, there have been some encouraging developments—India allows up to 100% FDI in single brand retail. In addition, discussion and consultation papers are doing rounds in the areas of aviation, retail, banking, etc.

#### **Other barriers**

- a) **Poor infrastructure in India:** Due to lack of investments for decades, India's infrastructure remains poor. This is a key hurdle for trade and investment flows into India. The country currently ranks 91<sup>st</sup> out of 139 nations in terms of quality of infrastructure<sup>15</sup>. While power grids in the nation remain overstressed, airports, railways, road and port infrastructure fails to meet the standards set by other emerging economies such as China. However, the Indian government has put forward an ambitious infrastructure plan (estimated investment of around USD1.5 trillion over 2007–17), which will help address the shortfalls. Construction has already become the second-largest economic activity in India after agriculture, and continues to grow rapidly. However, although the government has actively encouraged private participation in infrastructure projects, many Indian infrastructure firms are already facing increasing strain on their balance sheet with rising leverage. This might somewhat slow down the investment momentum.
- b) **Cumbersome procedures and red-tapism:** Complicated and lengthy customs and investment procedures continue to dent cross-border trade and capital flows. According to the IFC-World Bank's 'Doing Business Index', for starting a business in India, foreign entrants have to go through 12 procedures, which take around 29 days to complete. On other hand, launch of a business involves five procedures and 12 days in OECD countries, and seven procedures and 13 days in the GCC (on an average). India's ranking on "dealing with construction permits" and "enforcing contracts" is particularly poor because of the cumbersome and time consuming procedures. Construction permits usually involve 34 procedures and 227 days to materialize, while contracts take a staggering 1,420 days to get enforced. Some other procedures, particularly where government involvement is high and red-tapism is involved, take even longer. However, in terms of "getting business credit", India ranks better (40) than all GCC countries (Saudi Arabia: 48, UAE: 78, Qatar, Oman and Kuwait: 98, and Bahrain: 126).

<sup>15</sup> Source: IMF

## 6.2. Key Trade & Investment barriers faced by India in the GCC

### Policy barriers

*Tariff-related regulatory regime relatively more favorable for Indian imports than for GCC imports in India*

*Absence of a single currency, import licensing norms and preferential treatments are some of the key non-tariff related barriers faced by India in GCC*

*Investment regulatory paradigm is relatively stricter in GCC vis-à-vis India*

*Other key barriers in GCC include regionalization, internal political conflicts, lack of official publications and database, and procedural hurdles or red tape*

- a) **Tariff related barriers to trade:** Although the tariff-related regulatory regime in GCC countries remains favorable, divergent rules, procedures and standards adopted by the member countries remain a key trade barrier from the perspective of a true customs union. For instance, GCC countries charge different tariff rates based on their individual agreements with India. Also, they follow different customs approval procedures. GCC governments plan to establish a customs union authority by June 2012, which will be fully functional by January 2015.
- b) **Non-tariff related barriers to trade:** Apart from divergent rules, procedures and standards followed by GCC member countries, absence of a single currency for trade continues to mire merchandise trade relationship from the union perspective. While Saudi Arabia, Kuwait, Qatar and Bahrain continue to strongly advocate the formation of GCC Monetary Union, Oman and the UAE withdrew their support in 2006 and May 2009, respectively. The UAE, however, expressed in 2010 that it would support the concept of a single currency. Besides this, countries in the region impose import licensing norm and engage in preferential treatments in the government procurements practices. Lack of effective intellectual and copyright laws also create additional barriers to trade.
- c) **Barriers to trade in services:** Regulatory restrictions on the ownership structure in major services sectors such as banking and insurance continue to create barriers to trade in services.
- d) **Investment barriers:** GCC countries also follow divergent standards regarding FDI regulations. In addition, lack of a competent investment authority from the GCC remains an issue. Although FDI is generally allowed across all sectors (excluding some manufacturing and services sectors such as oil exploration, drilling and production, and manufacturing and services related to military activity), the foreign participation is capped at 49%. However, of all the six GCC nations, the UAE and Saudi Arabia are the most investor friendly—the UAE's Economic Departments and Saudi Arabia's SAGIA act as the competent investment authorities.
- e) **Cost rationalization:** Another challenge that India faces in GCC is the different cost structure within a country. For instance, within the UAE, the electricity tariff system followed in Abu Dhabi is strikingly different vis-à-vis that in Dubai and Sharjah. While Dubai and Sharjah follow a slab tariff system, Abu Dhabi has recently shifted from a flat-rate system to a timing-based system. To forge closer ties and promote seamless flow of investments, the tariff structure should be similar within a country.

### Other barriers

- a) **Internal political conflicts:** Bahrain remains the most volatile country amongst GCC nations in terms of internal political stability. The large scale anti-government protests in the country last year hampered many sectors, particularly tourism. The existing polarization is only expected to prolong tensions.
- b) **Lack of official publications and updated database:** This remains one of the key hurdles to trade and investment flows across the GCC. Lack of disclosures on investment regulations, procedures and participation as well as economic policies in the member states fail to impart transparency in business relationships. High level disclosures on sector-wise FDI and trade matters remain sparse or are not updated



regularly across many GCC states. This makes it difficult to analyse the investment trends and potential.

- c) **Procedural hurdles, red tapism:** Despite the fact that the GCC ranks better than India in terms of ease of doing business and business confidence, red tapism/bureaucracy across the area continues to mire investments. According to a survey conducted by the Federation of the GCC Chambers of Commerce and Industry (FGCCI), policy discrimination against foreign investors was found to be among the major barriers to investments in the region<sup>16</sup>.

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<sup>16</sup> Source: Zawya

## 7. Recommendations

- ✓ **Indian markets warrant higher investments by the GCC:** Due to the economic slowdown and structural deficit fears in developed markets (such as the US and the UK) as well as sovereign debt concerns in the Eurozone, investors' focus has shifted to emerging markets (such as India). Indian economy has been growing at an annual average of 7–9% and the return on investments has by far outpaced that in the Western World over the last decade. Although recent forecasts point toward a slower growth of 7–8% in the Indian economy, the growth rate remains stronger than that of many other regions worldwide. FDI investment from the GCC (at USD2.6 billion) has increased in recent years; however, it remains less than considerate although the trade flow between the regions reached USD88.8 billion in 2010, and is expected to grow significantly in the near future. With ample funds available for investment, GCC sovereigns and companies should further diversify their portfolio mix toward these high-growth markets. According to the research department of Kuwait China Investment Company, as much as 75% of GCC's savings remain invested in developed economies such as the US and UK, while just 11% is directed to Asia. Thus, a higher Asian asset mix in the portfolio may prove to be more rewarding, especially in the current economic scenario where countries (such as India) are recording robust growth and offering sound investment returns.
- ✓ **More efforts needed to improve investment environment in India:** Although the Indian government has undertaken a number of commendable steps to attract FDI (such as allowing foreign investments through automatic routes in many sectors) since 2002, the procedures for applying and obtaining FDI approvals remain cumbersome. India needs to set up a separate window for quick approval of investments. Besides this, the country needs to further improve its basic infrastructure (which has suffered due to decades of under investment), reduce the complexity and restrictiveness of foreign trade regulations and exchange controls, and eradicate cumbersome bureaucracy to attract investments from the GCC. Labor norms should also be relaxed such that it encourages foreign involvement.
- ✓ **Requirement of a block level investment authority in each country in the GCC:** While political stability (in countries such as Bahrain) and eradication of bureaucracy are warranted for investment attraction, the GCC region should establish a competent block level investment authority in each country which can impart transparency and guide investors toward potential investment avenues across the region. Official publication and databases should also be made widely accessible and regularly updated.
- ✓ **GCC should further encourage SME participation:** In order to realize its diversification initiatives, the GCC should further promote foreign industry involvement by relaxing regulations and encouraging SME participation. As observed globally, SMEs are likely to become the key drivers of employment generation and GDP growth for GCC economies in the future. India has established its expertise in the SME business model globally; however, its proficiency still remains under utilized in the GCC as majority of investments have been made by Indian business houses that already have a footprint in the region.
- ✓ **Trade ties between India and GCC should be expanded beyond traditional exports and imports:** Trade ties can be broadened from simply exports and imports to re-exports and re-imports. For instance, Indian downstream players can be encouraged to establish businesses in the GCC (which has natural energy advantage) to develop value-added products that can be re-exported to the Indian market.



- ✓ **Frequent delegate visits and FTA could enhance ties:** Although the global financial crisis seemed to stall the frequent delegation visits from both blocks, the scenario is slowly improving. Active state visits by premier and business delegates as well as accelerated talks and negotiations on the FTA could further improve ties between the two regions.
- ✓ **GCC governments should promote investment options in India:** To promote investments from India, GCC governments and companies need to make frequent visits to the country, hold collaborative talks with Indian firms and the government as well as conduct road shows. Apart from generating interest in new opportunities, these initiatives are expected to enhance cooperation in the existing domain.
- ✓ **Long-term visa scheme in GCC:** While movement of nationals across the GCC region is not constrained by visa requirements, all of the six countries follow different norms with regard to non-nationals. Apart from the requirement of being sponsored by a national or legal resident in any GCC country, non-residents are offered only short-term visas. However, we believe GCC countries should consider long-term visa schemes for investors to encourage participation and promote investments.
- ✓ **Cost rationalization:** In order to forge closer ties and promote seamless flow of investments, all GCC countries should also rationalize their operating cost structure. Besides making locally-produced products more competitive internationally, this would also help promote the region as an export hub for other locations.



## **8 Case Studies – GCC companies setting up in India**

## Emaar MGF Land Limited

India

### Description

Emaar MGF Land Limited is a joint venture between Emaar Properties PJSC (Emaar), one of the world's leading real estate companies based in Dubai, and MGF Development Limited (MGF), one of the key players in retail real estate development in Northern India. Emaar, incorporated in 1997, brings with it strong experience of having developed around 89 million sq.ft. of real estate properties across residential, commercial and other business segments in 14 countries. On the other hand, MGF has delivered approximately two million square feet of retail space in Northern India since its establishment in 1996.

After commencing operations in India in February 2005, Emaar MGF has expanded its real estate development operations pan-India and diversified in all key segments of the country's real estate industry (namely, the residential, commercial, retail and hospitality sectors). The joint venture is now reckoned as one of the leading real estate developers in India with high quality architecture, strong project execution and customer-centric approach.

However, Emaar MGF has come under regulatory scrutiny for alleged irregularities in the development of flats in the Commonwealth Games Village under a contract awarded by the Delhi Development Authority in 2010. As a result, the company's IPO plans are on hold.

### Financial Performance & Outlook

- After a sharp decline in FY2009, the company's top line and bottom line recovered strongly in FY2010. This can be ascribed to a string of real estate contracts awarded to the firm, including the one related to the Commonwealth Games Village.
- Currently, Emaar MGF is largely focused on the development of residential projects in Delhi, NCR, Mohali, Hyderabad, Chennai and other key Indian cities.
- Besides its traditional business lines, the company has identified healthcare, education and infrastructure sectors to fuel future growth.
- According to the latest Draft Red Herring Prospectus filed in September 2010, the company estimated its land reserves at approximately 11,365 acres with an aggregate proposed saleable area of about 437 million sq. ft. (of this, 28.2 million sq. ft. was already launched) as of August 2010. Around 98% of these land reserves were fully paid. Of the land reserves, around 32% are in the NCR, while 50% are in Mohali, Jaipur, Hyderabad, Chennai and other key cities across India. Of the total saleable area of 437 million sq. ft., approximately 335 million sq. ft. has been identified for residential properties, 75 million sq. ft. for commercial properties, 22 million sq. ft. for hospitality and 4 million sq.ft. for retail properties.



### Snapshot

Year established	2005
Ownership	Private
Sector	Real Estate
Land reserves (2010 est.)	11,365 acres
Saleable Area (2010 est.)	437 m sq. ft.
Geographic Presence	Pan-India

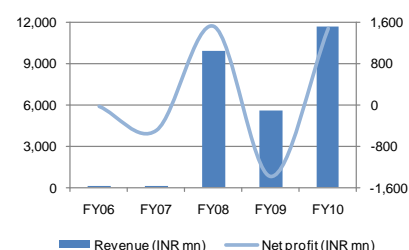
Source: Emaar MGF

### Key Real Estate Assets



Source: Emaar MGF

### Performance



Source: Emaar MGF

## Mundra International Container Terminal

India

### Description

Established in July 2003, MUNDRA International Container Terminal (MICT) is a port facility strategically located at Mundra Port (Indian subcontinent), with a capacity to handle the deepest contemporary container vessels.

It is 100% owned and managed by Dubai Port World (which operates the terminal at Mundra Port in Gujarat and captures cargo flows from the regions of north and northwest India). It holds state-of-the-art quay cranes with twin-lift capability. Other advanced technologies facilitate enhanced efficiency and productivity, leading to a faster turnaround of vessels. MICT also operates a 24-hour container freight station.

Tariff/port charges at MICT are governed by the Gujarat Maritime Board (a government of Gujarat undertaking).



Snapshot	
Year established	2003
Ownership	private
Sector	ports
Terminal Capacity	1.1 million TEU's
Total Terminal Area	37 hectares
Yard Stacking Area	24 hectares

Source: MICT

Since its inception in 2003, MICT has unconventionally grown through every aspect of its business segments. Until 2003, container trade was limited to major ports across the coastline. However, as the dynamics of container trade in India changed, MICT became the country's first container terminal in a minor port. Today, it receives nearly 70 vessels each month, including 14 mainline services. With the ability to handle the deepest container vessels, MICT's USP is that with a draught of 17.5 m alongside, it can handle the 10,000 TEU vessels that require a deep draft.

Over the years, MICT has achieved several landmarks through its operational and technical competence:

- It accomplished a container throughput of 1 million TEU recently, up from 20,000 TEU since its inception in 2003 (according to Shipping Gazette reports).
- With its lack of tidal restrictions, berth depth (which allows for mega vessels) and advanced port technology, MICT can handle up to 70 vessels a month and run 14 mainline services.
- It was adjudged winner of The Economic Times Gujarat Logistics 'Best Container Cargo Sea Port' of the Year award in 2007.

Within a span of nine years of operations, MICT has made tremendous progress owing to its world-class service and customer focus, and can be considered as one of the largest cargo generating regions of North and North-West India.

## RAK (Ras Al Khaimah) Ceramics India Pvt Ltd

India

### Description

RAK Ceramics India Pvt Ltd is one of the 15 state-of-the-art tile manufacturing ventures of the UAE-based RAK Ceramics. Apart from UAE and India, the parent company has manufacturing plants in China, Sudan, Bangladesh and Iran. RAK Ceramics is the world's largest manufacturer of ceramic and porcelain tiles, with presence in 150 countries across five continents and an annual production output of 117 million sq.m. (resulting in around USD1 billion in global sales annually). The company's global production of tiles exceeds 360,000 sq.m. and 12,000 pieces of sanitary ware per day.

RAK Ceramics India is the country's only company to manufacture nine variants of vitrified tiles. It operates the largest and most ultra-modern state-of-the-art vitrified tile manufacturing plant in Andhra Pradesh with a manufacturing capacity of 30,000 sqm of vitrified tiles and about 1,500 pieces of sanitary ware per day. In addition, it is the sole Indian company to manufacture "GenNext technology-based product". RAK Ceramics India currently manufactures 134 products of various sizes and finishes. It is also the only company in India to have 31 products in 1000 mm X 1000 mm, 61 products in 598 mm X 598 mm and 600 mm X 600 mm, and 42 products in rustic finish.

While RAK Ceramics's plants in the UAE alone produce approximately 227,000 sq.m. of tiles and over 8,500 pieces of bathware per day, production from the company's plant in India has also shot up significantly over the recent years (from 20,000 sq.m of tiles per day to 30,000 sq.m). In addition, RAK Ceramics India produces 1,500 pieces of sanitary ware per day, thus making it one of the most important overseas production facilities for the parent company.

### Financial Performance & Outlook

- RAK Ceramics India has witnessed significant demand for its products in the country. In fact, demand has exceeded supply in the last 2–3 years, prompting the company to expand capacity at its Andhra Pradesh plant by 50%. Furthermore, it plans to set up a tile unit in Ahmedabad (with investments estimated over USD120 million), which would have a production capacity of 10,000 sq.m. of tiles per day. With this, the company's total daily production capacity in India is expected to scale up to 70,000 sq.m. of tiles.
- To boost sales further, the company plans to increase its dealer network to around 750 from the current 600 dealer showrooms across India.
- Demand for the company's high-end flooring solutions is expected to remain upbeat in the near term, considering the boom in India's construction and real estate sector, and the growing expenditure on public infrastructure as well as hospitality, IT, banks and renovation.



### Snapshot

Year established	1974
Ownership	Private
Sector	Manufacturing
Capacity - vitrified tiles	30,000 sq m/day
Capacity - sanitary ware	1,500 pieces/day

Source: RAK Ceramics India

## Zamil Steel Buildings India (P) Ltd.

India

### Description

Zamil Steel is a Saudi Arabia-based manufacturer of pre-engineered buildings (PEBs) that are well suited for use as factories, warehouses, labor camps and supermarkets. PEBs are also used for several other industrial and commercial purposes. The firm is part of the Zamil Group which is managed by Al Zamil family.

Zamil Steel started operations in India in November 2008 with the launch of a new factory in Pune (India) at a cost of USD32 million. The state-of-the-art manufacturing facility (built across an area of 87,000 square meters) is capable of producing 30,000 metric tonnes per annum (MTPA) of PEBs and other steel products. Zamil Steel India, which completed its second full year of production in 2010, specializes in the production of low-rise PEBs.

Since its establishment in 1977 in Dammam (Saudi Arabia), Zamil Steel has opened six factories (two in Vietnam and one each in Saudi Arabia, Egypt, the UAE and India) with a combined production capacity of 30,000 metric tonnes per month (MTPM) of PEBs and other steel products. This makes Zamil Steel the largest manufacturer and supplier of PEBs in Asia, Africa and Europe. In fact, the company's Dammam-based factory is the largest single PEB factory in the world with a production capacity of 9,500 MTPM. Since its foundation, Zamil Steel has supplied more than 50,000 buildings in more than 90 countries worldwide.

During 2009–10, Zamil Steel India was awarded a total of 152 projects, which include power plants, multi-level parking facilities, factories, and warehouses, among others.

### Financial Performance & Outlook

- Despite a decline in the contribution of export markets due to the global economic downturn, Zamil Steel India's revenues grew 119% and average monthly production increased more than threefold to 973 MTPM in 2009. Both revenues and production rose 125% in 2010, with the latter growing to 26,200 MTPA.
- Zamil Steel India plans to set up a second PEB manufacturing facility, depending on the future demand for PEB products in the Indian market. In addition, the company may launch its other divisions (Structural Steel, Towers and Galvanizing, and Canam Joists and Decking) in India.



### Snapshot

Year established	2008
Ownership	Private
Sector	Steel
Plant Location	Pune
Production Capacity	30,000 MTPA
Investments	USD32 mn

Source: Zamil Steel

### Description



Arabtec Raheja is a joint venture between UAE's leading construction company Arabtec Construction LLC (a subsidiary of Arabtec Holdings) and India's realty major Raheja Developers Ltd. The joint venture was established in November 2011 to build a series of new world-class infrastructure projects in India. Arabtec Construction holds 63% in the joint venture, while the remaining 37% is held by Raheja Developers.

Delhi-based Raheja Developers Ltd has awarded the joint venture a USD204 million contract to construct the former's three mixed use projects (namely, Raheja Revanta, Raheja Phoenix and Raheja Shristi). The three projects are to be completed within 48 months and will cover residential units of over 3.8 million sq. ft. Raheja Revanta, located in Gurgaon (Haryana), is planned as a 56-storey high residential complex, including both a high-rise apartment tower and low-rise buildings comprising 1,000 units. Raheja Phoenix, located in New Delhi, would include a 54-storey residential tower, a shopping mall and 2,800 units of affordable housing. Raheja Shristi, located in Gurgaon, will include 300 high-end residential apartments.

Arabtec Construction LLC, founded in 1975, is credited with the development of a number of world-class structures such as Burj Khalifa (tallest structure in world), Okhta Tower in Russia, Emirates Palace Hotel in Abu Dhabi and Palace of the King of Dubai. The company is currently working on 44 projects across 11 countries. On the other hand, Raheja Developers Ltd has established itself as a leading real estate company in India since its foundation in 1990. Raheja is credited with the development of high-end residential, commercial and SEZ projects with a total value of Rs30 billion. In addition, the company has tied up projects worth Rs80 billion in various segments of India's real estate sector.

Factors such as Arabtec's focus on diversification abroad (following the Dubai debt crisis that slackened investments in infrastructure projects in the UAE) and India's need to employ highly specialized technology and manpower to develop world-class infrastructure in the country culminated into a joint venture agreement between the two companies. After evaluating the possibility of a tie-up with many developers in India, Arabtec found Raheja Developers as the most suitable partner. To Arabtec, Raheja appeared as the most professionally managed, technology driven, system oriented as well as almost debt free company with strong cash flows.

Apart from existing projects, the Arabtec-Raheja JV is likely to execute projects of other developers in due course.

### Snapshot

Year established	2011
Ownership	Joint-venture
Sector	Real Estate
Current Project Value	USD204 mn
Geographic Presence	India

Source: Raheja

## **9 Case Studies – Indian companies setting up in GCC**

## Oman India Fertiliser Company SAOC

Oman



### Description

Oman India Fertiliser Company (OMIFCO) is an India-Oman joint venture established to construct, own and operate a modern world scale two-train ammonia-urea fertilizer manufacturing plant (production capacity of 1,750 tonnes per day) at the Sur Industrial Estate in the Sultanate of Oman. The Government of India has agreed to purchase OMIFCO's entire urea output under a 15-year Urea Off Take Agreement on predetermined prices, while the Sultanate of Oman has committed to supply the gas feedstock for the life of the project. The project is mainly focused on producing urea (annual capacity of 1.63million metric tons) and ammonia (1.15 million metric tons).

Shareholders in OMIFCO are Oman Oil Company (50%), Krishak Bharati Cooperative Limited (25%) and Indian Farmers Fertilizers Cooperative (25%).

The construction of the project started on October 1, 2003 and was completed in July 2005 at a cost of USD690 million. The project was funded by a mix of debt and equity (2:1); the debt was provided by a group of 22 international and regional banks, including BNP Paribas, ANZ Investment Bank and Arab Banking Corporation. Larson & Toubro was appointed for the design, fabrication and supply of all critical equipment for the project. In a short span, this facility has been acclaimed as one of the world's largest grassroots fertilizer complexes.

### Financial Performance & Outlook

- Since its inception, OMIFCO is operating at a capacity utilization rate of more than 100%.
- The firm has started selling its products in the Gulf market due to increased demand from the region. Earlier, India was the sole purchaser of the company's output under a contracting arrangement.

### Snapshot

Year established	1974
Ownership	Government
Sector	Chemicals
Prod. Capacity	1,750t/day
Capacity Utilization	118.7%(2009)
Geographic Presence	Oman

Source: OMIFCO





## Jindal Shadeed Iron & Steel Company

Oman

### Description

Jindal Steel & Power (a part of India-based O. P. Jindal Group) acquired Oman-incorporated Shadeed Iron & Steel Co. LLC (Shadeed) from Abu-Dhabi's Al Ghaith Holdings for USD464 million in June 2010. The acquisition was carried out through the company's wholly owned subsidiary, Jindal Steel & Power (Mauritius) Limited, and was largely financed using debt. SISCO's plant, a 1.5 million-tonne per annum (MTPA) gas-based hot briquetted iron (HBI) plant at the industrial port area of Sohar, began commercial operations in December 2010, three months ahead of its schedule. The facility is engineered by Kobe Steel (Japan) and Midrex Technology (US). The plant also has access to a 600-meter long quay with a 19-meter draught capable to handle cape size vessels.



The acquisition of Shadeed was a key move in international strategic expansion for Jindal Steel & Power, and was aimed at meeting the strong demand for steel in the Middle East and North Africa (MENA). With the installation of a 1.5 MTPA plant at Sohar, Jindal Steel & Power expected to meet the supply shortfall of over 15 million tonnes (anticipated at the time of acquisition) in the MENA region. Furthermore, while the main reason for acquiring Shadeed was easy availability of gas, the company also found integration to be effortless as the plant could get crucial pellets from India and Bolivia due to the well-developed port infrastructure in Oman.

### Financial Performance & Outlook

- As per Jindal Steel & Power's annual report 2010-11, Shadeed's turnover was quoted as USD77.45 million with net profit of USD3.61 million for the period July 2010 to March 2011.
- Jindal Steel & Power expects to invest about USD525 million to expand Shadeed's capacity from 1.5 MTPA to about 5.0 MTPA by 2015-16.

### Snapshot

Began Operation	2010
Ownership	100% Private Sub.
Sector	Steel
Capacity	1.5 MTPA
Geographic Presence	Oman
Total Assets (USD mn)	564.87
Turnover (USD mn)	77.45
Net profit (USD mn)	3.61

Source: Jindal Steel & Power

## UltraTech-ETA Star Cement Co

UAE

### Description

UltraTech Cement, a subsidiary of India-based Aditya Birla Group and the country's largest cement maker, completed the acquisition of 80% stake in Dubai-based ETA Star Cement Co (along with its operations in the UAE, Bahrain and Bangladesh) from ETA Star Group at an enterprise value of USD380 million in September 2010. The acquisition was completed through UltraTech's wholly-owned subsidiary, UltraTech Cement Middle East Investments Limited. The remaining stake in ETA Star Cement is held by a local partner, which had helped build the cement plants.

ETA Star Cement's manufacturing facilities acquired by UltraTech Cement comprise a 2.3 MTPA clinkerisation plant and 2.1 MTPA of cement grinding capacity in the UAE as well as 0.4 MTPA and 0.5 MTPA of cement grinding capacity in Bahrain and Bangladesh respectively.

The acquisition of ETA Star Cement Co played a key role in pushing UltraTech's position from second to the largest cement maker in India. In addition, the deal gave the company access to the appealing West Asian market, which until the acquisition was serviced by exports from UltraTech's plants in Gujarat, India. The deal also allowed UltraTech to sell its own brand in the Middle East. Although the demand for cement weakened in the Middle East following the debt crisis in Dubai, the market is recovering.

### Financial Performance & Outlook

- With the addition of ETA Star Cement's production capacity, UltraTech Cement expects its annual revenues to increase by INR8–10 billion and be accretive to its earnings.
- ETA Star Cement commands a market share of about 10% in Dubai and 20% in Bahrain.
- According to official sources, under the terms of the acquisition, there is an option wherein UltraTech Cement can buy the remaining stake from the partner. However, any step in this regard has not been planned as of now.



### Snapshot

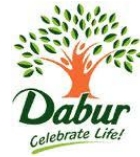
Year Acquired	2010
Ownership	Private Sub.
Sector	Cement
Prod. Capacity	3.2 MTPA
Geographic Presence	UAE, Bahrain & Bangladesh

Source: UltraTech



## Dabur International Ltd

## UAE



### Description

Dabur International Ltd is a limited liability company wholly owned by India-based Dabur India Ltd, an ayurvedic products and natural healthcare company with interests in healthcare, personal care and food products. Dabur International, under a special license issued by the Jebel Ali Free Zone Authority (UAE), engages in manufacturing, import, export, warehousing and distribution of beauty care and healthcare products. Apart from the GCC region, this division of Dabur India Ltd caters to different international markets, spanning the Middle East, North & West Africa, EU and the US. Overall, Dabur India Ltd has six modern manufacturing facilities located outside India, three of which are in the GCC region. Prior to September 2003, Dabur International Ltd was known as Redrock Ltd.

Dabur's international expansion strategy centers on creating manufacturing interests in the territories it ventures into. These manufacturing interests are created either through its own plants or by acquisitions. Apart from gradually building up manufacturing assets in the GCC region, the company has developed business in Dubai as the global headquarters for its international operations. From Dubai, the company controls operations in around 100 markets. Duty-free agreements in GCC markets have been a major attraction for Dabur's venture into the region. The company is focused on high level of localization of manufacturing and sales & marketing abroad.

### Financial Performance & Outlook

- Over the last six years, sales at Dabur International Ltd have been increasing at a CAGR of 33%, and currently contribute around 30% to Dabur India's total sales.
- Dabur expects the FMCG industry in the GCC region to account for sales of USD1.9 billion annually. Of this, personal care, where the company currently competes, would represent 8%. In order to grow faster, Dabur is planning to expand to other categories as well.

### Snapshot

Year established	2003
Ownership	Private Sub.
Sector	FMCG
Products	Beauty & Health
Geographic Presence	Around 100 markets

Source: Dabur India

## Saudi Indian Company for Cooperative Insurance

## Saudi Arabia

### Description

Saudi Indian Company for Cooperative Insurance (SICCI) is a joint stock company promoted by Life Insurance Corporation of India and its Bahrain subsidiary LIC (International) B.S.C.(C), The New India Assurance Co. Ltd and Al- Hokair Group. SICCI is engaged in the marketing of Islamic non-life insurance and conventional life insurance products in Saudi Arabia though its offices located in Riyadh, Jeddah and Al Khobar.

SICCI's product portfolio currently includes motor, fire & general, engineering, liability, health, Takaful, protection, and protection & savings insurance.

According to Zawya, SICCI came out with an IPO of SAR40 million in May 2007. The IPO was oversubscribed by nearly 14%. Since flotation, SICCI's share price has gained 472.5% till date, a mark of confidence in the company's growth story. Using the business expertise of Indian insurance houses, LIC India and The New India Assurance Co., SICCI has strived to spread life insurance widely and, in particular, to rural areas and socially and economically backward classes with a view to reaching all insurable people in the country. In addition, the company's objective to maximize mobilization of people's savings by making insurance-linked savings adequately attractive has successfully generated interests in the country.

### Financial Performance & Outlook

- Excluding the dip in 2010, SICCI's gross policy contributions grew significantly over the last four years, totaling SAR94 million in 2011. Net loss reported by the company has also narrowed.
- SICCI plans to increase outlets and expand reach to other parts of Saudi Arabia.

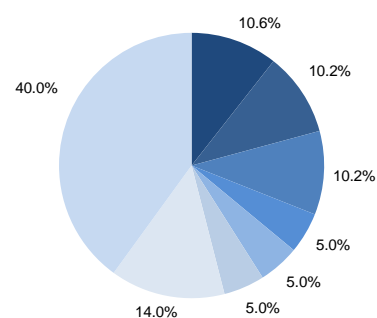


### Snapshot

Year established	2007
Ownership	Public
Sector	Insurance
Products	Life & Non-Life
Employees	78
Geographic Presence	Saudi Arabia

Source: Zawya

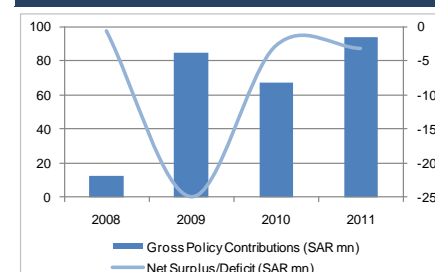
### Shareholding



- The New India Assurance Company
- Life Insurance Corporation of India (LIC)
- LIC International, Bahrain
- Ahmad Mohammed Abdulrahman Al Sheikh Establishment
- Mushat Trading Establishment
- Saleh Bin Saad Al Kharji Establishment
- Other Investors
- Public

Source: Zawya

### Financial Performance



Source: Zawya



## J.K.Cement Works (Fujairah) FZC

UAE



### Description

J.K.Cement Works (Fujairah) FZC is a joint venture of JK Cement (India) and Fujairah Investment (an undertaking of the Fujairah government). In the joint venture, JK Cement holds 90% stake, while the remaining 10% is held by Fujairah Investment.

In line with the plans, JK Cement has started the construction of a white cement plant at the Fujairah Free Trade Zone in the UAE. The plant, estimated to cost USD150 million (funded at a debt equity ratio of 2:1), would have a production capacity of 0.6 million tonnes per annum (MTPA) of white cement with a provision to change over to 1.01 MTPA of grey cement. It is scheduled to commence production in 2013, and is being set up in technical collaboration with M/s Taheiyo Engineering Corporation of Japan.

Besides increasing the UAE's cement production capacity, the new plant is expected to boost construction activity in the GCC region, mainly Saudi Arabia and Qatar. Considering that the Middle East accounts for 16% of the global demand for white cement, JK Cement's venture in the market was warranted.

Together, JK Cement's new plant and its existing white plant in India are expected to take the company's total white cement capacity to 1 MTPA. This would position JK Cement among the top five players in the niche market of white cement globally (source: CemNet research).

### Snapshot

Year established	2011
Ownership	Private
Sector	Cement
Prod. Capacity (projected)	0.6 MTPA
Investment	USD150 mn
Geographic Presence	UAE

Source: JK Cement



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**Boubyan Petrochemicals Co.  
(K.S.C.)**

US\$ 100,000,000

Term Credit Facility

Private Equity Placement



**Vison Industries Limited**

**THE CARLYLE GROUP**

INR 1,100 million

Exclusive Transaction Advisor



**JK PAPER LTD.**  
*Creating leading impressions*

**JK Paper Limited**

EUR 35,000,000

Foreign Currency  
Convertible Bond



**Al Khaliji Commercial Bank,  
QSC**

US\$ 100,000,000

Medium Term Credit Facility



**Oman Insurance Co. (P.S.C.)**

US\$ 100,000,000

Syndicated Working Capital  
Resolver Facility



**Berber Cement Company**

US\$ 150,000,000

Musharaka Sukuk



**Tameer Real Estate Company W.L.L.**

US\$ 82,000,000

Term Financing Facility



**Axiom Telecom LLC**

with



**Pantabam Retail (India) Ltd**

Strategic Joint Venture



**Mohammed Jalal & Sons  
W.L.L.**

US\$ 65,000,000

Syndicated Secured Term  
Loan Facility



Acquisition of



**Construction Services LLC**



**ANC Group of Companies**

USD 21,000,000

Acquisition Financing



Participants  
Al Hilal Bank  
Commercial Bank International



**Al Jazeera Steel Products  
Company S.A.O.G.**  
(Listed on Muscat Securities Market)  
Acquisition of Strategic Equity Stake



**Global Buyout Fund LP**



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Debt Advisory • Mergers & Acquisition Advisory • Equity Advisory



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Investment Banking

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