



GCC as an investment destination

Opportunities for Indian companies



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“With a diversified economic base and consistently robust growth, Ras Al Khaimah continues to establish itself as an appealing investment destination within the UAE’s vibrant and progressive national economy. The Emirate has developed world class infrastructure and business facilities, including three seaports, an international airport, and a comprehensive array of free zones and industrial parks. Ras Al Khaimah offers foreign investors a variety of unique benefits and partnership opportunities, such as full income and corporate tax exemption, streamlined registration procedures, 100% capital and profit repatriation, a transparent regulatory framework, and an international network of promotion centers. We actively encourage businesses from around the world to explore Ras Al Khaimah as their home in the region and their gateway to global markets.”

His Highness Sheikh Saud Bin Saqr Al Qasimi

Supreme Council Member and Ruler of Ras Al Khaimah

“We have been impressed by the professionalism displayed by the RAK Maritime Board and are delighted to partner with it in setting up a 1MT p.a. Diammonium Phosphate manufacturing plant. This plant not only consolidates Zuari’s position in the fertilizer sector and playing a key role in the Company’s backward integration program, but also goes a long way in helping it to actively participate and grow in other global fertilizer markets. We are pleased with the choice of Ras Al Khaimah as our investment destination and we are happy to invest in its growth.”

Saroj Poddar

Chairman, Adventz Group (Zuari Agro Chemicals Limited)

“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

“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

“GCC is emerging as an attractive investment destination for Indian companies. In recent times, we have seen a lot of interest from Indian companies wanting to set up manufacturing units in the GCC. The availability of low cost energy, land and natural resources along with a favourable investment climate promoted by the various GCC governments including a low/tax-free environment, encourages investors to establish themselves in the GCC. Alpen Capital is playing a leading role in the GCC-India corridor, highlighting the various opportunities that exist for Indian firms to establish themselves in the GCC. Currently, Alpen Capital is advising Zuari Agro Chemicals for setting up an \$800 million manufacturing facility in Ras Al Khaimah. In addition, we are in various stages of discussions with multiple companies looking to establish in the GCC. We feel the trend for companies to set up in the GCC is only going to grow and we look forward to working with both companies and governments in facilitating the same.”

Rohit Walia

Executive Chairman, Alpen Capital

H.E. Hamed Buamim, President & CEO, Dubai Chamber of Commerce and Industry, answers Alpen Capital's 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: *Over the last many years, India has retained its position as 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 expand their business activities in the GCC region and to reach out to end users in Europe, North America and the African Continent.

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 30,785 Indian partnership and ownership companies. With 2,592 companies coming on board in 2013 alone their annual growth has been quite substantial over the past years. Meanwhile, 2,104 companies came on board in 2010 as were 2,374 in 2011 and 2,640 in 2012 averaging 2,000 new companies setting up businesses in Dubai annually. This trend clearly shows the attractiveness of Dubai's competitive business environment to Indian businesses. Other factors are geographical proximity of India to Dubai as this makes the cost of shipping lower as the country can quickly supply fresh products to the UAE. Also, the presence of large population of Indians leads to demand for their country's products here.*

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

Answer: *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.*

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.

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.

Question: *How is Dubai Chamber supporting the Indian business community?*

Answer: *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.*

In terms of Dubai Chamber's relation-building, this year we have welcomed six delegations from India. These include the Ambassador of India to the UAE, the Consul General and officials from the Madras Chamber of Commerce & Industry, India International Trade Centre and SME Chambers of India.

In April 2012, we led a successful trade mission to Surat to network with industry peers and explore new business opportunities. We also built on Dubai and Southern Gujarat Chambers' relationship with the signing of a Memorandum of Understanding to promote bilateral trade, especially in diamonds and textiles.

Mr. Hamed Ali, CEO, NASDAQ Dubai, answers Alpen Capital's questions on advantages of investing in the GCC region.

Question: What are the factors that make UAE a leading investment destination?

Answer: The UAE has for decades welcomed foreign investment as a strategic priority. The results can be seen in the success of both onshore and offshore business clusters, based on effective legal and logistical infrastructure, and the growth of many thousands of flourishing companies that have been established here with overseas capital. Excellent transport and communications links, together with an attractive lifestyle, have encouraged many overseas companies to use the UAE as their base for doing business in the whole region. The UAE also attracts investment through the size and sophistication of its capital markets, in which NASDAQ Dubai plays a driving role as the international exchange serving the whole region.

Question: What are the advantages of listing in the UAE?

Answer: NASDAQ Dubai offers overseas issuers all the advantages of visibility and access to global investors that they would get from a listing in New York or London. On top of that, it provides unique links to its own region and an excellent regulatory environment. This formula is proving highly attractive; for example Bank of London and the Middle East, based in London, listed its shares on NASDAQ Dubai in October.

Question: What are the options that NASDAQ Dubai provides to companies looking to list in the UAE?

Answer: Our rules on listing IPOs allow owners to keep control, as they need to list only 25% of the shares; other regional exchanges tend to require more than 50% to be listed. And our minimum market capitalisation is as low as \$10 million. Combined with a streamlined listing process and close support from the exchange to manage the IPO, this gives issuers plenty of options for their listing. We also allow companies to raise capital through Sukuk and bonds as well as other asset classes such as REITs and ETFs.

Question: What kind of company would be ideal for listing on NASDAQ Dubai?

Answer: A company that has strong connections to the region, through its business activities or ownership links, is a perfect candidate. It can operate in a range of sectors, from finance to construction and manufacturing to leisure. We welcome large multinationals and small and medium-sized enterprises alike.

1. Executive Summary

Over the past decade Gulf Cooperation Council (GCC) as an economic and political union has gained immense significance for global investors as a lucrative investment destination. The reforms and initiatives undertaken by the GCC governments in diversifying their economies by promoting growth of non-oil sectors have created several investment opportunities in the region. As these opportunities start materializing into real investments the region may witness increased capital flows going forward. Historically, the region's prosperity and economic clout was primarily ascribed to its booming oil & gas sector. Hydrocarbons have formed a considerable proportion of GCC exports, earning vital dollars for these economies. Over 2000–12, the combined real GDP of the GCC nations grew at a CAGR of 6.0%, largely by satiating the growing energy demand of emerging Asian economies. Though the contribution of hydrocarbon sector to the GCC economies still remains high, the diversification initiatives undertaken by the GCC governments is helping in an all-round economic growth. According to the Economist Intelligence Unit, growth in non-hydrocarbon sectors in GCC is estimated to significantly outpace that in the hydrocarbon sector (5.4% versus 2.8% over 2016–20), translating into critical investment opportunities.

India's significance as a strategic economic partner for GCC

Among the potential list of global investors, India has a special significance for GCC, as the economic relations between the two regions dates back to several centuries. The relation between GCC and India has further strengthened over the last decade, with the increasing import of oil and gas, growing trade, investment opportunities and presence of a large Indian diaspora. Also the global economic slowdown and its impact on the developed economies have prompted a 'Look East' policy from the GCC nations, which has enhanced the significance of India as a potential investor. Though there has been significant growth in bilateral trade between the two regions, the growth in investment flows has been limited so far. However, India's growing significance as one of the fastest growing global economic powerhouses, driven by the momentous surge in domestic consumption and growing per capita income has propelled many Indian corporates into the league of global multinationals. As a part of their growth initiatives, these corporates scout for attractive overseas investment opportunities. GCC's investor friendly economic environment, geographical proximity and inherent advantages in energy-intensive manufacturing hold tremendous potential for attracting further investments from Indian industries. According to the overseas investment data released by the Reserve Bank of India, investments by Indian firms in GCC have been on the rise in the recent years. Indian firms have been investing in GCC countries across sectors like manufacturing, financial services, real estate & construction, trade & hospitality, agriculture & mining.

GCC offers distinctive advantages for overseas investors

- **Advantage of low-cost energy resources:** GCC offers substantial cost advantage for industries like petrochemicals, fertilizers, pharmaceuticals and metallurgy among others, as the region boasts of one of the lowest energy costs globally due to abundant availability of resources. Natural gas prices in GCC range between US\$ 0.8–3.0 per million British thermal units (mmbtu) compared with the global average of US\$ 4.0–6.0 per mmbtu. The availability of low-cost feedstock provides the region with distinctive competitive advantage. Average electricity prices for end users in GCC states are much lower at ~ US\$ 3.7cents/kWh compared to countries that enjoy the reputation of being generation powerhouses (US\$ 9.3cents/kWh in USA and US\$ 9.4cents/kWh in China).
- **GCC's twin surplus condition leads to economic stability:** GCC's large fiscal surplus (averaging ~9.2% of GDP over 2007–11) and trade surplus (averaging ~16.9% of GDP over 2007–11), low levels of public debt (averaging ~4.5% of GDP over 2007–11), and low external debt translate into a better rating, in terms of macro-economic health, than developed counterparts. On the other hand, economic diversification initiatives, growth in non-hydrocarbon sectors, pegged currencies, large

forex reserves, well-developed infrastructure, and a moderate inflation environment provide an overall attractive business environment vis-à-vis emerging economies.

- ***GCC ranks higher than many developed nations in competitiveness indicators:***
Aided by the initiatives undertaken by the GCC governments towards infrastructure development, economic diversification, regulatory reforms and other specific initiatives directed towards attracting foreign investments, the GCC nations have made significant advances in Global Competitiveness and Doing Business indicators. In fact, most GCC nations today have raced ahead of the Eurozone, MENA and emerging Asian economies, emerging as one of the most competitive regions globally. GCC countries have one of the simplest compliance norms and lowest tax rates, which offer lucrative opportunities to establish operations here. Interestingly, the UAE ranks first in the World Bank's Doing Business Report 2014 in the 'paying taxes' segment, followed by Qatar (second), Saudi Arabia (third), Bahrain (seventh), Oman (ninth) and Kuwait (11th), clearly highlighting the GCC region's attractiveness in terms of tax regimes to set up businesses. The corporate tax rate in Qatar is 10%, the lowest in GCC and MENA, followed by Oman (12%), Kuwait (15%), and Saudi Arabia (20%). Furthermore, growth in Free Trade Zones (FTZs) that provide additional tax benefits makes investment prospects even more attractive. Barring 'Market Size', GCC countries surpass their emerging market and OECD counterparts in most parameters for Global Competitiveness. However, robust growth in population and economic activity would drive domestic consumption, in turn enhancing the region's attractiveness as a target consumer market as well.

GCC's growth as a manufacturing and re-export hub

Driven by these advantages GCC has emerged as a preferred destination to become a manufacturing and re-export hub. This is reflected in the rapid capacity additions in energy-intensive sectors in the region over the past decade (and several other projects in pipeline), which significantly exceed emerging market comparables. The GCC petrochemical sector has registered a CAGR of 26.0% over the period 2006–12 and is expected to continue such robust growth which would increase its share in the global petrochemical sector to about 17.0% in 2018 from 11.0% in 2012. Mirroring this growth, the GCC fertilizer industry expanded at a CAGR of 11.7% to 31.4 million tons during 2007–12, and is expected to reach 50.4 million tons by 2016. On the other hand, GCC region's share in the global aluminum capacity increased to 9.0% in 2012 from 6.9% in 2006, and is expected to reach nearly 15.0% by the end of 2020. By positioning themselves in the energy-intensive segment of the manufacturing value chains, the GCC economies have created their niche and have been able to benefit meaningfully from the same.

Key challenges and barriers to investments

One of the key challenges that the overseas investors may face in setting up businesses in the GCC region is the shortage of skilled local workforce. Also protectionist measures adopted by high-cost European or Asian producers against low-cost GCC based output in certain sectors can discourage foreign investors from setting up manufacturing facilities in GCC. Other investment barriers can be GCC's adoption of stricter expatriate policies, inadequate disclosures on investment regulations and economic policies, procedural hurdles and economic vulnerabilities due to overreliance on the oil & gas sector.

Initiatives that may enhance investment flows from India

The economic ties between GCC and India can further improve and enhance investment flows if certain initiatives like increasing frequency of delegate visits and expediting FTA are implemented. Other measures like establishing a competent investment authority in all GCC nations, official publication and databases relating to trade and investment flows, efforts to encourage SME investments, easing visa restrictions and promoting further regional cooperation among all GCC countries may go a long way in promoting seamless flow of investments into the region.

2. GCC - India Economic Relations

The phenomenal economic rise of the GCC bloc and growing prominence of India in the global economy has been hallmarks of this century. Although economic relations between these two regions dates back to several centuries, deepening of economic engagements was facilitated by high economic growth rate in India and GCC's substantial financial liquidity over the last decade. The "Look East" policy of the Gulf States and the ever growing desire of India to secure energy supplies further strengthened economic and business ties for mutual benefit.

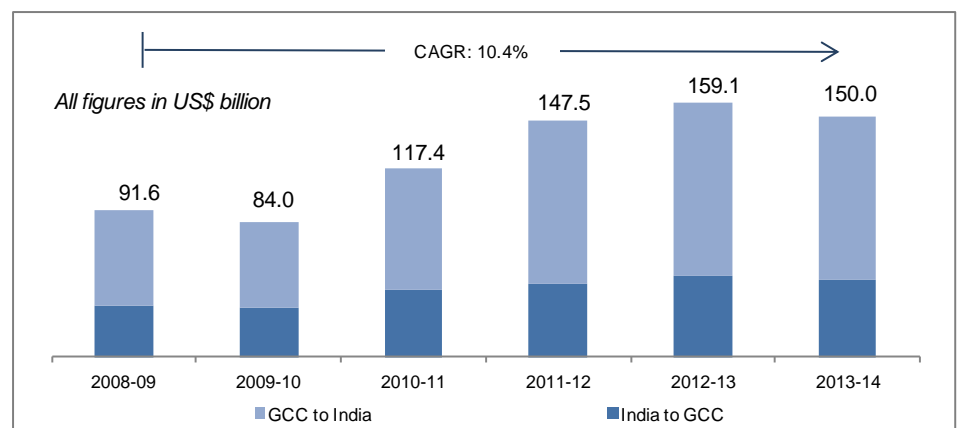
There is a two-way link between GCC and India through trade and investments. GCC is of vital importance for India, given the increasing import of oil and gas, growing trade, investment opportunities and presence of approximately 7.0 million Indian expatriates working in the region.

In a bid to promote cross border investments, several joint initiatives have been undertaken by the GCC and Indian governments. One such initiative pertains to setting up of bilateral country specific investment funds jointly by GCC and Indian principal funding/financial institutions. These country specific funds focus on channelizing cross border investments into specific sectoral projects in both GCC and India.

2.1. Bilateral Trade

GCC-India bilateral trade increased at a CAGR of 10.4% to US\$ 150.0 billion over 2009–14. During the period, trade flows from GCC to India expanded at a CAGR of 11.3% to US\$ 101.8 billion, while trade from India to GCC rose at a CAGR of 8.5% to US\$ 48.2 billion. Growth in bilateral trade was driven by numerous agreements and India's increasing oil imports.

Exhibit 1: GCC- India bilateral trade



Source: Department of Commerce, India, Alpen Capital

Oil dominates GCC's trade to India...

UAE is India's second largest trade partner

Trade between GCC and India has been successful largely due to the complementary economic profiles of the two 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 also has geographical proximity to India.

In 2013–14, the UAE and KSA together constituted more than two-third of total bilateral trade by value. The UAE remained India's top partner in GCC, and also its second largest trading partner in the world, after China. Bilateral trade between the UAE and India stood at UAD 59.5 billion in 2013–14. Geographical proximity, coupled with complementary strength of the economies, makes India and the UAE natural partners.

Nearly 100 categories of products are exported annually from GCC to India. However, the top five categories accounted for close to 95.0% of total trade in 2010. During 2000–10,

mineral fuels, oils, distillation products (MOD) exports, which constituted nearly 61.0% of the total trade value in 2010, increased at a CAGR of 59% to US\$ 32.5 billion. Key growth drivers include growing industrialization and expanding refining capacity in India as well as the energy security commitment given by Saudi Arabia at the 'Delhi Declaration' in 2006.

The top 10 export categories from India to GCC represented around 81.0% of total exports to the region in 2010, while the top 10 import categories from the region to India accounted for 98.0% of total imports from the block. Pearls, precious stones, metals, coins (PPMC), MOD, articles of iron or steel (AIS), Cereals and articles of apparel, accessories, including knit or crochet (A&A) are the largest export categories, accounting for around 70.0% of total exports from India to GCC.

2.2. Investments

In 2013, total foreign direct investment (FDI) to GCC from India stood at US\$ 2.1 billion (out of India's global FDI outflow of US\$ 29.6 billion). The sectors that attracted most investments include manufacturing, real estate and construction, financial services, ICT, and agriculture & allied activities. The cumulative FDI outflows from India to the GCC region during 2008–13 stood at US\$ 9.7 billion, registering a CAGR of 7.0%.

Meanwhile, cumulative FDI outflows from GCC to India during 2008–14 stood at US\$ 2.9 billion, registering a CAGR of 2.3%. The sectors that attracted most investments include power, construction, services, and metallurgical industries.

GCC is likely to continue investing heavily in infrastructure and diversifying its economy away from oil. It offers investment opportunities in several sectors, including Information Technology (IT), software technology, telecommunication, training & education, pharmaceuticals & healthcare, oil & gas, petrochemicals, tourism & hospitality, electricity, housing & infrastructure.

Furthermore, Indian corporates could consider the GCC region as a re-export hub for their refining operations, as it offers cheaper feed owing to its abundant natural resources, an excellent infrastructure and its locational advantage. GCC can act as a gateway for access to the regional markets in Africa, Iraq, Iran and the CIS countries, among others. In addition, GCC is increasingly looking towards India for technological know-how, managerial expertise and foreign collaboration in sectors like commercial services (financial and ITES), manufacturing, food processing, training and education.

Although India's investments in GCC have been largely driven by non-resident Indians who have historically set up businesses in the region, businesses of Indian origin are also increasingly setting up footprint in the region. Small and Medium Enterprises (SMEs) are one of the fastest growing business segments in the GCC countries and India's relatively sizable SME sector could account for substantial investment flows into the GCC region.

2.3. Capital Flows Trend

Growing trade relations between the GCC region and India have fuelled cross border investments among these economies. FDI outflows from India to GCC and vice versa have lately witnessed an uptrend, indicating higher coordination. However, FDI to GCC from India (at US\$ 2.1 billion) still remains miniscule at 1.4% of the bilateral trade flows (at US\$ 150.5 billion) in 2013.

Slowing US and European economies, conducive investment environment and well-established infrastructure are further enticing Indian firms to consider the GCC region as a prospective investment destination.

According to the overseas investment data released by the Reserve Bank of India, investments by Indian firms in GCC have been on the rise. The UAE is the most favored investment destination, accounting for around 83.7% of total FDI flows from India to the region in 2013. India, in turn, accounted for approximately 14.2% of the total FDI investments received by the UAE. Despite being the largest recipient of FDI from global

***GCC's diversification
initiatives will attract
investments***

investors (56.0% of cumulative inflows over 2000–12) among GCC countries, Saudi Arabia attracted just 12.3% of India's outward FDI to GCC in 2013.

Exhibit 2: Year wise FDI flows to GCC from India (US\$ million)

Country	2008	2009	2010	2011	2012	2013	World's investments*
UAE	1,382.7	973.8	1,808.8	1,341.4	1,463.3	1798.2	27%
Oman	36.6	16.3	140.5	15.8	135.2	101.1	4%
Saudi Arabia	96.5	4.4	1.2	26.1	2.4	269.2	56%
Bahrain	8.9	1.3	10.9	8.2	1.6	2.24	3%
Kuwait	0.1	0	0	0.1	0	0.00	1%
Qatar	23.8	0.1	6.2	4.8	3.3	4.01	9%
GCC	1,548.7	995.9	1,967.5	1,396.4	1,605.8	2174.8	100%
India's total outward FDI	17,515.0	17,454.0	40,511.5	33,937.9	25,601.4	29,588.9	-
GCC as % of total	8.8%	5.7%	4.9%	4.1%	6.3%	7.35%	-
India as % of total FDI in GCC	2.5%	1.9%	4.8%	5.3%	6.1%	9.10%	-

Source: Reserve Bank Of India, UNCTAD, Alpen Capital

* Proportion of cumulative global FDI inflows into GCC (US\$ 347.14 billion over 2000-2012)

2.4. Sector-wise trends

Manufacturing, financial services and real estate attracted most Indian investment

Manufacturing, financial services and real estate are among the most favored sectors for Indian investments in GCC

Indian firms have been investing in GCC countries across sectors like manufacturing, financial services, real estate & construction, trade & hospitality, agriculture & mining. Other sectors that have attracted investments from Indian investors include software development services, engineering services, tourism, readymade garments, chemical products and agriculture & allied activities.

Exhibit 3: Share of top sectors in Saudi Arabia attracting FDI from the world (2010)

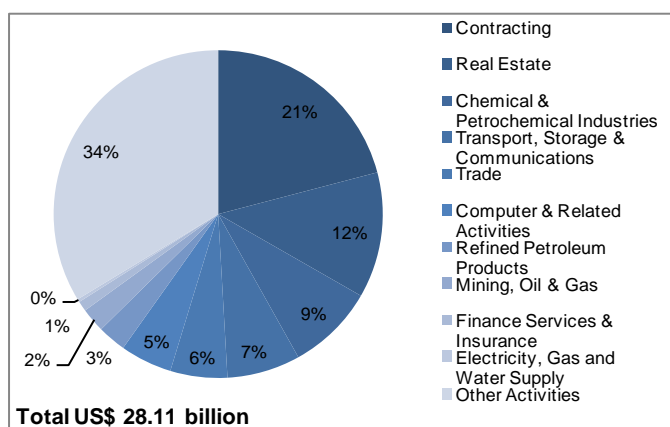
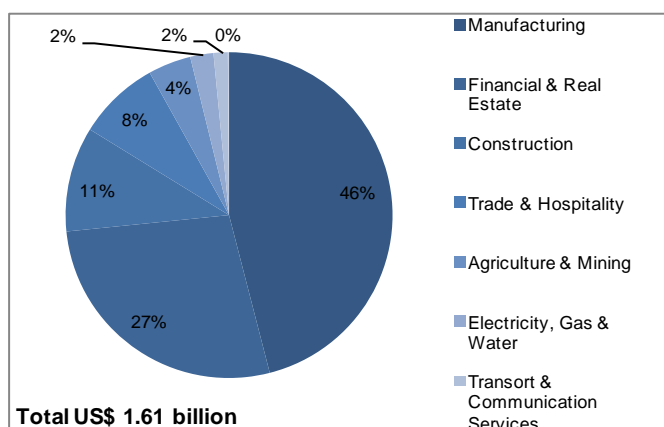


Exhibit 4: Share of top sectors in GCC attracting FDI from India (2012)



Source: SAGIA (Annual Report of FDI into Saudi Arabia 2011), Reserve Bank of India, Alpen Capital

2.5. Indian companies in GCC

Bahrain: Around 123 Indian commercial agencies are registered in Bahrain and operate in sectors like aviation, maintenance and repairing of naval equipments, software development, consultancy firms and financial services.

Kuwait: Many Indian PSUs have their presence in Kuwait like Telecommunications Consultants India Ltd, Life Insurance Corporation, etc. Private sector companies like

Larsen & Toubro, Punj Lloyd, Kalpataru Constructions, KEC International Ltd. and Shalimar Valves are implementing major projects in Kuwait in sectors like petrochemical and power generation.

Oman: Indian investments in Oman have been steadily increasing, with around 140 Indian companies currently operating in the country and more than 1,500 Indo-Omani joint ventures formed across 13 sectors, with an estimated investment of US\$ 7.5 billion (of which Indian contribution is around US\$ 4.5 billion). Indian presence in Oman is across sectors like oil & gas, mining, manufacturing, IT & telecom, power & water, construction, real estate & consultancy, healthcare, warehousing & logistics, railways and steel. Prominent Indo-Omani cross investments include Oman India Fertilizer Company (India's largest investment in an overseas joint venture) and Jindal Steel & Power (JSPL)'s acquisition of Shadeed Iron & Steel Co LLC. It is estimated that Indian investments in the newly established Free Trade Zone at Sohar is set to double from the current US\$ 125.0 million over the next two years. Some of the other Indian investments in Oman over the past five years include Nagarjuna Construction Co. Ltd's investment in its wholly owned subsidiary Nagarjuna Construction Co. International LLC., Hind Aluminium Industries Ltd's investment in its wholly owned subsidiary Associated Industries SFZ and Shiv-Vani Oil & Gas Exploration Ltd's investment in the joint venture (JV) Shiv-Vani Rowell Oil & Gas Ltd.

Qatar: India has expressed interest in establishing a petrochemical and fertilizer plant in Qatar. Qatar is also seeking Indian collaboration for constructing its proposed smart city. Some of the other Indian investments in Qatar over the past five years include Blue Star Ltd's investment in its wholly owned subsidiary Blue Star Qatar WLL and Zicom Electronic Security Systems Ltd's investment in a JV with Phoenix International Ltd. According to Embassy of India, there are around 20 Indian companies currently operating in Qatar.

Saudi Arabia: According to Saudi Arabian General Investment Authority (SAGIA), 426 licenses have been issued to Indian companies as of August 2014, facilitating potential investments of more than US\$ 1.6 billion. The licenses span across sectors like management & consultancy services, construction, telecommunications, pharmaceuticals and information technology. Several Indian firms have also collaborated with Saudi companies in areas of designing, consultancy, financial services and software development. The new Foreign Investment Laws implemented by Saudi Arabia in 2000 helped boost Indo-Saudi bilateral investments with a number of Indian corporates establishing JVs or wholly owned subsidiaries to grab growth opportunities in the Kingdom's economy. Notable recent investments include Tata Motors' US\$ 1.2 billion investment to set up Jaguar Land Rover assembly plant with annual production capacity of 50,000 units by 2017. Some of the other Indian investments in Saudi Arabia over the past five years include Larsen & Toubro's JV investment in Larsen Toubro Arabia LLC, TCR Engineering Services Ltd's investment in the JV TCR Arabia Ltd. and Punj Lloyd Ltd's JV with Dayim Lloyd Construction Contracting Co. Ltd.

UAE: An estimated 30,500 Indian firms operate in the UAE, excluding the ones operating in the Free Trade Zones¹. India emerged as one of the top investors in the UAE. The leading Indian corporates and banks operating in the UAE include Essar Group (Essar Projects-EPC segment, Essar Steel, etc), L&T, HCL Info systems, Hinduja Group (lubricants, power and real estate), Indian Oil Corporation and Reliance Industries. Many Indian firms have set up manufacturing units either as JVs or are operating in the Special Economic Zones in the areas of engineering products, cement, building materials, textiles, consumer electronics, while some have invested in the country's growing tourism, hospitality, catering, healthcare, retail and education sectors. In October 2013, JK Cement has made US\$ 14.9 million of investment to set up a white cement plant in Fujairah Free Trade Zone. Some of the other investments in UAE over the past five years include Ultratech Cement Ltd's investment in its wholly owned subsidiary Ultratech Cement Middle East Investments Ltd., Reliance Industries' investment in its wholly owned subsidiary Reliance Exploration and Production DMCC and Adani Agro Pvt. Ltd's investment in its wholly owned subsidiary Adani Properties Pvt. Ltd.

¹ Currently, more than 38 FEZs are functional in the emirate with a further 20 FEZs are under development

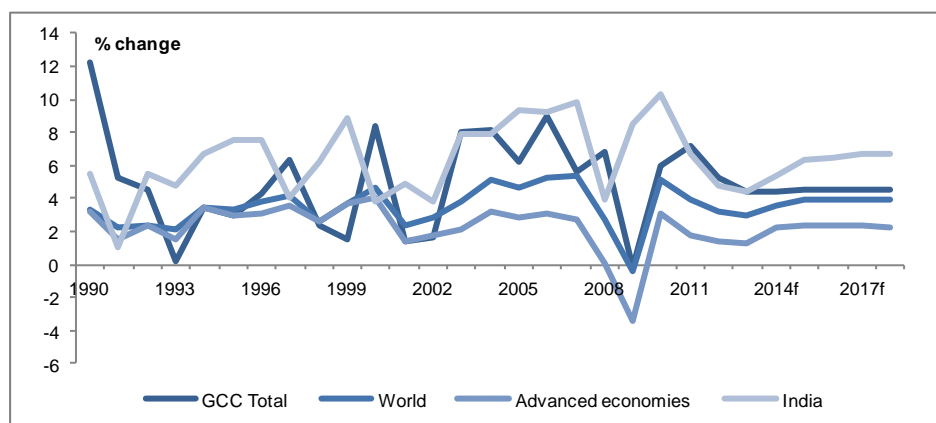
3. Key Factors Driving FDI Growth

3.1. Economic Drivers

Most economic indicators indicate positive outlook for GCC and India

GCC nations and India have registered strong GDP growth over the past decade, helping them gain significant economic strength. GCC's main growth drivers were high energy prices, liberalization initiatives to attract more FDI and economic diversification to reduce dependence on its mainstay, the oil and gas sector. India, on the other hand, witnessed a surge in economic activities post the 1991 economic liberalization that opened the domestic markets to foreign investments. While growth in the Indian economy has largely been due to increasing domestic consumption, GCC nations have largely been dependent on hydrocarbon exports that drove the region's economic growth. GCC nations had a combined GDP of US\$ 1.5 trillion in 2012, accounting for approximately 2.2% of global GDP. During the same period, India had a nominal GDP of US\$ 1.8 trillion. The IMF projects growth rates for the GCC region and India at an annual average rate of 4.5% and 6.1%, respectively, over 2013–19.

Exhibit 5: GDP growth rate (at constant prices)



Source: IMF, Alpen Capital

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

The contribution of GCC economies and India to global GDP has risen from ~1.2% and ~1.5% in 2000 to ~2.2% and ~2.5% in 2013². GCC's contribution to global GDP is estimated to increase to nearly 2.5% by 2025, assuming it grows at an average rate of ~4.2% beyond 2016. According to an OECD report³, India's GDP as a percentage of global GDP⁴ is estimated to increase from 7.0% in 2011 to ~18.0% in 2060. The report also estimates that India will experience more than a sevenfold increase in per capita income by 2060.

Although India is slated to witness rapid economic growth, it would be largely driven by increasing domestic consumption. Growing bureaucratic hurdles for setting up industries in India, as well as cost advantages and geographical proximity offered by GCC would see Indian businesses utilizing the investor friendly GCC nations as a manufacturing hub, from where output could be re-exported back to India.

3.1.1. GCC countries' growing economic stability

The GCC regions' economic diversification measures have started yielding results with the region emerging as an aviation hub, a preferred destination for energy-intensive industries and also a popular tourist destination. Economic diversification initiatives would shield the economy from global shocks that primarily ensue from this regions overreliance on the oil & gas sector.

² Source: IMF WEO 2014

³ Source: OECD (2012), "Looking to 2060: A Global Vision of Long-Term Growth"

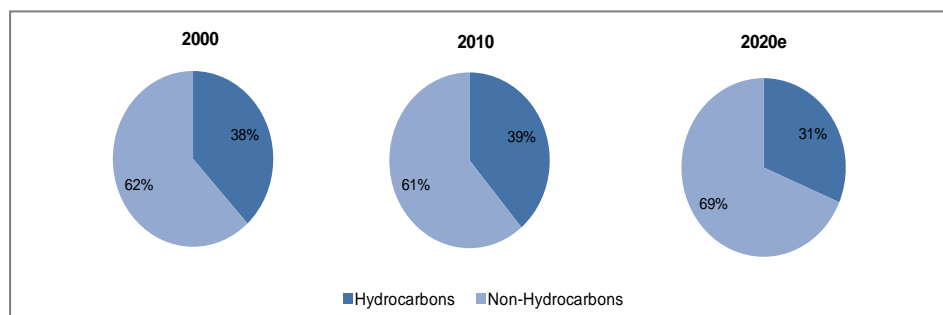
⁴ Global GDP is taken as sum of GDP for 34 OECD and eight non-OECD G20 countries

Diversifying from its mainstay, the oil and gas sector

Oil price volatility, finite life of reserves and the sector's limited contribution towards employment generation are the key factors motivating the GCC nations to diversify away from its mainstay, the oil and gas sector. Government policies and reforms over the past two decades have aided diversification within GCC economies, causing a transformation in these economies.

Exhibit 6: Structural change in GCC's nominal GDP

GCC's diversification away from its mainstay, oil & gas sector, could create ample investment opportunities



Source: Economist Intelligence Unit, Alpen Capital

Hydrocarbon revenues are estimated to account for ~75.0% of GCC's exports and ~86.0% of US\$ 1.2 trillion total government revenue. The oil and gas sector accounted for 49.0%, services sector 34.0%, other industries 16.0% and agriculture accounted for 1.0% of GCC's GDP⁵ in 2011. Dependence to such an extent on a single sector could expose the region to economic vulnerability, a fact evident from the significant contraction in the GCC economies in 2009 following the global economic meltdown. After expanding 19.9% over 2003–08, on growing energy demands, particularly from emerging Asian economies, the GCC regions' nominal GDP contracted 18.6% in 2009, with Kuwait, Oman and Saudi Arabia contracting 28.1%, 20.6% and 17.4%, respectively.

Oil and gas sector, not being a labor intensive sector, does not provide enough avenues for job creation. It is estimated that the sector directly employs just 1% of the local population⁶. Meanwhile, population in the region has increased from 39.5 million in 2007 to 49.8 million in 2013, registering a growth that is almost triple the world rate. GCC governments have undertaken efforts to increase employment opportunities to avoid deterioration in per capita income levels.

Although hydrocarbon reserves in the GCC states are expected to last another 76 years⁷, alternative energy sources like newly found shale gas reserves in North America could cause a dip in oil prices.

Potential to emerge as the regional trade and re-export hub

Complementing the geographical proximity to Southeast Asia and the African markets is the world class infrastructure, ample oil and gas reserves and an investor friendly macro environment, which augurs well for the GCC region to emerge as a regional manufacturing and export hub.

GCC accounts for 29.4% of the world's proven oil reserves and 22.6% of natural gas reserves⁸, making the region the most prominent global oil & gas supply hub, prompting investments in energy intensive manufacturing like petrochemicals, cements, and fertilizers. Coupled with abundant and low cost availability of fuel, ample land availability has also been a major catalyst in promoting the expansion of Free Trade Zones (FTZs) in the region. The region also has untapped deposits of limestone, chrome, copper, gold, silver, iron ore, magnesium, bauxite, phosphate etc, which were under-explored due to the

⁵ Source: World Bank, National Statistical Authorities

⁶ Source: Economist Intelligence Unit

⁷ Source: BP statistical review

⁸ Source: BP statistical review June 2014

regions focus on oil and gas exploration. However, recent diversification initiatives has reverted focus back on this wealth, which might spur growth in local metals and mining industry and the corresponding industries as these economies move up the value chain.

Large scale manufacturing facilities designed to reap the benefits of economies of scale and development of port infrastructure could see the GCC region emerge as a re-export hub.

Pegged currency provides stability

A pegged currency minimizes exposure to currency and export revenue volatility. With the exception of the Kuwaiti Dinar (pegged to a basket of currencies that is heavily skewed toward the US\$), all other GCC currencies are pegged to the US\$, making the region relatively hedged from currency risks compared to other floating exchange regimes. With the region earning majority of its export revenues from the oil and gas sector which are priced in US\$, it seems highly unlikely that the currencies will be de-pegged in the near future.

Well-established infrastructure in GCC

Continued investments on the government's part to expand and modernize basic infrastructure has helped the region to attract global investors. Further, according to Zawya's GCC Projects Monitor, there are currently infrastructure projects worth US\$ 455.9 billion ongoing in the region.

GCC's world class infrastructure support remains a key attraction for global investors

- **Ports:** There are currently 35 major ports in GCC, with some of them undergoing expansion to handle the region's growing non-oil exports. GCC nations are further allocating US\$ 36.0 billion to develop port infrastructure⁹. The UAE currently leads the region, handling close to 61.0% of GCC's maritime trade and 53.0% of its non-hydrocarbon trade in 2012.
- **Transportation:** The region has 36 airports, of which eight are located in the UAE. Currently, GCC nations are investing US\$ 313.0 billion to upgrade the airport infrastructure to handle the surge in passenger traffic¹⁰. It is estimated that the UAE airports will handle over 85 million passengers in 2013, while the Middle East airports combined will handle 400 million passengers annually by 2020. Road is the preferred mode of transportation, as rail connectivity in GCC is largely underdeveloped. This is about to change with implementation of Phase 2 of the Etihad Railway Network (valued at US\$ 11.0 billion), work for which has begun in early 2013. This project is part of the broader GCC Railway Network project valued at over US\$ 100.0 billion.
- **Power & Water Projects:** According to Zawya's GCC Project Report 2013, projects worth US\$ 182.2 billion are currently ongoing in the power and water sector in GCC. There is a close link between the power and water sector in GCC, as majority of the water supply comes from the energy intensive desalination plants. The power sector is estimated to attract investments worth US\$ 250.0 billion over the next five years¹¹. In Saudi Arabia alone, investments worth US\$ 100.0 billion over 2010–20 is planned, aiming to increase power generation capacity from ~50 GW currently to ~75 GW by 2018 and ~120 GW by 2030.
- **Free Trade Zones:** FTZs were established in the early 1980s as part of the GCC governments' initiatives to diversify from the hydrocarbon sector and create high-quality employment opportunities for the growing young population. The UAE leads, with more than 38 currently functional FTZs, with Jebel Ali Free Zone Area in Dubai considered a worldwide benchmark for this form of operation. Another 20 FTZs are under development in the UAE, of which 14 have been planned in Dubai, four in Ras Al Khaimah and two in Abu Dhabi. Saudi Arabian General Investment Authority (SAGIA) has launched a total of four integrated Economic Cities, one each in Rabigh,

⁹ Source: Saudi Gazette

¹⁰ Source: BigProject

¹¹ Source: Gulfnews.com

Hail, Madinah and Jazan. SAGIA estimates the Economic Cities to contribute a quarter to a third of the aspired national growth rate, to generate over a million jobs, and accommodate 4 to 5 million residents by 2020¹². These cities together are estimated to cost more than US\$ 60.0 billion, contributing close to US\$ 150.0 billion to the GDP in the coming years¹³.

3.1.2. Initiatives taken by GCC states for attracting investments

In order to attract overseas investments the GCC nations have undertaken specific initiatives like formation of trade chambers or institutions for promoting commerce and investments. The likes of which include Dubai FDI and Abu Dhabi Chamber of Commerce & Industry.

Dubai FDI: Dubai FDI, a part of Department of Economic Development in Dubai, plays a vital role in attracting overseas investments by providing potential foreign investors with the requisite information and support. It provides guidance in all aspects of business from highlighting various investment opportunities to showcasing a vast gamut of government and private contracts. By offering guidance all throughout the implementation phase, Dubai FDI aids in establishing businesses with minimal hurdles.

Abu Dhabi Chamber of Commerce & Industry: All corporates or professionals engaged in rendering services in the Emirates must register with the Abu Dhabi Chamber. Such an association allows members to better introduce their products and services and bring forth the problems and hurdles in business execution. The Chamber in turn facilitates discussion of such issues with competent authorities in a bid to put forth their recommendations.

Dubai Chamber of Commerce & Industry: Dubai Chamber was established in 1965 to promote investments and assist new ventures by developing a pro-business environment in Dubai and promote Dubai as an international business hub. It has over 150,000 members and has formed 27 business groups supporting various sectors. It provides supporting services in legal & arbitration, conducts training programs for entrepreneurs, helps in organizing trade fairs, provides certificate verification services, providing research access etc.

NASDAQ Dubai: NASDAQ Dubai, a stock exchange inaugurated in 2005, provides several benefits to companies' listed with it. The exchange provides the regional issuers access to both regional and international markets while an international issuer can gain access to the regional market through a primary or dual (secondary) listing. It also facilitates the 'book building' process for IPOs so that firms can price their listings as per market demand as opposed to other regional exchanges which impose restricted pricing. Owners can also retain control as only 25% free floats are allowed while listing as compared to regional exchanges which have requirements for free floats upwards of 50%, thereby forcing owners to lose control. The exchange also has no restrictions on foreign ownership as compared to regional exchanges where requirements for local ownership above 50% are common.

Saudi Arabian General Investment Authority: SAGIA was created by the Saudi government with a vision to facilitate economic liberalization. Its prime responsibility is to cater to the needs of investors by creating an environment that is conducive for economic growth. SAGIA was responsible for the enactment of Foreign Investment Law that allowed foreign investors to enjoy greater rights to own property, transfer profits & capital, claim full ownership. Saudi Arabia is further contemplating of opening up the Saudi capital markets to foreign investors, who until now were allowed to participate only through swaps.

¹² Source: SAGIA

¹³ Source: SAGIA

SAGIA also provides assistance to newly established businesses by offering advice, support services from all the related government departments and by helping in meeting their human capital requirements.

The Public Authority for Investment Promotion & Export Development (PAIPED): PAIPED formerly known as the Omani Centre for Investment Promotion & Export Development (OCIPED) was established in 1997 to promote investments in Oman and facilitate export of goods and services. It provides information on investment climate carries out studies related to investment promotion, identifies potential investment partners and also provides support services to ensure businesses survive their initial tough phases.

Qatar Financial Centre Authority: The QFC Authority is the commercial and strategic arm of the Qatar Financial Centre (QFC). The QFC Authority is responsible for leading the expansion of Qatar's financial services sector and for developing relationships with the regional and global financial community. In February 2010 the QFC Authority unveiled a new strategy focusing on the creation of a global business hub for three core markets - Asset Management, Reinsurance and Captive Insurance. The QFC provides Qatari and international firms with access to local and regional investment opportunities, including over US\$ 200.0 billion of prospective infrastructure investment in Qatar by 2022, as well as over US\$ 1.4 trillion of planned investment across the GCC.

Other member nations have taken similar steps to attract investments and fund economic growth. Recent events like updating of several laws in the commerce and regulatory domain, creation of the 'Gulf 100' Index¹⁴, formation of 'Global Marketplace Abu Dhabi'¹⁵, imparting of emerging market status to UAE and Qatar by MSCI, Public Private Partnership initiatives in Qatar etc. will go a long way in boosting investor confidence in the region.

3.2. GCC offers substantial benefits across sectors

Low energy costs

Energy costs in GCC are among the lowest in the world due to abundant availability and strategic commercialization initiatives. Also the GCC governments offer huge subsidies on the hydrocarbon products. Most GCC countries have regulated gas pricing system, and the domestic pricing is often set at the marginal cost of production rather than the achievable export parity price. Natural gas prices in GCC ranges between US\$ 0.8–3.0 per mmbtu compared to a global¹⁶ average of US\$ 4.0–6.0 per mmbtu. Some of the GCC nations (such as Kuwait and Saudi Arabia) use a significant proportion of fuel oil in their power mix, while others (such as the UAE and Qatar) almost exclusively use natural gas for power generation. Furthermore, the power sector in GCC has historically been dominated by state-owned generation companies having access to low cost fuel oil and natural gas.

Average electricity prices to the end user in the GCC states is much below that of USA, China, India and Europe, regions which have reputation of being generation powerhouses. Even the gas rich Russia cannot match the GCC states in providing competitive power tariffs.

Abundant natural resources in GCC provides cost advantage to energy intensive industries

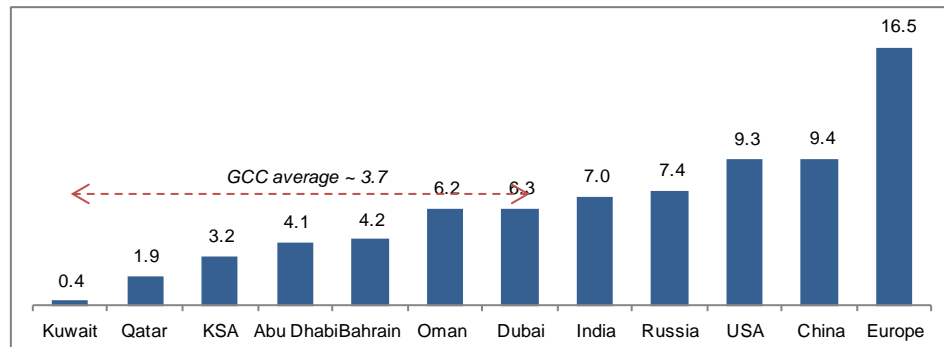
Natural gas and electricity prices are lowest in the world

¹⁴ a ranking of the fastest growing entrepreneur-led companies in the region

¹⁵ is a financial free zone that will not only bridge the gap between different time-zone markets but will also host financial institutions that would offer new financial products

¹⁶ Source: Saudi Gazette

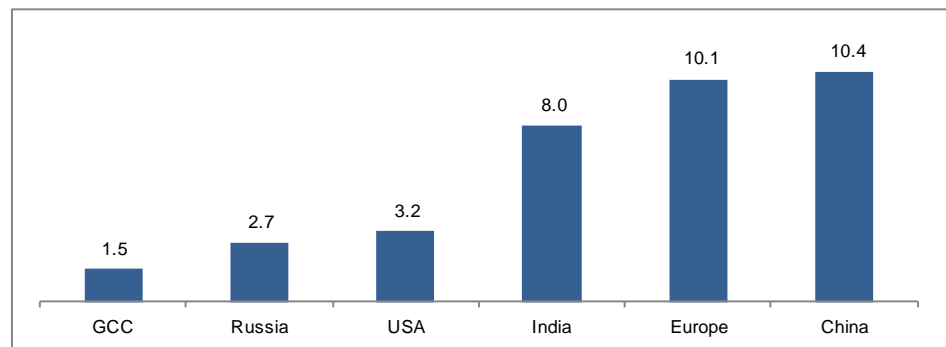
Exhibit 7: Electricity prices comparison (US\$ cents/kWh)



Source: Government databases, Independent news agencies, EIA, Alpen Capital

Natural gas prices in GCC states are at a significant discount compared to other countries, indicating ample room for price hikes before it starts impacting the profitability of energy intensive industries thereby compromising the regions' competitiveness. In China and India gas prices are subsidized and thereby kept artificially low to promote usage over liquid fuels and to meet the rapidly growing fuel demand in these two economies. LNG spot import prices into China and India are around US\$ 10.8 to US\$ 10.0 per mmbtu. Over time, deregulating gas prices would impact China and India's competitiveness for energy intensive industries.

Exhibit 8: Natural gas prices comparison (US\$ /mmbtu)



Source: Government databases, Independent news agencies, EIA, Alpen Capital

It is this low energy cost advantage that facilitated the development of petrochemical and energy-intensive industries which formed the base for regional economic diversification. These sectors have experienced rapid development over the past few years, resulting in 6–10% annual growth in power consumption. Though rapid growth in demand for energy (particularly from power, petrochemical and water desalination plants) has exerted pressure on the supply of natural gas in GCC, any significant increase in fuel and electricity prices in the near future is unlikely, given that the issue is politically sensitive. Furthermore, commencement of production from non-associated gas fields in KSA would help ease supply pressure. We believe low prices would continue to support the competitiveness of heavy industries and petrochemicals. Building on abundant oil and gas resources and excellent support from the local government, downstream conversion is viewed as a key source of economic diversification, job creation and value addition in the region.

Although government policies are expected to support the development of the downstream sector, it cannot create a globally competitive downstream sector on its own. In this regard, the India downstream companies can turn out to be handy partners by leveraging their pool of skilled labor, capital and technical know-how in developing downstream infrastructure in the region. Association of India-based downstream players with their GCC

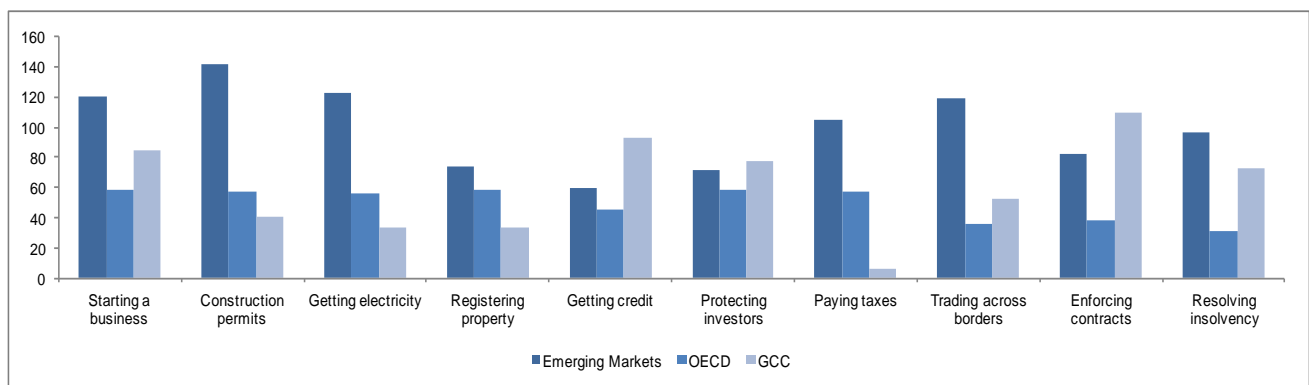
Excellent infrastructure, low corporate tax rates and favorable regulatory changes provide for a favorable environment for foreign investments

counterparts would not only help them secure supply for their existing markets but also provide an opportunity to expand to new markets.

Favorable investment environment

GCC countries enjoy sovereign credit ratings that are at par with some of the developed economies. This is primarily due to the region's twin surplus condition – large fiscal surplus (averaging around 9.2% of GDP over 2007–11) and trade surplus (averaging around 16.9% of GDP over 2007–11¹⁷). Also, low levels of public debt (averaging ~4.5% of GDP over 2007–11), low external debt, economic diversification initiatives, growth of non-hydrocarbon sectors, pegged currencies, large forex reserves and a moderate inflation environment propelled GCC economies compared to even some of the developed economies.

Exhibit 9: GCC Ease of Doing Business ranking comparison



Source: International Finance Corporation Doing Business 2014, Alpen Capital

GCC countries have one of the simplest compliance requirements and lowest tax rates globally. The World Bank's Doing Business Report 2014 placed the UAE in the 1st place, followed by Qatar (2nd), Saudi Arabia (3rd), Bahrain (7th), Oman (9th) and Kuwait (11th) in the 'paying taxes' segment, clearly highlighting the region's attractiveness in terms of tax regimes for setting up businesses. Corporate tax rates are 10% in Qatar, the lowest in the GCC and MENA region, followed by Oman (12%), Kuwait (15%), and Saudi Arabia (20%)¹⁸. Furthermore, growth in FTZs that provide additional tax benefits makes the prospects even more attractive. Apart from 'Enforcing Contracts' and 'Getting Credit' parameters; GCC nations are ranked at par or better than their OECD and emerging market counterparts, indicating existence of lower bureaucratic hurdles and a more investor friendly regulatory framework.

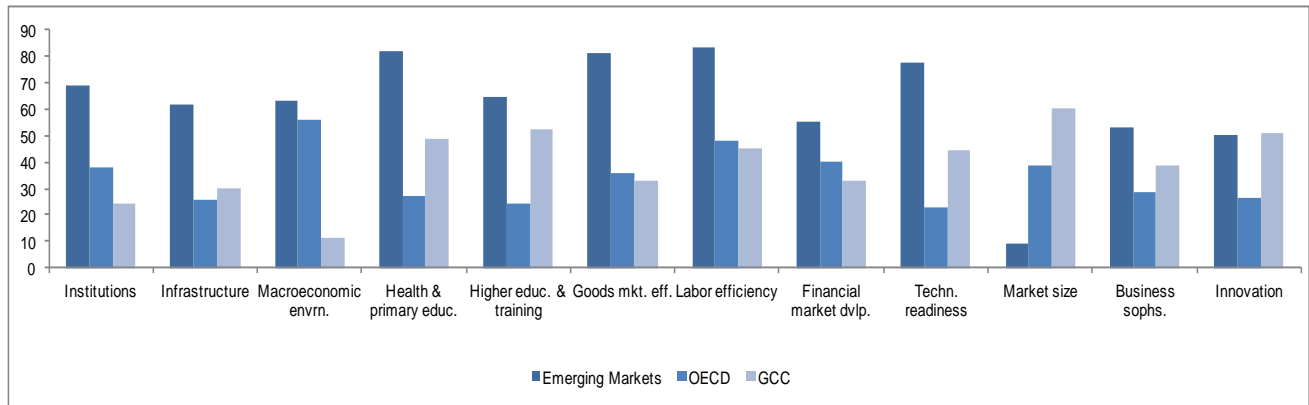
GCC countries are ranked higher than their emerging market and OECD counterparts in most of the Global Competitiveness parameters barring 'Market Size'. Although GCC countries as of now cannot boast of a huge consumer market like India, we believe robust growth in population and economic activities would drive domestic consumption and would eventually enhance the regions importance as a target consumer market.

¹⁷ Source: IMF WEO 2013

¹⁸ Source: <http://www.kpmg.com/global/en/services/tax/tax-tools-and-resources/pages/corporate-tax-rates-table.aspx>



Exhibit 10: GCC Competitiveness ranking comparison



Source: World Economic Forum Global Competitiveness Report 2014, Alpen Capital

Favorable taxation environment

The GCC region implements one of the most investor friendly taxation regimes globally, which enhances the regions attractiveness as an investment destination. Low prevailing corporate tax rates and existence of one of the simplest compliance requirements makes GCC a tax haven for corporate investors.

To facilitate trade and development, GCC countries have signed multiple double tax treaties (DTA) with other nations. Saudi Arabia has facilitated foreign ownership of businesses and investment ventures within the Kingdom.

Exhibit 11: GCC tax regime

Country	Exceptions (Corporate tax)	Corporate tax rates	Dividend taxes	Capital gain taxes
Bahrain	Income tax levied only at a rate of 46% on petroleum companies engaged in exploration, production and refining	Nil	Nil	Nil
Kuwait	Companies fully owned by Kuwaiti nationals and entities registered in the GCC are tax exempt	15%	15% (Dividends paid by fund managers or fund trustee to foreign corp.)	15%
Oman	Income from the sale of petroleum is subject to a special provisional rate of 55%	12%	Nil	12%
Qatar	Rate applicable to oil and gas operations is 35%	10%	Nil	10%
Saudi Arabia	Applicable rate for companies in exploration of natural gas is 30%; Applicable rate for oil exploration companies is 85%	20% (Non-Saudi share in a resident corp.)	5% (Dividends received are taxed as income)	20% on shares disposal in resident corp.
UAE	Oil and gas exploration and production companies are taxed at flat rates of 50% and 55% in Dubai and Abu Dhabi, respectively	Nil	Nil	Nil

Source: Deloitte International Tax Highlights 2014, Alpen Capital

3.3. GCC's Look East policy

Since the 1990s, GCC countries have been favoring India as a major economic and political partner, in line with their new "Look East" policies. This change in policies stem from the slowdown that the developed economies are experiencing and the rise of new world powers that are fast gaining inroads in the global political and economic arena. These powers include many Asian countries such as Turkey, Iran, China and India. These countries enjoy long standing relationships with the GCC states and have close geographical proximity to the region. Slowing western economies have made the GCC region strongly consider these countries as alternative investment destinations and try to

capitalize on its proximity and long-standing ties to build new international relations. With the prevailing global macro conditions, GCC countries can be expected to look at India as a favorable investment destination.

The GCC region currently meets about 65 percent of India's oil import needs and almost all of its gas imports. GCC states have also become an important trade partner to India, with the UAE emerging as the largest trade partner with two-way trade valued at US\$ 59.5 billion in 2014. The UAE case could be repeated with rest of the GCC nations with increasing economic ties. GCC-India trade is slated to cross US\$ 175 billion in 2015. India, in its efforts to secure energy supplies and consolidate economic and trade relations with the Gulf States, reciprocated with its own 'Look West' policy in 2005.

3.4. Strong trade, cultural and historic ties

GCC and India have traded with each other since long. Every year, thousands of Indian pilgrims perform Haj rituals in Saudi Arabia, further strengthening the cultural bond. Decades of commercial engagements between the two have fostered and nourished mutual ties. Growing bilateral trade and the Indian expatriate population have further strengthened these ties.

Large Indian Diaspora

The region traditionally faces shortage of workers and professionals, which is met through a migrant workforce. Over the years, the GCC region's preference for procuring manpower from India has led to a dramatic rise in the Indian expatriate population in the GCC countries. The GCC region is currently home to 6.7 million Indian expatriates, with Saudi Arabia and the UAE home to the largest expatriate population (refer exhibit 8). Indians today form the largest single national group in each of the six GCC countries. It is estimated that about 70.0% of Indian expatriates in GCC comprise blue-collared workers, while 20.0% are white-collared professionals and their family members, with the remaining 10.0% being white-collared non-professionals. GCC nations are increasingly recruiting Indian professionals, particularly in the fields of financial services, health services, management, accountancy, engineering and architecture. This large Indian diaspora provides a market and familiarity for Indian products.

Large Indian Diaspora could aid bilateral trade and investments

Exhibit 12: Indian expatriates in GCC countries

Country	Total population	Indian Population	Indians as a % of total population	Expatriate Population	Indians as a % of total expatriate population
UAE	9,200,000	2,760,000	30.0	7,800,000	35.4
Saudi Arabia	29,900,000	2,500,000	8.4	6,279,000	39.8
Oman	4,000,000	700,000	17.5	1,777,000	39.5
Qatar	1,800,000	500,000	27.8	1,500,000	33.3
Kuwait	3,440,000	640,000	18.6	2,340,000	27.4
Bahrain	1,200,000	350,000	29.2	666,000	52.6
Total	49,540,000	7,450,000	15.0	20,355,000	36.6

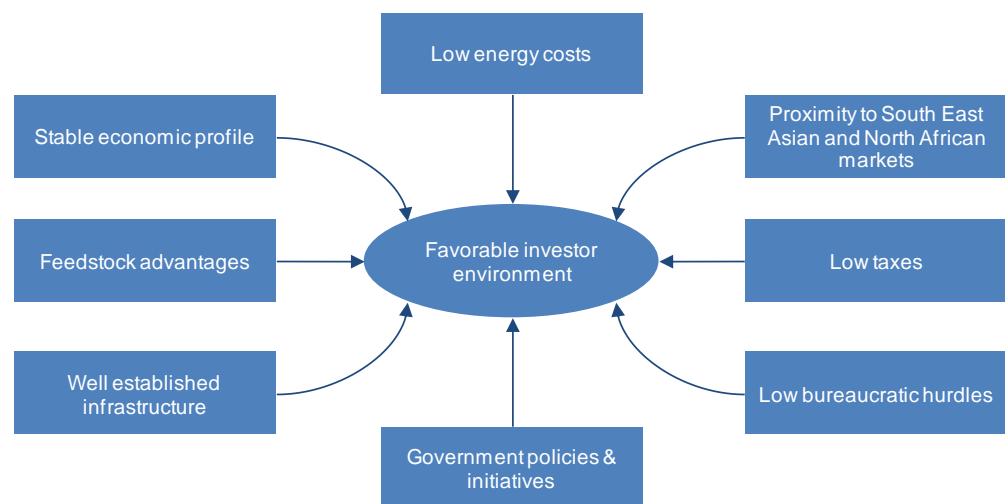
Source: Indian Embassies in respective countries, Alpen Capital

Although India's investments in GCC have been largely driven by non-resident Indians who have historically set up businesses in the region, the resident Indian business community is also increasing their footprint in the region.

4. Investment Opportunities for India in GCC

While the oil industry is undeniably a pillar for the GCC economies, the region's priority is to achieve sustained economic growth through development of non-oil sectors. This can be achieved by increasing private sector participation, strengthening local technological capabilities, developing a skilled workforce, improving the competitiveness of exports in global markets and by attracting substantial overseas investments. GCC offers strategic advantages, such as availability of cheap energy and feedstock supply, low tax environment, well-developed infrastructure, growing population and increasing income levels, conducive for the development of various industries in the region. All these advantages if properly showcased could attract substantial investment flows from Indian corporates, who are looking to expand their global footprints and scouting for distinctive cost advantages to remain globally competitive.

Exhibit 13: GCC sectoral advantages



Source: Alpen Capital

4.1. Sector Opportunities

a) Infrastructure

Currently, the GCC infrastructure sector is estimated to have ~US\$ 624.0 billion worth of ongoing projects. Saudi Arabia leads the pack, with US\$ 241.0 billion of ongoing infrastructure projects followed by Qatar (US\$ 161.0 billion), UAE (US\$ 95.0 billion), Kuwait (US\$ 67.0 billion), Oman (US\$ 47.0 billion) and Bahrain (US\$ 13.0 billion)¹⁹.

Bahrain: The estimated value of projects planned or underway in Bahrain totaled ~US\$ 62.0 billion. Major projects include US\$ 4.8 billion for Bahrain International Airport expansion, US\$ 4.2 billion for a 40km Bahrain-Qatar Friendship Bridge, and US\$ 3.2 billion for housing development.

Kuwait: Kuwait plans to invest around US\$ 110.0 billion in line with its Kuwait Vision 2030 pipeline for 2010–14. Major construction projects include Kuwait City's US\$ 7.0 billion metro project, US\$ 3.3 billion Kuwait International Airport (KIA) terminal project, US\$ 6.2 billion for construction of motorways, US\$ 1.8 billion water and power project, and a US\$ 14.5 billion refinery that would be the largest in the Middle East.

Oman: Oman has planned investments of around US\$ 78.0 billion over 2010–15 in its eight five-year plan. Major projects include US\$ 4.4 billion for new road constructions, a new port at Duqm worth US\$ 4.5 billion, and renewable energy projects worth US\$ 2.0 billion.

¹⁹ Source: Zawya

Qatar: Qatar's infrastructure spend is estimated to be around US\$ 225.0 billion, as part of its infrastructure development drive ahead of the FIFA World Cup 2022 which the country is hosting, and in accordance with Qatar Vision 2030 pipeline for 2011–16. Some of the major projects include US\$ 20.0 billion investment for road development, US\$ 25.0 billion investment in railways, US\$ 15.5 billion to build a new airport, US\$ 4.0 billion investment to build stadiums, US\$ 8.0 billion to construct a deepwater seaport and US\$ 1.0 billion transport corridor project in Doha.

Saudi Arabia: The Ninth Development Plan has envisaged a spending of US\$ 284.0 billion to revamp and develop the socio-economic infrastructure over 2010–14. Some of these projects include expansion of King Abdul Aziz International Airport, development of a high-speed rail track connecting Mecca with Medina, housing sector projects, and addition of a 3,900km railway network with development of three major railway projects.

UAE: Each of the seven emirates has separate infrastructure development plans. Abu Dhabi has envisaged a spending of US\$ 100.0 billion by 2020 as part of its Abu Dhabi Vision 2030 pipeline. The estimated total value of projects planned or underway in the UAE is US\$ 549.0 billion. Major projects include US\$ 58.0 billion for roads and bridges, US\$ 6.8 billion for Abu Dhabi International Airport capacity expansion, and US\$ 2.7 billion for housing projects.

b) Petrochemical

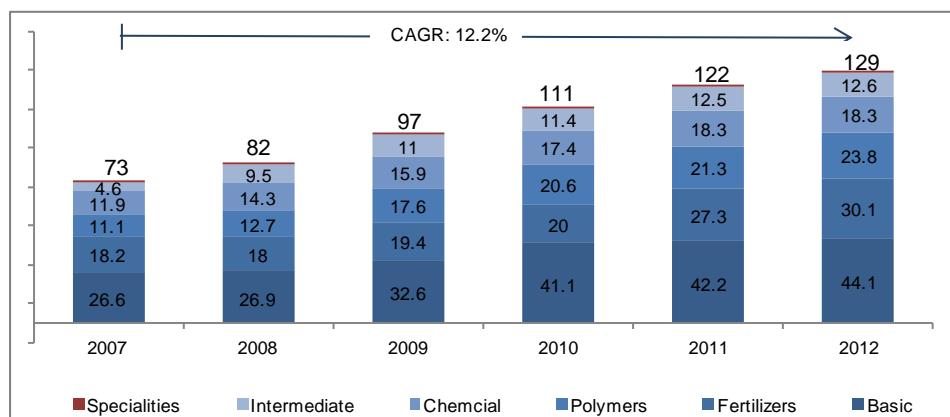
Over the last two decades, GCC countries have acquired the status of being efficient and cost-effective bulk producers of basic chemicals. Regional petrochemical companies are listed and are among the top global players in the commodity chemicals segment (olefins, polyolefins, oxygenates, glycol and urea). Majority of GCC's petrochemical capacity is located in the KSA (accounts for 67.0% of GCC petrochemical output²⁰).

Production costs in the region are significantly lower compared to the rest of the world, due to availability of subsidized natural gas. Low feedstock cost represents a competitive advantage for the Middle East where the feedstock cost as a percentage of end product value is only 15% as compared to 70% in Europe²¹. Though the regional players have already taken significant steps to move towards downstream by becoming integrated end to end producers, the percentage of standalone basic petrochemical capacity still remains high at 38.0% of the overall regional petrochemical capacities. Besides, most basic petrochemicals are exported from GCC, while olefins or commodity chemicals serve as feedstock for high value end products.

Global leader in basic petrochemicals production; however, majority of the production is exported

Focus on expanding production capacity of downstream petrochemicals, i.e., intermediates and specialty chemicals

Exhibit 14: GCC petrochemical capacity by product group (million tons)



Source: Gulf Petrochemicals & Chemicals Association (GPCA) petrochemical database, Alpen Capital

The downstream petrochemical industry has relatively small end user market in the region. However, easy availability of basic building blocks, pricing advantage and GCC's proximity

²⁰ Source: GPCA

²¹ Source: Deutsche Bank Oil & Gas report 2010.

to major consumer markets of downstream petrochemical products (Southeast Asia and China) provide strong reasons to expand the current product portfolio from basis petrochemicals to intermediates and specialty chemicals. Besides the geographical proximity of the region to the Asian markets, provides the GCC-based petrochemical producers with a distinctive competitive advantage over their competitors in Europe and the US.

According to a study conducted by UK-based Ispy Publishing, GCC is expected to attract investments worth US\$ 57.0 billion in the petrochemical sector over the next five years. Expanding downstream petrochemical manufacturing capacity in the region would help petrochemical companies to attain higher growth, improved profitability, capture value added market share, apart from creating more local jobs.

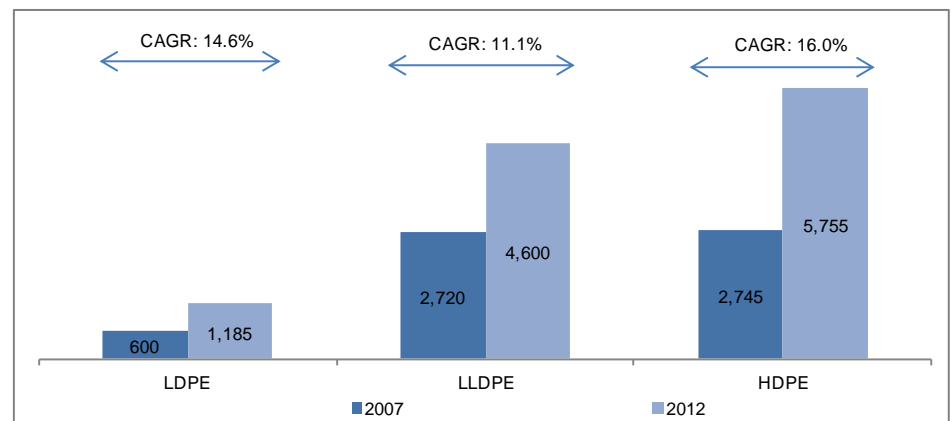
India is aggressively increasing its petrochemical capacity. However, given the huge domestic demand, it still has to rely on imports. India-based companies with superior technological know-how can collaborate with the GCC-based petrochemical players in order to enjoy the advantage of low-cost production. In turn their understanding of the Indian market would help the GCC players develop an innovative sales approach to better adapt to consumer requirements in India.

c) *Plastics*

Ethylene and its derivatives form the largest proportion of output for the petrochemical industry in GCC. Production of commodity grade polyolefins (key chemicals for the production of plastics) still remains the mainstay of GCC's petrochemical industry. Polyethylene (PE) production capacity in the region increased at a CAGR of 13.7% to 11.5 million tons over 2007–12. KSA remains the largest producer, accounting for 70.0% of the region's production capacity. Meanwhile, polypropylene (PP) production in GCC grew at a CAGR of 27.9% to 6.3 million tons over 2007–12.

Demand for PE in GCC has grown at a relatively slower 6.6% CAGR to 1.7 million tons over the last five years. However, demand is expected to grow at a faster pace over the next five years. Ongoing diversification of polymer products portfolio is expected to bring forth a new set of polymers which would stimulate production of various new product variants by the plastic conversion industry in the region. Production of new molecules (such as engineering plastics, synthetic rubbers and polyurethanes), not yet produced at significant scale in the region, would act as a catalyst for the growth of the plastics industry.

Exhibit 15: PE production in GCC ('000 tons)

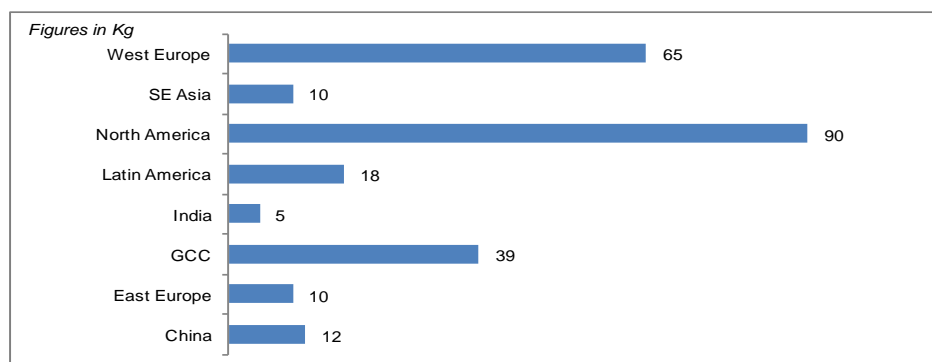


Source: GPCA, Alpen Capital

Within the existing value chain, with infrastructure already in place, GCC offers significant investment opportunities in the conversion industry. Increased capacity would not just meet the existing local demand but also create export potential for the finished products. Also majority of plastics manufactured in the region would increasingly find its end-use

within GCC, led by packaging and construction sectors. According to industry sources, the region is expected to emerge as the second highest per capita consumer of plastics in the world by 2020²². According to GPCA, annual plastics consumption in the GCC region would grow by ~22.0% to 5.5 million tons in 2015 from 3.3 million tons in 2011.

Exhibit 16: Per capita plastic consumption



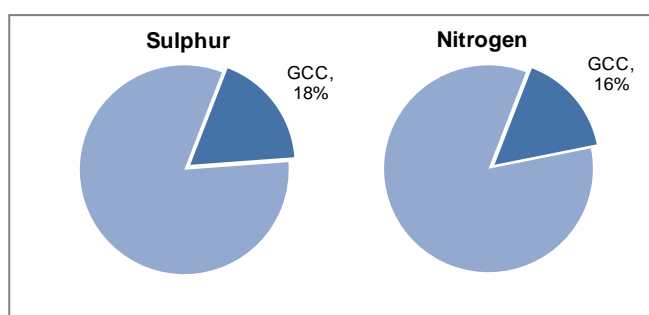
Source: Gulf news, Alpen Capital

By investing in GCC's conversion industry, India-based companies can gain access to the high-growth and high-margin plastics market in the region.

d) Fertilizer

Sulphur, nitrogen phosphate and potash are the key ingredients for the production of fertilizers. GCC exports around 6.2 million tons of sulphur per year or about 18.0% of the total global exports²³. Sulphur is a by-product recovered from petroleum refining and natural gas processing. The availability of this product in the region is set to increase with the expansion of oil and gas operations. GCC is responsible for about 16.0% of the world's total nitrogen exports and is well positioned to cater to approximately 18.0% of the global export²⁴ of nitrogen di-ammonium phosphate (DAP). Given these distinctive feedstock advantage, GCC should eventually emerge as a global hub for nitrogen and phosphate fertilizer production.

Exhibit 17: GCC's share in global export of key fertilizer feedstock



Source: Arabian oil & gas, QAFCO, Alpen Capital

GCC's fertilizer industry grew at 11.7% CAGR to 31.4 million tons over 2007–12 and is slated to rise to 50.4 million tons by 2016²⁵. Urea capacities in the region reached 12.7 million tons per year in 2011, accounting for 46.0% of the total GCC fertilizer production during the same period. According to GPCA, the region is undergoing massive fertilizer capacity expansion and expects around 7.5% annual growth in production capacity till 2016. Moreover, GCC is estimated to account for 36.0% of global urea exports and 24.0% of the world trade in phosphate fertilizers by 2016. GPCA also estimates that the output of

²² Source: Arabian Oil and Gas, January 9, 2013

²³ Source: Qatar petroleum Chairman and Managing Director speech, QAFCO IFA Annual Conference, May 2012

²⁴ Source: Qatar petroleum Chairman and Managing Director speech, QAFCO IFA Annual Conference, May 2012

²⁵ Source: ICIS.com

ammonia and urea, which currently make up a bulk of the regions' fertilizer portfolio, would increase to 13.0 million tons and 16.5 million tons by the end of 2020. In order to overcome the competitive challenge given the cheap availability of shale gas in North America as a feedstock for ammonia, GPCA cautions that the GCC region should diversify its fertilizer portfolio to more of phosphate based fertilizers from the existing hydrocarbon intensive ammonia and urea fertilizers.

GCC offers significant investment opportunities for India-based fertilizer companies looking to secure feedstock supplies at competitive prices to meet the ever growing domestic fertilizer demand. India, with a large agriculture sector, is an important market for the global fertilizer industry. It is one of the largest consumer and importer of fertilizers (second only to China) and accounts for ~20.0% of the world's total nutrient trade. We believe the phosphate segment could be the most lucrative segment for Indian companies willing to set up manufacturing base in the GCC region (with the aim of looking for re-export opportunities), given its low requirement of natural gas and abundance of phosphate supplies in the MENA region.

Zuari Agro Chemicals Limited, flagship of the US\$ 3.0 billion Adventz Group of companies, and a leading fertilizer conglomerate in India has signed an agreement with Ras Al Khaimah Maritime City to set up an integrated one million ton a year di-ammonium phosphate manufacturing facility in the UAE. The project is estimated to entail an investment of US\$ 800.0 million²⁶.

A joint venture was also signed between the Omani government and two India-based fertilizer cooperatives in 2006, with an investment of about US\$ 1.0 billion to manufacture high-quality urea. These landmark transactions are examples of how India-based companies can collaborate with local players in the GCC region to secure supplies and expand market reach.

e) Pharmaceutical

The pharmaceutical sector in GCC has experienced considerable progress over the years due to favorable demographics and economic factors, and strong government support for the sector. Growth in the sector is primarily driven by factors such as rising population, increasing life expectancy, changing life style and growing income level. Raw materials used in the production of bulk drugs are easily available in the region. However, the region has to import 80% of the pharmaceutical products despite its feedstock advantage.

Total market size of the sector was estimated at US\$ 8.5 billion in 2012, less than 1% compared to the global pharmaceutical industry. The market size is projected to expand at a CAGR of 6–8% during 2010–20. According to BMI (Business Monitor International), the generic market in the region is expected to grow to US\$ 866.0 million in 2014 from US\$ 413.0 million in 2008.

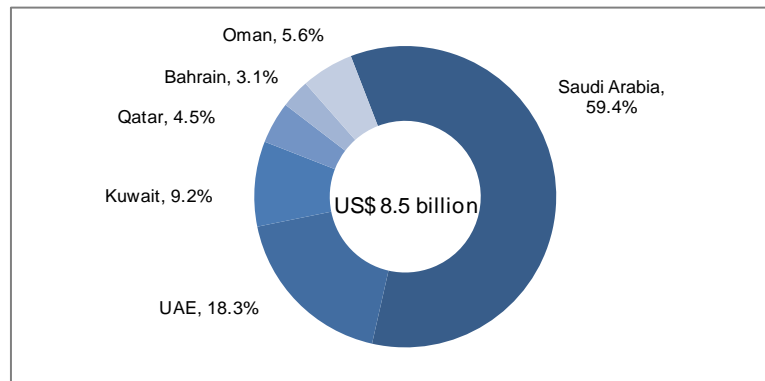
The pharmaceutical market in GCC is dominated by patented drugs, with generics accounting for just ~5–6%²⁷. We expect the market share of generics to increase significantly and drive overall growth in the sector, given that patents for pharmaceutical products worth US\$ 223.0 billion worldwide sales would expire in the next six years. Limited local industry and pressure on governments to lower medicine prices would also promote generics in the region.

**India can replicate its success
in manufacturing generic
drugs in GCC**

²⁶ Alpen Capital is currently mandated as the financial advisor on this project

²⁷ Source: "Opportunities for Pharmaceutical Manufacturers in GCC/MENA", PRTM Management Consultants, April 11, 2011

Exhibit 18: Composition of pharmaceutical market in GCC



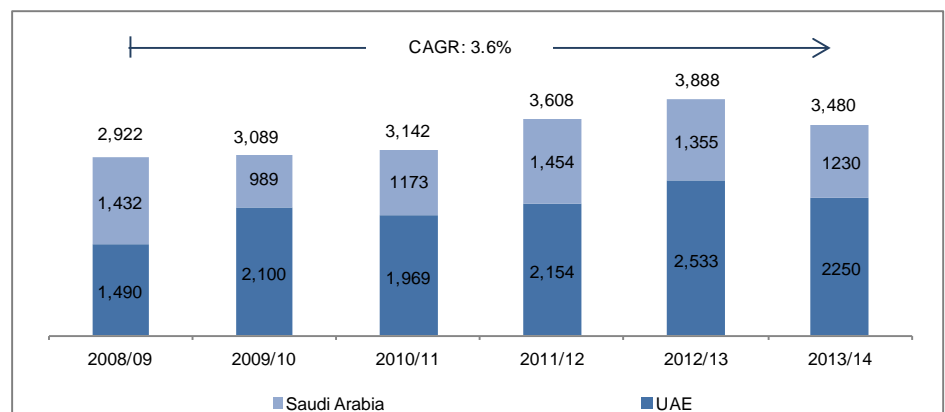
Source: BMI, Alpen Capital

The GCC governments are providing a number of incentives to boost the local pharmaceutical industry to reduce reliance on imports. It is establishing biotechnology parks and free zones, and making medical insurance schemes compulsory for locals and expatriates. India-based companies with their low-cost manufacturing advantage and strong regulatory understanding to file new product registration could play a vital role in GCC's generics pharmaceutical market. India-based companies such as Dishman Pharmaceuticals and Chemicals Ltd. and Mission Vivacare are already present in the GCC market. Signing of an impending free trade agreement between GCC and India would further open up the market for India-based companies.

f) Sugar refining

Given its strategic location, GCC countries can efficiently import raw sugar sourced globally, add value and then re-export refined sugar to local, regional and global markets. The MENA region, including the GCC region represents an important and dynamic sector of the world sugar economy. It is currently a region of structural deficit and the region has to cover more than 70.0% of its off-take by imports from the world market. Annual sugar consumption in the Middle East and North Africa region is close to 18.0 million tons, majority of which is currently imported²⁸. GCC region is one of the large consumer markets for refined sugar, with UAE and Saudi Arabia being the largest importers of sugar in the GCC region. Sugar consumption in GCC is expected to increase driven by the growing population, rising income level and shift in dietary patterns.

Exhibit 19: Sugar import by Saudi Arabia and UAE ('000 tons)



Source: United States Department of Agriculture, Alpen Capital

²⁸ Source: International Sugar Association

Growing sugar imports by Middle East and GCC countries provide a potential investment opportunity for India-based sugar refiners. In addition to the increasing deficit of sugar, the GCC region offers the following advantages for setting up refineries:

- Proximity to deficit markets in the GCC / Middle East and North Africa
- Availability of low cost energy supply, which is one of the major components of production cost
- Portside facilities and superior infrastructure
- Tax benefits

Moreover, the development of the industry in the region is also important for GCC's food security.

Currently, there are only a limited number of refiners in the region, with UAE-based Al Khaleej Sugar being the largest refinery²⁹. The company, with an annual production capacity of about 1.5 million tons, is the largest stand-alone sugar refinery in the world.

The region's refining sector has recently witnessed new project announcements. Oman Sugar Refinery Co. (OSRC), a newly formed special purpose vehicle (SPV), has announced to set up the sultanate's first sugar refinery with an investment of US\$ 200.0 million, having an annual production capacity to 1.0 million tons of refined sugar. The new plant would be able to meet the domestic demand for Oman (120,000 tons, all of which is currently imported), while the rest would be exported. Oman government has also established a new food investment company to develop strategically vital agri-industries. One of the leading Indian sugar manufacturers is setting up a sugar refinery in the UAE with an annual capacity of 1 million tons of refined sugar³⁰. Bahrain's first sugar refinery is also under construction in the country's Hidd industrial area. The project is estimated to cost around US\$ 157.0 million and would have an annual capacity of 585,000 metric tons.

India is the second largest manufacturer of sugar after Brazil. However, Indian consumption is expected to outpace production going forward. Indian Sugar Mills association estimates that by 2021 sugar production in India (26.4 million tons) will significantly lag consumption at 31.3 million tons. India-based companies looking to expand their reach can set up manufacturing units in GCC. With its superior marine transportation infrastructure and low cost energy availability, the region could serve as a re-export hub. Also the robust local demand will add incentives for the refiners to target the local market as well.

g) Aluminum & Steel

The share of GCC in global aluminum capacity has increased from 6.9% in 2006 to 9% in 2012. A McKinsey report in 2007 highlighted the fact that aluminum smelting cost in US\$ per ton in Middle East were 30.0% and 33.0% lower than that of China and Western Europe respectively. Energy costs are the prime differentiator accounting for only 9.0% of the total smelting cost in Middle East as compared to 18.0% and 37.0% in Western Europe and China respectively. Rising energy prices and labor costs in China are impacting its capability to compete in this domain; further lending impetus to the GCC's smelting industry. GCC has been rampantly adding capacity which will see its share in global aluminum capacity rise to 13.0% by the end of 2013. GCC regions aluminum production capacity is set to increase by 40.0% to reach 5.0 million tons by 2014, from around 3.7 million tons in 2012³¹.

Larger smelter capacities compared to other regions provides economies of scale. Also relatively young smelting capacities with latest technology features enhance productivity of the regional plants. These coupled with cheap energy availability and GCC's focus on

²⁹ Source: Gulf Industry – March 2012 (Volume 21 Issue 3)

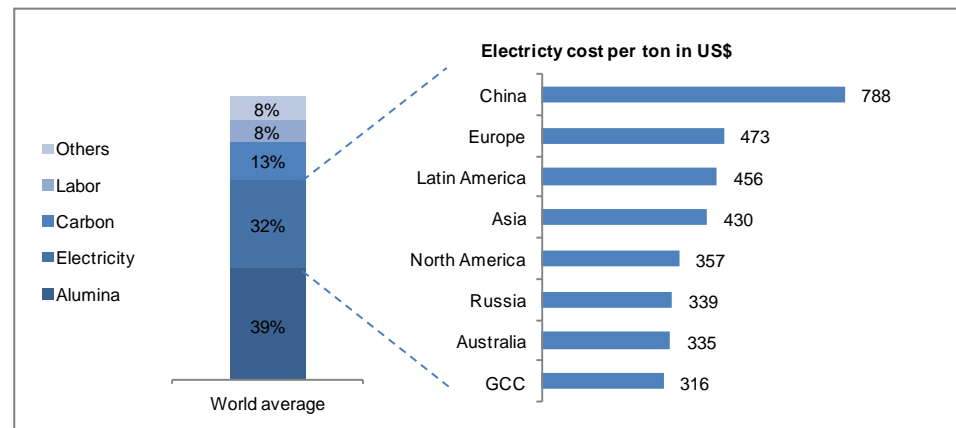
³⁰ Alpen Capital is currently mandated as the financial advisor on this Project

³¹ Source: <http://www.emirates247.com/business/economy-finance/gcc-seeks-investments-in-aluminium-2013-04-10-1.502115>, McKinsey Report

Sugar refining in the region is limited to few companies; majority of the requirements are met through imports

positioning only in the smelting segment of the aluminum value chain provides the region with distinctive cost advantage in the aluminum segment.

Exhibit 20: GCC structural advantage in aluminum smelting



Source: AT Kearney Report 2011, Alpen Capital

The GCC region has also witnessed significant rise in steel consumption on the back of increased investment in the construction sector; with Saudi Arabia emerging as the largest market in not only the GCC but in the MENA region as well. The GCC countries will continue to remain major consumers of steel products, due to their continued investment in infrastructure and the petrochemicals sector. The demand for steel in the region is rising at ~5- 6% annually. It is predicted that by 2015³², the GCC region will account for ~35-40% of the global steel production, which will exceed 23.1million tons up from 20.7 million tons in 2012.

Other sectors

Continued government spending to boost competitiveness, self-reliance and developing local skilled work force would offer potential investment opportunities in the following sectors:

- i. **Information and communication technology (ICT):** GCC countries have excellent ICT infrastructure due to direct government investments as well as private sector participation. The ICT sector in the region continues to be one of the fastest growing sectors. The IT services sector in Gulf States is expected to grow at a CAGR of 6–10% through 2015³³. Emerging trends in the industry includes opportunities in cloud computing, big data, security and enhanced mobility applications. India-based ICT firms or subsidiaries of multinational firms are already playing an important role in the development of the sector in the region.
- ii. **Agriculture and Food Processing:** Food consumption in GCC is driven by the growing population, rising income levels and changing lifestyle. The sector is estimated to grow at 3.1% CAGR over 2012–17³⁴ to reach 49.1 million tons. The region is traditionally dependent on imports (accounted for more than 70.0% of its total food requirements in 2010) due to significant scarcity of water supplies, harsh climate and poor soil conditions. The region's food imports expanded at a CAGR of 10.6% to US\$ 28.4 billion over 2007–11. According to EIU, GCC's food import bill is expected to double to US\$ 53.0 billion by 2020 from US\$ 26.0 billion in 2010. Currently, KSA and the UAE together account for about 75.0% of the region's total food retail market.

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

³² Source: Constructionweekonline.com

³³ Source: Trade Arabia, Gulf sees IT sector grow 10pc through 2015, January 23, 2012

³⁴ Source: Alpen Capital GCC food industry 2013

Increasing presence of India-based companies in ICT, financial services and education

GCC region. This is also particularly important due to soaring international food prices. Production difficulties in certain supplying nations have heightened food security concerns in GCC.

- iii. **Education:** GCC countries are facing high level of unemployment among the local populace due to disconnect between existing skill sets and employer requirements. The region has to largely depend on the expatriate labor force. GCC countries have realized this gap and are investing heavily to develop human capital.

GCC countries have effected reforms and established various governing bodies to improve overall education system. KSA, in particular, is spending 5.6% of GDP on education compared to world average of 4.4%. We expect total number of students in the GCC region to grow to 13.7 million in 2020 from around 11.1 million in 2013, implying a CAGR of 3.0% (refer our GCC Education Industry report published in July 2014). Higher demand for education would also propel growth in the number of schools in the region.

Presence of a sizable Indian population in the region can be a strong facilitator as Indian education is considered to be highly relevant in the context of private sector employment opportunities. Indian education brands, such as Kidzee, EuroKids, Kangaroo Kids, Shemrock, Delhi Public School and Shemford schools, have already forayed into the region to cater to the local Indian expatriate population as well as the local populace. Indian universities, such as BITS Pilani, Manipal University, S.P. Jain, Amity University and Mahatma Gandhi University, have also established their footprint for higher education in GCC.

- iv. **Financial services:** India has a well-developed, as well as sound banking and financial services sector. Indian financial services companies are actively looking at expansion opportunities in the GCC countries, which are rapidly expanding and host a large population of Indian expats. For instance, Reliance Capital (among India's top four private sector financial services firms in terms of net worth) is investing in the GCC region to build a US\$ 2.0 billion business over the next five years.

The insurance industry in GCC is estimated to expand at a CAGR of 18.1% to US\$ 37.5 billion over 2012–17, with life and non-life segments accounting for US\$ 2.4 billion and US\$ 35.1 billion, respectively. Life and non-life insurance segments are expected to grow at an annual average rate of around 2.0% and 20.0%, respectively, during the same period. The non-life insurance segment is likely to register strong growth, driven by the momentum of construction and infrastructure activities, and increasing penetration of medical and motor insurances. Non-life insurance penetration is likely to surge to 1.9% from 0.9% during 2012–17. Insurance penetration in GCC is estimated to improve to 2.0% in 2017³⁵ from 1.1% in 2012.

- v. **EPC:** GCC is forecasted to award contracts worth over US\$ 50.0 billion in oil, gas and petrochemical projects in 2013, almost double the US\$ 27.0 billion expected to be awarded in 2012³⁶. This augurs well for India-based EPC companies.

India-based firms such as Asian Dodsai are undertaking projects including Qatar Petroleum's Ras Laffan Common Cooling Sea Water System Phase-II, worth around US\$ 951 million; Dolphin Energy's Dolphin Onshore Facilities Project, worth about US\$ 35.0 million; Essar Projects, three new orders totaling US\$ 80.0 million in Abu Dhabi; and Chiyoda Technip's Ras Gas Onshore Expansion Project Phase 2, worth around US\$ 180.0 million.

³⁵ Source: Alpen Capital GCC insurance Industry Report, 2013

³⁶ Source: MEED Insight

5. Challenges and Barriers

GCC nations enjoy impressive rankings in the World Bank's 'Doing Business Index' and the 'Global Competitiveness Index'. In fact, GCC rankings are higher than the Euro, MENA, and Developing Asia regions, which imply a superior business environment. However, despite the GCC region's better rankings, the region poses some hurdles to cross-border investments. Availability of cheap labor from Asian countries has put the local population of GCC at a disadvantage. Recent social upheaval in the adjoining regions highlights the importance of employment among locals for social cohesion. Government's efforts to create more jobs for the local population by way of promoting diversified economic activities apart from the region's core hydrocarbon sector is expected to reap benefits. This would see some GCC states adopting protectionist policies to support budding industries, spur growth in local production, and generate more employment opportunities.

Key Investment barriers faced by India in GCC

- a) **Hurdles in economic integration:** The GCC nations have entered into a series of agreements to promote regional cooperation and cross-border economic activities. These include: (i) an economic agreement (2001) to emphasize on trade, investment, and other economic activities; (ii) a customs union agreement (2003) designed to eliminate restrictions on internal trade and establish common external tariffs; and (iii) a common market status agreement (2008) for creating a single environment where citizens of member countries can enjoy equal rights and privileges. GCC has struggled to achieve most of its stated goals, with the customs union agreed a decade ago not yet taking effect. Divergent rules, procedures, and standards adopted by member nations remain a key trade barrier for a true customs union. Full operation of the GCC union is estimated to begin in 2015. The establishment of a monetary union with a single currency, which was earlier planned to take effect in 2010, has been postponed. The recent Eurozone crisis has also cast a shadow on the stability of a monetary union delinked from a fiscal union.
- b) **Protectionist measures:** Reliance on the hydrocarbon sector has created fewer employment opportunities, and shortage of skilled local workforce, which prompted rapid migration of skilled labor from South-East Asian countries. Recent diversification initiatives have resulted in increased investments in the energy-intensive sectors, where low energy costs provide a competitive advantage to the region. However, labor-intensive industries, which would mostly employ high-cost local labor, would require protection in terms of higher import tariffs to justify an investment. The establishment of a customs union and a similar demographic structure in the GCC would see the states cooperating in raising tariffs to protect their nascent industries. The GCC petrochemical industry is also under serious threat, with high-cost producers in Europe and Asia on the verge of imposing protectionist tariffs to counter the low-cost output from the GCC region.
- c) **Human resource constraints:** During 2001–11, the GCC region witnessed a CAGR of 4.5% population growth (from ~30.0 million to ~47.0 million), almost triple the world rate. This was driven by 7.4% CAGR in expatriate population, which as a percentage of total population grew from 36.0% in 2001 to 48.0% in 2011. Population growth rate among the nationals was around 2.4% over the same period. With an estimated 54.0% of the population under 25 years of age³⁷ and the avenues for employment in public domain close to exhaustion, the private sector is expected to provide the much needed impetus in job creation. GCC governments are now rapidly investing in education and training sectors to build a skilled local workforce in order to meet employability standards of the private sector. However, in the near term, GCC would continue to rely on migrant workforce from the South-East Asian countries.

Regional cooperation key to development

Diversification initiatives would see increased protectionism on GCC's part

³⁷ Source: Kuwait Financial Center (Markaz)

- d) **Expatriate policies:** Currently, as many as 18.7 million expats (15.0 million Asian expats) are living in the region, of which migrant labor workforce is ~13.0 million³⁸. Although trade unions are banned in GCC, there have been labor unrests initiated by South and East Asian migrant labor force, citing low wages and poor working conditions. The GCC states have also started adopting policies to reduce proportion of expats workers in the region considerably. UAE's 'Emiratization policies', Saudi Arabia's Nitaqat law, and Kuwait's vision to reduce the number of expats to 1.0 million from the current 2.0 million over a period of 10 years are initiatives in this regard. Similarly, Bahrain, Oman, and Qatar have adopted their own variants of labor protectionism. Low rate of employment for female workers, wage stratification, and recent fallouts with nations such as Sri Lanka, Indonesia, and Philippines over labor concerns would deter the influx of skilled labor force in future. Transition towards employing local workforce will result in higher labor costs and reduced productivity.
- e) **Lack of official publication and database:** Inadequate disclosures on investment regulations and economic policies among member states fail to impart transparency in business relationships. Disclosures on sector-wise FDI flows and trade ties remain sparse or are not updated regularly across many GCC states. This poses hurdles in analyzing investment trends and potential for investors.
- f) **Procedural hurdles, red-tapism:** Despite the fact that GCC ranks higher than India in 'ease of doing business' and 'business confidence' index, bureaucratic red-tapism is prevalent in GCC, which continues to hurt investments. According to a survey 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 region³⁹.
- g) **Economic vulnerabilities:** Over-reliance on the hydrocarbon sector has left this region vulnerable to the vagaries of oil prices, a fact evident from the 2008 global economic meltdown (GCC's nominal GDP contracted 18.6% in 2009). With the oil & gas sector still contributing ~49.0% of GCC's nominal GDP and with much of the government expenditure still indirectly linked to this sector, fluctuations in oil prices could have an amplified impact on these economies.
- h) **Investment barriers:** GCC countries also follow divergent standards regarding FDI regulations. In addition, absence of a competent investment authority in the region remains a drawback. Although measures have been taken to improve the investment environment, underdeveloped capital markets are still an impediment to investments. Though the recent volatility episode with Indian rupee has receded, lack of currency stability serves as a barrier to the cross-border investments. The RBI's imposition of increased restrictions on overseas investments by Indian firms, given the volatility faced by the Indian Rupee (which depreciated more than 20.0% in 2013 to an all time low of 68.8 against US\$, before stabilizing ~60-62 range) was lifted in September 2013. The RBI eased the recent curbs by allowing firms that have raised funds via the external commercial borrowing (ECB) route to invest up to 400% of their net worth against a month ago limit of 100%.
- i) **Lack of global experience among Indian companies:** Though Indian IT companies have plenty of international exposure, the same is not true for Indian infrastructure companies. Barring a few, most Indian infrastructure companies lack the experience required to execute sophisticated infrastructure projects and tap the vast construction opportunities that the GCC region presents. A recent Zawya report highlighted that US\$ 2.87 trillion worth of projects are currently in the design, bidding, or construction stage in the GCC region, presenting tremendous opportunity. On the contrary, such major projects in India are being executed by some of the companies working on projects in the GCC region.

³⁸ Source: BBC

³⁹ Source: Zawya

6. Recommendations

- ✓ **Lucrative opportunities in GCC warrant higher investments:** Economic slowdown and structural deficit concerns in developed markets (such as the US and the UK) as well as sovereign debt concerns in the Eurozone are making investors evaluate alternative investment avenues and shift focus to higher yielding markets. GCC as a block has been witnessing ~6–11% annual GDP growth over 2003-2012 barring 2009 when the combined GDP of the GCC region contracted. The return on investments in the GCC has outpaced that in the Western World over the last decade. FDI to GCC from India (at US\$ 1.6 billion) has increased in recent years; however, it still remains miniscule (at 1.1%) considering the trade flows between the two regions, which reached US\$ 145.7 billion in 2012. Given the slowdown in the Indian economy over the last two years, bureaucratic hurdles delaying projects, and the need to diversify, a growing number of Indian corporates are now looking for overseas investment opportunities. Close proximity and regulatory advantage could see the GCC region emerging as the preferred destination for the re-export industries.
- ✓ **GCC governments should actively promote GCC as an attractive investment destination:** GCC governments should proactively identify sectors of growth and invite Indian companies with strong skills and expertise in these sectors to set up in the GCC. Increased delegation visits could encourage bilateral investments and increase economic cooperation. Accelerated talks and negotiations on the FTA could further improve ties between the two regions. GCC's Sovereign Wealth Funds could also look for greater participation in the Indian markets, providing much needed respite to the cash-starved Indian infrastructure sector.
- ✓ **Include Indian companies in the Public Private Partnerships (PPPs):** While Indian companies can add a lot of value, they don't have much representation in existing (PPPs) in the GCC. The governments could take steps to include Indian companies in the PPPs
- ✓ **Emphasis on value-added production:** Trade ties can be expanded beyond the current exports and imports to include re-export and re-imports. Indian downstream players could be encouraged to establish businesses in the GCC region (which has abundant hydrocarbon supply) to develop value-added products such as fertilizers that can be re-exported to the Indian market; while the GCC nations could invest in the Indian agriculture and food sectors, which will help them attain food security.
- ✓ **Establishing a competent investment authority in all GCC nations:** While ensuring political stability and minimization of bureaucratic bottlenecks are essential for attracting investments, the GCC region should also establish competent investment authorities in each country, which can impart transparency and guide investors toward potential investment avenues across the region. Official publication and databases relating to trade and investment flows should also be made widely accessible and regularly updated. The GCC nations should also review the ownership norms and relax the local partner requirements. A further review of the legal process is required to reduce costs and time involved in litigations.
- ✓ **SME participation vital for growth in investments in GCC:** SMEs play a crucial role in the GCC governments' diversification initiatives and might become a key driver for employment generation and GDP growth in future. As such foreign participation should be encouraged in this sector. India has established its presence in the SME business model globally; however, its proficiency still remains underutilized in the GCC as majority of investments have been made by Indian business houses in areas that already have a footprint in the region. Efforts should be made to encourage SME investments on both sides in new areas to leverage on the burgeoning trade.

- ✓ **Ease visa restrictions and ownership guidelines:** While movement of nationals across the GCC region is not constrained by visa requirements, all six countries follow different norms with regard to foreigners. 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. The GCC countries should consider long-term visa schemes for corporates and other investors to promote investments. The GCC nations should also expedite the unified GCC visa implementation and undertake labor reforms to maintain access to qualified workforce. Similarly ownership guidelines could be relaxed for specific projects critical to expansion of GCC's non-oil sectors.
- ✓ **Regional cooperation:** In order to forge closer ties and promote seamless flow of investments, all GCC countries should rationalize their operating cost structure. Besides making locally produced products more competitive internationally, this would help promote the region as an export hub. The GCC nations should also engage in talks to expedite the smooth functioning of the customs union and evaluate implementation of the proposed monetary union.

7. Case Studies – Indian companies setting up in GCC

Oman India Fertilizer Company SAOG

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 tons 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. At the same time OMIFCO has entered into an ammonia off take agreement with Indian Farmers Fertiliser Cooperative (IFFCO). The project is mainly focused on producing urea (annual capacity of 1.6 million metric tons) and ammonia (1.2 million metric tons).

Shareholders in OMIFCO are Oman Oil Company (50.0%), Krishak Bharati Cooperative Limited (25.0%) and Indian Farmers Fertiliser Cooperative (25.0%).

The construction of the project started on October 1, 2003 and was completed in July 2005 at a cost of US\$ 968.0 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 100.0%. In 2011, capacity utilization in ammonia is at 125.7% and in urea is at 124.6%
- 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. OMIFCO decided to allocate 30,000 MT of its urea production to the local market in 2013



Snapshot

Year established	1974
Ownership	Government
Sector	Chemicals
Prod. Capacity (Ammonia)	1,750t/day
Prod. Capacity (Urea)	2,350 t/day
Capacity Utilization	124.6%(2011)
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 US\$ 464 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-ton 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 tons (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 2013-14, Shadeed's net profit was quoted at US\$ 45 million for the period
- Jindal Steel & Power expects to invest about US\$ 525.0 million to expand Shadeed's capacity from 1.5 MTPA to about 5.0 MTPA by 2015-16. It has already raised about US\$ 475.0 million for this expansion
- Jindal Steel and Power commissioned 2.0 million tons per annum (MTPA) capacity plant in Oman in April, 2014

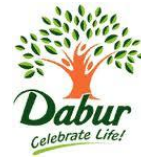
Snapshot

Began Operation	2010
Ownership	100% Private Sub.
Sector	Steel
Capacity	1.5 MTPA
Geographic Presence	Oman
Assets (US\$ million)	958.5 (2013)
Net profit (US\$ million)	45 (2013)

Source: Jindal Steel & Power

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.

Snapshot

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

Source: Dabur India

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

- Dabur International has an overall turnover of over US\$ 1.0 billion and a market capitalization of US\$ 4.0 billion
- The company claims the International Business division is the cornerstone of its growth strategy delivering CAFR of over 40.0%. The division already contributes a third of the Dabur's consolidated revenues with the GCC as key growth market. Within International segment, MENA account for 40.0%
- Dabur expects the FMCG industry in the GCC region to account for sales of US\$ 1.9 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 and extend its product portfolio in this region

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 80.0% 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 US\$ 380.0 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 clinker 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 INR 8.0–10.0 billion and be accretive to its earnings. With the acquisition Ultra Tech Cement is eyeing a 10.0% share in the Middle East Market
- ETA Star Cement commands a market share of about 10.0% in Dubai and 20.0% 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

WAFA Insurance

Saudi Arabia

Description

WAFA, earlier known as 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. WAFA 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.

WAFA's product portfolio currently includes motor, property, accident & liability insurance, engineering, liability, health, Takaful, protection, travel, marine cargo and protection & savings insurance.

According to Zawya, WAFA came out with an IPO of SAR 40.0 million in May 2007. The IPO was oversubscribed by nearly 14.0%. Since flotation, WAFA's share price has gained 665.0% 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., WAFA 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, WAFA's gross policy contributions grew significantly over the last five years, totaling SAR 196.9 million in 2013. Net loss reported by the company has taken a hit after posting gradual improvement in past four years
- WAFA plans to increase outlets and expand reach to other parts of Saudi Arabia

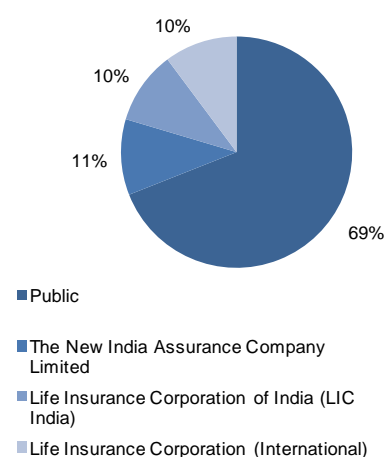


Snapshot

Year established	2007
Ownership	Public
Sector	Insurance
Products	Life & Non-Life
Employees	130
Geographic Presence	Saudi Arabia

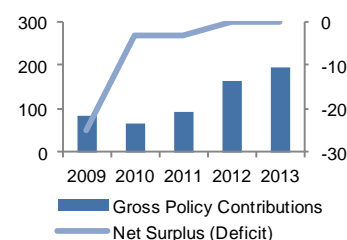
Source: Zawya

Shareholding



Source: Zawya

Financial Performance (in SAR millions)



Source: Zawya

Reliance Exploration and Production DMCC

UAE

Description



Reliance Exploration and Production DMCC (REP DMCC) is a wholly owned subsidiary of Reliance Industries Ltd. The company was founded in 2007 and is based out of Dubai, UAE. REP DMCC is engaged in oil and gas exploration and production services. The subsidiary has ownership interests in offshore exploration block in Oman, oil block in Yemen, and has carried out exploration projects in northern Iraq, East Timor, Peru, Australia, Kurdistan and Columbia. In 2012, Reliance Industries Ltd, made an investment of US\$ 302.0 million in this subsidiary.

In 2012, REP DMCC concluded the divestment of its working Interest (25.0%) in the PSC for Yemen Block-9 as well as divestment of its working interest (80.0%) and operatorship in the PSCs for the blocks in the Kurdistan region. It has farmed in Block 39 (Peru) with 10.0% participation interest and relinquished Block 155 (Peru) where it had 28.3% participation interest. The results of exploration from Oman and East Timor haven't been encouraging either with the company writing off US\$ 177.0 million.

Financial Performance & Outlook

- As per Reliance Industries Ltd's annual report 2013-14, REP DMCC's 2013 net loss was US\$ 9.9 million as compared to a loss of US\$ 6.4 million in 2012
- Total assets have increased from US\$ 108.0 million in 2012 to US\$ 118.3 million in 2013

Snapshot

Year established	2007
Ownership	Private
Sector	Oil & Gas
Total Assets (US\$ million)	108.0
Turnover (US\$ million)	-
Net Profit (US\$ million)	(9.9)
Geographic Presence	UAE

Source: Reliance Industries Ltd.

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 90.0% stake, while the remaining 10.0% 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 US\$ 150.0 million (funded at a debt equity ratio of 2:1), would have a production capacity of 0.6 million tons per annum (MTPA) of white cement with a provision to change over to 1.0 MTPA of grey cement. The plant is designed to have flexible production process to suite the market demand i.e. either produce only white cement or grey cement or mix of both. It commenced production in March 2014, and has been 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. Middle East has registered the strongest growth in white cement consumption over the period 2002-10 with a CAGR of 9.1%. Considering that the Middle East accounts for 16.0% of the global demand for white cement (expected to rise to 18.0% by 2015), JK Cement's venture in the market was warranted.

Together, JK Cement's new plant and its existing white plant in India brings the company's total white cement capacity to 1.2 MTPA. The Company remains one of the top 5 producers of White Cement in the World.

Snapshot

Year established	2011
Ownership	Private
Sector	Cement
Prod. Capacity (projected)	0.6 MTPA
Investment (US\$ million)	150
Geographic Presence	UAE

Source: JK Cement

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