



“Un-Bracketing” Saudi Arabian And Indian Economic Relations

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Introduction

In the Doing Business Report (2018), Saudi Arabia ranks 92nd out of 190 countries while India ranks 100th. In terms of corporate transparency, Saudi Arabia legislated in 2016/17 for ensuring greater transparency in the dealings linked with the board members and the shareholders. Corporate governance was also sought to be clarified with a clear delineation of ownership and control structures. On its part, India introduced or improvised upon the systems for filing corporate taxes. For facilitating cross-border trade, India sought to strengthen its transport or port infrastructure. India and Saudi Arabia undertook measures to make it easier to trade across borders by facilitating customs administration for exports and imports. Furthermore, both the countries endeavored to launch or improvise upon online procedures vis-à-vis starting a business or enforcing contracts. Finally, both the countries stepped up their efforts at strengthening minority investor protections.

Both the reports are representative of the vistas of sustained economic relations between Saudi Arabia and India where both can harness the strengths of the other. With the recent diplomatic visit of Sushma Swaraj, Minister of External Affairs for India, it is hoped that both the countries would unleash areas of mutual cooperation. Gone are the days when oil was reckoned as the unit of trade on account of its “economic and strategic value, as well as its ability to generate far-flung political, military, and cultural encounters” (Amitav Ghosh in “Imam & The Indian”, 2008). Instead, non-oil sectors are being harnessed for resuscitating the economy of Saudi Arabia and this would impact the trade relations of Saudi Arabia with the world at large. The main purport of this article is to underline the prospects and challenges in bolstering economic ties between the two stalwarts-Saudi Arabia and India.

Primarily, Saudi Arabia and India have forged strong economic ties since the 1950s. While the tenor of these economic ties might have varied over the years, there are some commonalities which cut across the diversity of the two cultures. First off, it is essential that cross-border investments increase among the two countries. For instance, it was stipulated in 2008 that an India Investment Fund worth USD 750 million might be set up in Saudi

Arabia¹. While the idea was mooted in times when Saudi Arabia was not encountering challenges on the count of oil prices, it is time when the idea might concretize in a more nuanced manner. Also, Saudi Arabian General Investment Authority (SAGIA) has been issuing licenses to Indian companies for joint ventures/100% owned entities which has led to increased investment in the country. For instance, Indian IT services company, Tech Mahindra, offered to set up a joint venture with Midad Holdings for providing localized IT solutions². Aurobindo, the leading pharma giant in India, has decided to set up its business in Saudi Arabia. Besides, New India Assurance, Telecommunications Consultants India (TCI) Ltd, Wipro Ltd, Tata Consultancy Services Ltd (TCS), Shapoorji Pallonji etc. are some of the other commercial enterprises which have presence in Saudi Arabia³. Furthermore, Saudi ARAMCO set up its office in India recently in a bid to expand the ambit of business ties with India by tapping into the technology and R & D expertise of India in return for catering to the oil and LPG needs of India⁴. Likewise, Knowledge Economic City (KEC) in Madinah was established for attracting foreign participation in the IT sector. Also, Saudi Arabia has expressed its keen intent to collaborate with India on Information Technology projects. Besides, collaboration is sought in railways infrastructure for ensuring that Saudi Arabia seeks to refurbish its transport sector via different channels. Of late, an Indian company, Larsen & Toubro (L & T) secured USD 161 million Riyadh Metro contract⁵ for railway track construction.

Secondly, given that Saudi Arabia is one of India's top 25 importers, there are number of collaboration areas ranging from oil exploration to energy, defense, manufacturing and insurance. While Saudi Arabia imports meat products, dairy products, cereals, apparels, electrical machinery and equipment, etc. from India, India imports hydrocarbon-based

¹ http://www.academia.edu/9471051/India-Saudi_Arabia_Relations

² <http://www.news18.com/news/world/india-can-play-key-role-in-our-economic-transformation-saudi-arabia-1334459.html>

³ <http://www.indianembassy.org.sa/commercial/indian-companies-in-saudi-arabia>

⁴ <http://www.saudiaramco.com/en/home/news-media/news/india-office.html>

⁵ <http://www.arabianbusiness.com/india-s-l-t-wins-161m-riyadh-metro-contract-604724.html>

products, including mineral fuels and plastics, from Saudi Arabia⁶⁷⁸. Apparently, while there has been a downswing in figures in the last five years on account of hydrocarbon-based trade which was marked by fluctuations in oil prices, there has been an increment in figures over a decade and this is a result of the bilateral diplomatic ties over the years. King Saud bin Abdul Aziz visited India in 1955 and had talks with the Indian Premier Jawaharlal Nehru on strengthening ties on diverse fronts.

Third, it is imperative that more institutional arrangements be conceived for bolstering the bilateral economic ties between India and Saudi Arabia. For instance, while the Saudi Indian Business Network was set up in 2005 to foster cooperation in areas such as natural gas, desalination, construction, utility sector and others, further cooperation is required in renewable energy sources like wind and solar energies. For instance, Saudi Arabia aims to invest up to USD 7 billion to develop 7 new solar plants and a big wind farm in 2018 and India might contribute towards these projects. A dedicated corpus of fund might be created to help young entrepreneurs to explore avenues on either side.

Fourth, the Saudi Arabian Vision 2030 envisions strides in economic diversification activities in a bid to tap non-hydrocarbon sectors for attaining long-term sustainability. Under the aegis of the National Transformation Program, steps are being taken to ensure that the resuscitation of the Saudi economy is fructified into non-hydrocarbon sectors like tourism, energy, infrastructure, and the like. There is more emphasis upon automation and conceiving “smart” solutions wherein Indian and Saudi sides might collaborate across a range of fields, including information technology, e-government, transportation, and the like. Likewise, Saudi Arabia can contribute towards the “Make In India” initiative heralded by the Indian Premier, Narendra Modi. Sectors like tourism and entertainment might be explored by both the countries to complement investment in each other. For instance, the recent step of opening cinema theatres in Saudi Arabia might provide investment opportunities to the Indian movie producers to showcase the Indian work in Saudi Arabia and derive investment earnings therefrom.

Finally, with 63% of tertiary education enrollment in Saudi Arabia, India and Saudi Arabia might engage in fruitful deliberations on cross-border educational initiatives wherein the

⁶ http://www.academia.edu/9471051/India-Saudi_Arabia_Relations

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https://books.google.co.in/books?id=uzD7AwAAQBAJ&pg=PA71&lpg=PA71&dq=saudi+arabia+india+economic+relations&source=bl&ots=PLyjnPt0z4&sig=XtHkPJU5rax3Q_dusKA4GWxCh5s&hl=en&sa=X&ved=0ahUKewi-uf7-pJ3ZAhUFMo8KHVVOABA4FBD0AQhcMAG#v=onepage&q=saudi%20arabia%20india%20economic%20relations&f=false

⁸ https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2664922

former might contribute towards building the human capacity of the Saudi youth. Given that 70% of the Saudi population of 28 million is under 30, it is important that employability of these youngsters be accorded due priority conceding that nearly 13% of them are without a job⁹. Furthermore, with Indians comprising more than 3 million of Saudi population, steps should be taken to ensure that there is adequate exchange of intellect for contributing towards the growth of both the countries.

As far as the challenges are concerned, the first set of challenges pertains to floating of the Value Added Tax (VAT) by Saudi Arabia and the Goods and Services Tax (GST) by India. GST¹⁰ would be levied on the exports and imports of goods and services contingent upon some ground rules. For instance, countervailing duty and an Integrated Tax would be levied on imports. On the other hand, exports are being zero-rated which implies that input taxes would be allowed as refund. However, “exports of services” would invite tax imposition on a case basis. On the other hand, with the introduction of VAT by Saudi Arabia, exports attract zero-rated VAT which implies that output tax shall not be collected by the seller and the input tax is completely refundable¹¹. There might be impact of VAT on the imports of the goods and services in the sense that VAT would be levied in addition to the custom duties. Therefore, it needs to be seen how VAT’s launch by Saudi Arabia and GST’s launch by India impacts the oil movement across the borders. Implicitly, with the launch of these taxation regulations, the trade relations between Saudi Arabia and India are slated to witness a dynamic environment over the years¹².

Second, the plummeting oil prices pose a challenge to the economic base of the demographics in India and Saudi Arabia. Expatriates in Saudi Arabia face a downward spiral in remittances in 2016 as compared to 2015 by around USD 6 billion. Of late, expatriates are disallowed to work in certain sectors. While complementing employment generation efforts in Saudi Arabia, such austerity measures dampen the morale of the expatriates. With the expanding fiscal deficit for Saudi Arabia on account of the fall in oil prices from USD 100 per barrel to USD 30 per barrel, austerity measures introduced by the government might pose challenges in involving Indian sides in many projects.

⁹ <http://money.cnn.com/2017/11/20/news/economy/saudi-crown-prince-young-people/index.html>

¹⁰ <https://taxmantra.com/import-and-export-under-gst/>

¹¹ <http://saudigazette.com.sa/article/513863/BUSINESS/VAT>

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<https://www.salaamgateway.com/en/story/exports-between-uae-and-saudi-arabia-will-be-subject-to-vat-at-5-rate-experts-SALAAM30112017041048/>

Finally, miscellaneous factors might downplay the relationship between India and Saudi Arabia. For instance, change in interest rates or the performance of global stock markets might impact the exchange value of the currencies thereby impacting the trade relations between the two countries. This stands vindicated in the global recession of 2008 which led to spiraling down of the oil prices in 2008-09 and adversely impacted the trade relations of Saudi Arabia with India and the other trade partners as well. Furthermore, as a member of the Organization of the Petroleum Exporting Countries (OPEC), Saudi Arabia had persuaded the member countries to cut down oil production by 1.8 million barrels per day in order to push up oil prices and this step might impact the bilateral linkages with India too on account of oil exports to the latter. In fact, oil prices movement has largely remained a function of the OPEC oil pricing which was again a resultant of the influence by the Saudi Arabian oil production over the years¹³. Likewise, as a part of the Vision 2030 for envisaging economic diversification, it was stipulated that with the listing of Aramco¹⁴, oil pricing would undergo further changes and this would, in turn, cast a difference in the bilateral economic ties between Saudi Arabia and India.

Summing up, we attempted at “un-bracketing” the Saudi Arabian-Indian economic ties with the major objective of appreciating how both the sides stand to gain in their development objectives amidst extraneous challenges. Even the Marxist and the New-trade economic theorists corroborate the linkage between economic growth and trading relations between countries and in this vein, my assertions presented in this article are well-supported. Therefore, I concur that with robust economic relations between Saudi Arabia and India, there are ample opportunities for both the countries in spearheading their economic development agenda. However, there are some areas which merit a re-visit in order to ensure that both the countries attain a long-term sustainable relationship.

¹³ <https://www.statista.com/statistics/262858/change-in-opec-crude-oil-prices-since-1960/>

¹⁴ <https://www.reuters.com/article/us-saudi-aramco-insight/aramco-listing-reshapes-saudi-arabias-opec-oil-policy-idUSKCN1C31H0>