



## **India-Saudi Arabia Policy Engagements: Some Suggestions**

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### **Introduction**

India and Saudi Arabia, the two regional powers, have nurtured their relationship in the past through trade and commerce, cultural exchanges and people to people engagements. With the passage of time, the two countries evolved their engagements into a more nuanced and diversified areas such as energy, migration, trade and investment, security, defence, counter-terrorism and capacity building. In fact, these developments between New Delhi and Riyadh were taking place in the backdrop of the narration that Pakistan accounted a more significant position in Saudi Arabia's geostrategic calculation. The relations between the two even sustained during the Cold War. In the aftermath of the 9/11 events and the US Global War on Terror (WoT), the two countries further came closer. They cooperated with the US in the WoT and shared common perceptions with regard to Al Qaeda and its growing threat of terrorism in their respective regions. These developments, in fact, necessitated for a greater and deeper cooperation between the two countries. The relations between India and Saudi Arabia was galvanised by the visit of the Saudi King Abdullah in 2006. This visit not only filled the void of more than five decades' of political exchanges at the highest level but also prepared the ground for building a broad-based relationship, which suited to their national interests in the changed regional and global order. The two documents 'Delhi Declaration' (2006) and the 'Riyadh Declaration' (2010) signed in the respective capitals, carry the blue prints of mutual urge of deepening and expanding their cooperation in the 21<sup>st</sup> century.

**Saudi Arabia**

Riyadh enjoys some natural privileges such as being the Custodian of Two Holy Cities, the largest deposit-holder and producer of oil in the world and holding an impression of ideological pre-eminence, particularly in the Sunni world of Islam. The Kingdom plays an important role in some of the regional organisations such as the Gulf Cooperation Council (GCC), Organisation of Islamic Conference (OIC), League of Arab Nations (LAN), and Organisation of Petroleum Exporting Countries (OPEC). The stance of the Kingdom is visible in region dynamics, including the asymmetrical groupings active in Syria, Iraq, Lebanon and Afghanistan. Economically too, the Kingdom is now in a comfortable position. During the recent oil windfall it has built substantial foreign reserves, approximately \$900 billion, which has enabled the Kingdom to not only correct its continuing fiscal imbalances but also restart developmental activities, including construction.

**India**

India's position has also drastically improved in comparison to 1973-74, when it could not partake in the oil-boom led buying spree of the Gulf countries. Almost all deals, including contracts for construction projects, were appropriated by the US-Western corporations. Today, India is one of the fastest emerging economies of the world. Under 'Make-in-India' policy New Delhi offers one of the most lucrative markets to the global investors. Besides, India is also one of the largest energy-consuming economies, third in the world and second in Asia. It offers a big market to energy exporters. New Delhi has also nurtured one of the largest productive and skilled workforces and middle classes in the world. Mostly English-speaking and bilingual, this middle class has cut the language barriers across the world and has occupied a significant place in technology and Internet-driven world. To sustain its human resource quality, India has focused on promoting higher education, ICT and information technology; developing low-cost medical services; and promoting the pharmaceutical industry.

Despite these potentials and promises, the two countries have not been able to adequately utilise the existing advantages for themselves. In this policy brief, few of the important areas that need a further study and effective dialogue for cooperation are listed below:

## Energy

### (a) Hydrocarbons

Energy has been one of the fundamental pillars, which has sustained the bilateral relations of India and Saudi Arabia for decades. Looking at the growing demand for oil and LPG in India, it is estimated that by 2040, it will be more than double, from the present 3.7 million barrels per day (mb/d) to 8.1 mb/d (EIA).<sup>1</sup> Already more than 40 per cent of India's total import bill is occupied by POL (petroleum, oil and lubricants), while the fluctuating energy prices in the world markets continue to produce cascading effect on the overall economy and society. Under this scenario, India needs not only to manage its growing energy bill, but also participate in a new kind of arrangements with the Kingdom, which can secure its oil and gas supplies.

Some of the policy actions can be considered to create a win- win situation for both countries, i.e., lessening the burden of the growing energy bill on India on the one hand and hedging the Saudi energy interest in India market, on the other:

- (i) Both countries need to change the current buyer-seller relationship into a partnership. Indian investors can be given opportunity to invest in gas sector in Saudi Arabia. This will be quite favourable to India, as the Indian government, under its Strategic Plan 2011-17, is moving towards supplying affordable and assured energy to all its citizens
- (ii) Both India and Saudi Arabia can consider of doing energy business in local currency, i.e., Rupee-Rial. This is not a new proposition, India is doing with Russia and has done in past with Iraq.
- (iii) India has the sixth largest refinery hub in the world, earning around USD60 billion annually through the sale of petroleum products. India is mainly covering the refined Asian petroleum markets and in recent decades, Saudi Arabia has also turned to capture the Asian crude market. As a result, Riyadh

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<sup>1</sup> Already in 2005 India surpassed Japan in energy consumption, becoming the third largest energy consumer after US and China

can synergise its interests with New Delhi and benefit from India's comparative advantage in refinery business: (a) ensure a relatively stable and uninterrupted oil and LPG supply to India; (b) encourage private sector of Saudi Arabia to invest in India's refinery projects; (c) participate in India's upstream sector; and, (d) help maintain strategic oil reserves and lock their long term interests in Indian energy market.

### **(b) Renewables**

India and Saudi Arabia can also work in non-traditional energy areas such as solar, wind and also bio-energy. . India and Saudi Arabia can cooperate with each other in harnessing wind energy. India has emerged one of the largest wind energy producers and has developed industrial capability to manufacture world class wind energy equipments. Saudi Arabia, which has vast coastline, can collaborate with India in this field as well.

India can also collaborate with Saudi Arabia in its solar energy venture. The Kingdom has focused on harnessing solar power in a big way and has established a separate organisation for the same purpose. India, being one of the pioneers in Asia in solar energy sector, can collaborate with Riyadh and emerge as one of its partners. In order to display its technological prowess and capability, India should organise science and technology shows in major Saudi cities; assist the Kingdom in establishing R&D centres to harness solar energy, besides it can also showcase its plan targets in utilising solar energy in total energy mix as a mark of achievements. For instance, it has targeted to generate 100 GW in half a decade. At institutional level both countries can think of engaging their premier organisations devoted to renewable energy, including solar.

### **(c) Nuclear power**

Saudi Arabia has announced to build 22 reactors with an investment amount of \$80 billion by 2020. Riyadh has engaged China in the nuclear energy sector. India can also explore opportunities in Saudi nuclear energy market. With its prospective prowess in this area, New Delhi can think of cooperating the kingdom in some of the following fields: (i) training the Saudi manpower to run reactors; (ii) help Saudi Arabia in developing fast reactors and thorium fuel cycle as Indian has developed expertise in these two areas; (iii) establish R&D in developing and

promoting the use of small nuclear reactors in water desalination plants, particularly in remote deserted areas. Water desalination is one the largest energy consuming sectors of the kingdom; (iv) India can also help Saudi Arabia in nuclear waste management.

## **Trade**

In the last five years, total India-Saudi Arabia bilateral trade has grown threefold, touching around \$48.7 billion (2013-14). The Kingdom is currently India's fourth largest trading partner. However, the trade is highly in favour of Saudi Arabia, which exports three-fourths of the trade figure (\$36 billion) and imports only one-fourth of it (\$12 billion). The deficit in trade is mainly caused by the rising crude prices in international market as well as growing Indian economy's demand for oil. The two countries need to balance and make their bilateral trade sustainable; otherwise India will need to diversify sources it oil import and reduce the Saudi oil share. Currently, India imports a quarter of its total oil import from Saudi Arabia.

Two policy approaches can be considered to make the bilateral trade sustainable. First, both countries can consider "project for oil" policy. Under this, both the countries can encourage their private sectors to cooperate in petrochemicals and renewable sectors. The kingdom can also consider of offering special packages to Indian investors, particularly in the gas sector. India is the third -largest energy market in the world and the second-largest in Asia. It is the right time for the two countries to strike long-term energy deals, including opening up some areas for Indian investors. Already Saudi Arabia has signed deals with China in downstream activities in both the countries..

Second, trade imbalance between India and Saudi Arabia can be corrected by increasing the volume of investments. Saudi capital can come to India's desired sectors and address the trade deficit. Narrowing trade deficits through investment capital is now a global trend.

## **Investment**

In the field of investment, both economies offer big opportunities to each other. India requires more than \$3 trillion in its infrastructure sector. Saudi Arabia, which has an

approximately \$500 billion cash, including the private investors, and is exploring markets for high returns, can be attracted by its Indian counterparts. India's economy can attract and utilise these funds for developmental purposes. New Delhi can ensure the Saudi investors and fund depositors that their funds would not be frozen or become a subject of political arms twisting as occasionally they face in US-Western markets. In India their savings will be channelizing into sunrise areas such as real estate, infrastructure, software, service sector, ICT, information technology, higher education, skill training, healthcare services, R&D, science and technology, space, energy, tourism and hotel and catering industry, consultancy, oil and gas, petrochemicals, power, housing, and road and rail networks, particularly building metro networks.

India and Saudi Arabia can establish joint working groups in core areas of common interests. India's construction industry can explore huge market in housing, water desalination, transport networks, residential cities in Saudi Arabia. Saudi Arabia has started new wave of construction and development activities, particularly after the recent oil windfall.

Besides, the Saudi investors can also think of funding various projects launched by various Indian states and the central government. This will enable them to not only enter the vast Indian market but also lock their interest for medium to long term.

## **Finance**

Finance is another area where India and Saudi Arabia can establish a synergetic relationship. Private capital and Sovereign Wealth Funds are one of the largest in Saudi Arabia. This money could be roped in by the Indian agencies after making necessary adjustments in its financial and banking sectors suited to the principles of Islamic banking and Islamic finance. Several countries like Malaysia, Indonesia, Philippines, Thailand, China, etc., are making suitable adjustments to attract and utilise these funds in their development activities and also ensure adequate returns to the investors.

In India, the Saudi capital can be deployed in equity market, where the investors equally share the burden of both profit and loss and this is allowed by the Islamic rules, which prohibits of taking interest (*Riba*). Bombay Stock Exchange (BSE) has launched first Sharia-complaint Index and approximately 600 to 700 industries are suitable Sharia-based investment.

India has a large Arabic knowing population. After some training in stock market and computers they can be utilised for providing online services to the stock market of the kingdom. This can connect the two largest regional stock markets. Besides, the large bilingual population can also expand the reach of the financial engagements of the two countries across the world.

### **Engagements at multilateral forums**

With big economies and political clouts, India and Saudi Arabia can play an important role at multilateral forums and enhance each other's stature and mutual benefits, both regionally and globally. There are four areas where both countries can collaborate and maximise their common political and economic interest.

- (i) India needs to get an observer status in GCC. Riyadh can play a significant role in this direction. India regards the region as its maritime neighbourhood and in 2005, it declared its Look West policy to closely engage and share the fruits of its growth with these countries. In return, New Delhi can propose Riyadh as an observer in BRICS. Being the largest economy in the Arab world and the only Arab member of G-20, Saudi Arabia probably deserves this status.
- (ii) India also needs to engage closely with the Muslim countries. Hence, joining hands with the OIC seems essential. Saudi Arabia, which has a considerable say in the forum, can play an important role in bringing India to this multilateral platform. This will give India a significant political edge to reach out to the two billion Muslims of the world. On the other hand, it will assist India expose the anti-India propaganda on politically sensitive issues, including Kashmir, before the Muslim leaders.
- (iii) India needs to rope in Riyadh and re-energise the negotiation process of the Free Trade Agreement (FTA) with the GCC, which was signed in 2006. Riyadh and the UAE are not agreeable to including petroleum and petroleum products in the negative list. Once the FTA between India and GCC is signed, the inter-bloc trade is estimated to grow threefold from the present \$160 billion to approximately \$480 billion. This will create large backward and forward linkages and accelerate the developmental activities in

diversified areas in both the countries. Cooperation of the two largest economies in their respective regions and groupings, India in South Asia and SAARC (South Asian Association for Regional Cooperation) and Saudi Arabia in the Gulf and GCC, will also help bring GCC and SAARC as one of the large economic blocs in the world. Both the countries and regions provide one of the largest unexplored markets and resources (hydrocarbons) to the world.

- (iv) On UN reform, both Riyadh and New Delhi share common views. Both are desirous to expand UNSC. Being an influential player in the WANA region and several groupings, Riyadh can play significant role in creating pro-India opinion for New Delhi's candidature for permanent seat in the UNSC.<sup>2</sup>

### **Migration**

Migration is another area that requires dialogue between the two countries. Saudi Arabia hosts one of the largest numbers of Indian contract workers in the world, approximately three million, who remit billions of dollars, approximately \$20 billion, annually back to India. Besides contributing to the Indian economy, they have also contributed greatly in building up a strong Saudi economy and society. However, precedents show that these Indian expatriates hardly have any concrete legal and institutional arrangements to protect and provide them adequate safeguards. In emergencies, they are totally at the mercy of the local agents and people.

Some steps can be taken to ensure security and welfare of the Indian workers in the Kingdom:

- (i) Saudi Arabia is the only country in GCC with whom India has not signed manpower agreement. Both countries now sign manpower agreements and detail out the issues such as sponsorship (*kafala*), issues related to Saudisation, problem of illegal or overstaying and maintaining accurate data of the state of Indians present in the Kingdom.

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<sup>2</sup> Last year, November 2013, Saudi Arabia turned down the UNSC saying it has failed to discharge its duties in an impartial manner. It is now lobbying for a permanent seat for the Arab countries in the UN. Here India and Saudi Arabia can support each other.



- (ii) New Delhi may establish migrant protection and vigilance centres at grassroots levels in different parts of the Kingdom. These centres may conduct some research activities and offer suggestions time to time to both the Indian agencies and the Saudi counterparts. They can also collect information of the working hours, condition of workplace and residence as well as mode and amount of salaries paid to them and various other issues Indian workers face in the deep inside desert areas.
- (iii) Arabic language is a great barrier, particularly for blue-collar workers who totally depend upon the Saudi interpreters and the courts' mercy. Most of the time, these workers reportedly do not get fair treatments suitably. They need some legal and institutional help. For this, there should be some arrangement under which Indian lawyers could provide legal assistance to the Indian workers in their cases in Saudi courts. These lawyers can be provided permits to handle such cases either online or by visiting the host country.

### **Terrorism, security and maritime issues**

India and Saudi Arabia are facing the common threat of terrorism and extremism. The two countries need to develop a specific joint plan to counter this menace. In recent years, Riyadh has shown some degree of maturity by handing over to New Delhi around twelve wanted people. However, leakage of this information annoyed Riyadh, as it affects its image in the Muslim world.

Some steps may be taken by both the countries to counter as well as prevent the potential expansion of ideology-based extremism and terrorism:

- (i) India needs a close interaction with Saudi academia, particularly religious seminaries. A better understanding of ideology and ideology-inspired thinking would enable them to give befitting answer to the propaganda and brainwashing of the susceptible youth falling to extremist traps.
- (ii) Both countries need regular exchange of scholars, social activists and develop a common media policy to counter the linkages between religious fundamentalism and extremism.

- (iii) Religion should be separated from terrorism. It will generate a health debate on the entire issues of ideology-based terrorism.<sup>3</sup>
- (iv) There should be a regular cultural and people-to people programmes and get-together events between the Indian and the Saudi counterparts and the message should go down to the grassroots levels. So, people of both the countries can understand the real actors, who are working on the ground for their vested interest and using religion to mobilise them. This will help India in containing ideological hatred and counter Pakistan; develop a better leverage in the region including Afghanistan; and, finally, tackle *jihadism*.
- (v) India can also learn from Saudi Arabia's de-radicalisation programme, which has been quite successful in turning the soul and mind of some of the hardcore terrorists returned from Guantanamo Bay.
- (vi) Saudi Arabia has also developed comprehensive programme in preventing the youth falling into the wrong hands. In this, the authorities have utilised mass media and public campaigns in spreading awareness. India can benefit from Saudi experiences and both countries may share their intelligence.

### **Security and maritime**

Maritime is another area where both the countries can cooperate and establish robust relations and ensure mutual commitment to each other. Among them, the security of the sea line of communication (SLOC) is one of the prime importance. The bulk of Saudi Arabia's oil is ferried to the Eastern economies through the vast Indian Ocean. India, being a natural maritime power, has capability to ensure not only safe passage of Saudi oil tankers, but also provide security to the entire SLOC between the two straits, the Strait of Hormuz and the Strait of Malacca. India has also expressed its willingness to be the net security provider in Indian Ocean. Riyadh can partake and benefit by sharing intelligence and real time information from India.

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<sup>3</sup> Recent, the Indian Prime Minister Shri Narendra Modi stressed to separate religion from terrorism.

The two countries have also signed a joint defence cooperation agreement, which can be expanded to naval engagements as well. India can also invite Riyadh to participate in various annual naval exercises (Malabar, Milan, etc), which New Delhi conducts every year with major naval powers, including neighbouring countries and regional associations. This is easier to conduct as Saudi Arabia is the member of India-mooted IONS (Indian Ocean Naval Symposium).

### **India's Policy approach to the Gulf**

The Gulf is one of the most significant regions of India's national interest. It is directly linked to India's economic growth and development. The region also contributes to India's food security by supplying the bulk of rock and chemical fertilisers. This Gulf region is, however, currently passing through a high phase of instability. It is divided into all sorts of schisms such as Shia-Sunni conflicts, race for regional supremacy, tribal and ethnic conflicts, revision of past, and the unending Arab-Israel disputes. Looking at different power centres, India's Gulf policy needs to draw three concentric circles, each representing different power centres: the first circle is Riyadh-centric, which includes GCC and its allies in the Arab world; the second circle comprises Tehran and its allies, while the third one is Israel-centric, which includes US, an exogenous non-resident power also. All the three circles are important for India and represent different sets of national interests. As a result, they need different policy prescriptions.

Looking at the high stakes, which India has in the region, New Delhi needs not only to be cautious, but also non-partisan; it should maintain an equi-distance policy with all the three circles. This is important because New Delhi should keep its long-term vision of garnering the support of the Arab world for getting a permanent seat at the UNSC.

### **Conclusion**

There are other areas as well, where New Delhi and Riyadh need to enhance their mutual trust. For instance, under the US rebalancing policy, Washington is shifting its focus to other areas. As a result, footprints of China and Russia, both economic and geostrategic, are bound to grow in the Gulf. India needs to secure its interest in the region by promoting a cooperative rather than competitive relationship with China in the region. Being the largest energy supplier, a

highly valued trading partner and significant immigrant-receiving country for both China and India, Riyadh can play an important role in balancing the interest of both the countries.

Besides, it is also significant to note that the power balance is shifting from West to East. This will generate new atmosphere and bring new opportunities and challenges to India. To secure its interest in Gulf and in its neighbourhood, India needs a regional ally and Riyadh, which depends on outside support for its survival and at the same plays effective role, suits India's interest more than any other relatively stable and strong powerful country in the Gulf. Therefore, it is a high time for New Delhi to look outside the bilateral engagements and address the regional and global concerns where Riyadh can be an important ally.

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