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VIEWPOINT

India’s Growing Investment Relations with UAE under the New Government

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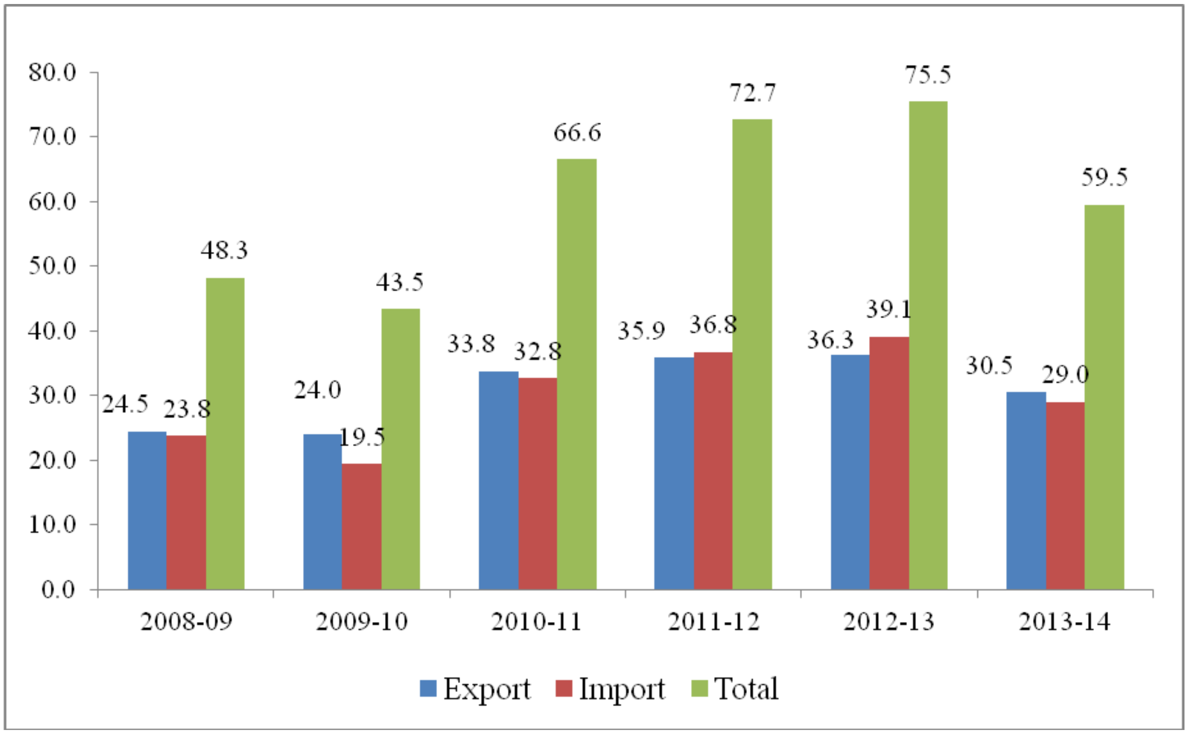
India's Foreign Minister, Ms. Sushma Swaraj was on a three-day visit to the United Arab Emirates (UAE) from 9 to 11 November 2014. This was her maiden visit to any Gulf country since the new government took office in New Delhi. One of the main objectives of her visit was to attract investment from the UAE by showcasing India’s new investment policies and sectors, promoted under ‘Make-in-India’ programme. New Delhi is now ready to establish a partnership model of growth, rather than simply offering India as a market to foreign corporations. Looking at India’s ‘Go Global’ approach and its growing receptivity in the world market, it seems that this is an opportune time for the UAE investors to increase their stakes in Indian economy. While talking to investors in Dubai, the foreign minister said, "I feel that there is no better time than now for the UAE business community to join our hands as partners in India's growth story. There are immense possibilities to enhance trade and investment cooperation."

Looking at the trajectory of economic engagements between India and the UAE, trade has been one of the consistent elements, which has recorded impressive results of growth. Since 2010, UAE has been India’s largest trading partner, leaving behind even its traditional partners, such as the US and China, while in WANA (West Asia and North Africa) region, it accounts for approximately 59 per cent of the total USD 205 billion (2012). (*Figure*)

India's Total Bilateral Trade with UAE, 2008-2014 (USD billion)



Source: Ministry of Trade & Commerce, GOI. Figures are rounded off.

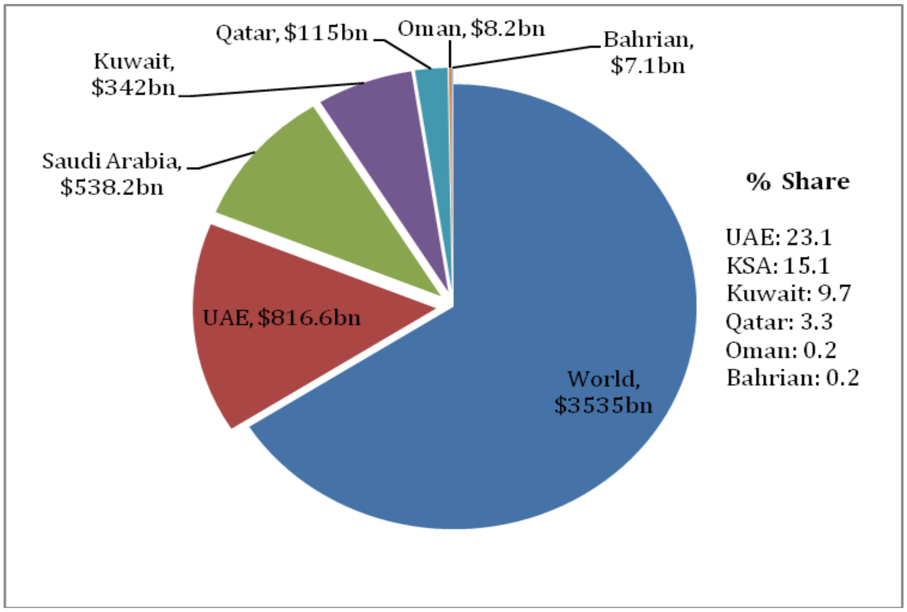
However, trade between the two countries has approximately reached its limit. The UAE has been working as a trade corridor for three big markets of the Indian goods, namely the Gulf, West Africa and Central Asian countries, including Iran, Afghanistan and Pakistan. In recent years, most of the countries of these regions are establishing direct bilateral economic relations, including trade with India. As a result, in future, there is likelihood that UAE may lose its significance of being trade corridor for the region.

Nevertheless, investment provides a bigger scope for a deeper and wider base of economic cooperation between New Delhi and Abu Dhabi. The UAE and its commercial hub Dubai, which is recovering from financial crisis, are in search of safer and better returns for its capital. The potential investors from UAE are also aware that the economic gravity is now shifting from the West to the East and the emerging Indian economy offers one of the most lucrative markets for their capital investments in the East. On the other hand, New Delhi has also made significant reform to boost the confidence of the investors in general and the UAE in particular. On 24 November 2014, it has put Bilateral Investment Protection and Promotion Agreement (BIPPA) into practice and also implemented the much awaited Double Tax

Avoidance Agreement (DTAA). These two agreements not only ensure high returns, but also provide safety to investment of the UAE investors, which was missing in the past.

Although, UAE is the 10th largest investor in India, its total invested capital is only around USD 8 billion, around US$2.3 billion is in the form of FDI, while the remaining is portfolio investment (UAE Embassy). Looking at the size of its Sovereign Wealth Fund (SWF) and the diversification drive of the UAE on the one hand and the vast capital requirement of the Indian economy on the other, both countries need to explore common grounds for deepening and expanding their ties in areas where both can benefit. The UAE has one of the largest SWF in the entire world (*see pie chart*); its private sector is more risk-taking than other GCC countries. The growing Indian economy offers opportunities in some of the sunrise sectors where the investors from the UAE can invest and enhance their returns. These investors can target diversified areas, including automobile, aviation, biotechnology, electronic system, renewable energy, thermal power, tourism and hospitality, real estate, health, pharmaceuticals, financial market, banking, aviation, tourism, upstream and downstream sectors, renewable energy, ICT, consultancy, media and entertainment, etc. In the next ten years, these sectors of Indian economy are estimated to absorb more than USD 3 trillion, while infrastructure sector alone requires up to USD 1 trillion in five years.

Pie Chart: Share of UAE in Global and GCC SWF, 2013



Source: UN, 2013. Figures are USD billion.

India also offers opportunities to those cash-rich people, who are either averse of taking business risks or do not want to be active trade partners, while their money lies in various banks like dead assets because they do not take interest on their deposits. India should try to attract this idle money and ensure risk-free and interest-free better returns on their investments. Under *Bharat Nirman* initiative, India has focused to develop rural areas where more than 65 per cent of India's population resides. These investors can finance projects in the agriculture sector, such as food processing, irrigation, R&D activities for developing new water and pest resistant varieties of crops like wheat, rice, etc. They can also finance health-sanitation-energy for all projects, besides education, skill development, mining sector and harnessing local resources, including solar, wind, and supporting the developmental initiatives of small and medium scale enterprises (SMEs). They can also invest capital in urban planning, science and technology and manpower development projects. The investors can enter into agreements with both state governments and the centre and safeguard their interests. Several countries, such as Israel, China, USA, Japan, etc., have entered into India's federal investment policies.

However, in order to attract the UAE investors, India needs to undertake some reforms in its banking and financial sectors. It should introduce Sharia-based financial system on the similar pattern that it has announced at the domestic front recently. The State Bank of India has planned to launch Sharia-compliant mutual fund to integrate 170 million Muslims in banking system because Islamic law (Sharia) prohibits interest. The bank is estimated to attract around USD 16.8 million from the Indian Muslims in the initial stage. Similarly, in May last year, the Bombay Stock Exchange (BSE) launched India's first Sharia index, which tracks the performance of Sharia-compliant companies. According to one estimate, around 600 to 700 companies in India are Sharia-compliant and this may enable India to attract the Global Islamic banking assets, which are estimated at around USD 1.8 trillion (2013). (Economic Times, 26 November 2014, SBI website).

In addition, India should also develop close and direct contacts with the local UAE investors. New Delhi should translate the Make-in-India policies into Arabic language and circulate among them through embassies and consulates in all the Gulf countries, including the UAE. This policy can be executed in all targeted regions, which are on India's investment radar.

India can target the large expatriate community, 2.6 million, living in the UAE. The liberal visa and business rules have enabled these expatriates to become entrepreneurs, who have acquired both money and business acumen. While inaugurating a book, "Indian Super 100", which covers the success story of top 100 NRIs in the UAE, the Minister also recognised their entrepreneurial abilities. She said, "Indian Super 100' was a shining example of the capabilities of the Indian entrepreneurial spirit", (Business Standard, 14 November 2014) and urged: "You [Indian expats] have earned a lot here [in the UAE]. You'll also earn in India [by investing there]. Repay the debt to India, who has been like a mother to you. (Gulfnews, 12 November 2014)". India should attract these expatriate-turned-investors to the desired areas. It will be easier for India to handle them and, at the same time, they can work as India's economic ambassadors to the UAE.

India and the UAE also share common perceptions to work together to maintain peace and stability in their respective regions. Recently, two developments; one, separating religion from terrorism as stated by the Indian Prime Minister, Narendra Modi, and second, blacklisting of 82 entities as terror organizations by the UAE authorities, further opened the ground for mutual cooperation. Out of 82, two Indian organizations, namely Indian Mujahedeen in Kashmir and the Mohammed Army of India, and four of Pakistan – the Mohammed Army of Pakistan, Haqqani Network, Eastern Turkish Islamic Movement in Pakistan and Lashkar-e-Taiba (LeT) are blacklisted. Blacklisting of LeT is an open indication that now the Gulf countries not only realise that Pakistan promotes transnational terrorism and crimes in the world, but also harbours these non-state actors, which are common enemies to both. India can utilise this and build up pressure on Pakistan to bring the LeT to justice, which carried out the 26/11 Mumbai attack.

The inauguration of a crematorium by the Foreign Minister in Sharjah for performing the last rites of Hindus and Sikhs and opening up a social centre for Indians in Ajman simply shows that both countries are having 'shared concerns in trade, investment and security'.

In conclusion, the 21st century offers a great scope to India and UAE to convert their potentials into a natural partnership. Trade, investment and security are the areas where the two countries need a pro-active engagement.

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Disclaimer: Views expressed are of author and do not reflect the views of the Council.