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## *Issue Brief*

# India - UAE Relations: New Dimension to Strategic Partnership

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## **S***ummary*

The recent visit of Crown Prince Sheikh Mohammed bin Zayed Al Nahyan is a step towards building a new strategic partnership between India and the UAE. The signing of the Comprehensive Strategic Partnership (CSP) provides a 'general framework' to take the bilateral relations to a new level. There is strong political commitment at the highest level on both sides to expand ties in the areas of trade and investments, as well as boost cooperation in new areas of energy security, defense and security, information technology and space. However, to realise the full potential of this evolving strategic partnership, India and the UAE will have to address some challenges and at the same time sustain the current momentum of cooperation.

The visit of Crown Prince Sheikh Mohammed bin Zayed Al Nahyan to India as chief guest for Republic Day signifies India's growing engagement with the Gulf. As India seeks to enhance economic engagement and deepen security cooperation with the Gulf, it finds a willing partner in the UAE. On the other hand, as the UAE 'Look[s] East' to find partners for its economic growth and grapples with security concerns emanating from turmoil in West Asia and growing threat from terrorism and extremism, it finds a natural partner in India. The landmark visit of Prime Minister Narendra Modi in August 2015 and the return visit of the crown prince in February 2016 set the momentum for enhancing the bilateral relations to a Strategic Partnership. An agreement to that effect was signed on January 25, 2017, apart from 13 other MoUs.

The flux in West Asia – rise of radical and extremist forces, changes in the regional order, coupled with uncertainties over US policy under President Donald Trump's administration and India's growing interest in the Gulf region driven by its economic and trade ties, energy stakes, and presence of some 7 million Indians in the Gulf (and 2.6 million in UAE), are important factors pushing India and UAE to enhance their engagement. The UAE has a special place even among the Gulf countries due to its syncretic culture, business-friendly atmosphere, willingness to invest in the Indian economy and its important role in maintaining peace and stability in the region. Hence, the third high-level visit between India and the UAE in less than two years underlines the importance both countries attach to accelerating economic growth and maintaining regional peace.

### **Establishing an Enduring Link**

The UAE occupies a key place in India's West Asia policy. The political and diplomatic engagements with the UAE have seen a substantial increase in recent times. The high-level visits<sup>1</sup> from both sides have given a new impetus to this partnership. In May 2016, Manohar Parikkar became first Indian Defense Minister to visit UAE to engage with his UAE counterpart and discuss possibilities of enhancing defense relations.<sup>2</sup> Moreover, the first Strategic Dialogue meeting between the two Foreign Offices was held in New Delhi on January 20, 2017.

A new momentum was given to the relationship in January 2017 when the two sides signed the agreement on Comprehensive Strategic Partnership (CSP). Former Indian Ambassador to the UAE Talmiz Ahmed indicated that the CSP will 'facilitate

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<sup>1</sup> UAE's Foreign Minister Sheikh Abdullah bin Zayed Al Nahyan visited New Delhi to attend the 11<sup>th</sup> India-UAE Joint Committee Meeting on September 3, 2015 and India's Minister of State for External Affairs, M. J. Akbar, visited Dubai to participate in the India-UAE Business Forum on October 20, 2016.

<sup>2</sup> Sushant Singh, 'Parikkar's UAE Visit to Focus on Widening Defence Relationship, Supply of Military Equipment', *Indian Express*, May 16, 2016, <http://indianexpress.com/article/india/india-news-india/parrikars-uae-visit-to-focus-on-widening-defence-relationship-supply-of-military-equipment/>

the shaping of a new Indian role in the Gulf region.<sup>3</sup> Nine agreements were signed during the visit of Crown Prince in February 2016 and 14 during the current visit for strengthening cooperation in the field of cyber security, infrastructure investment, renewable energy, space cooperation and other areas. Further discussions are on to finalize the proposed \$75 billion investment fund for India's infrastructure projects by the UAE.

The growing engagements between India and the UAE has to be seen within the broader contexts of UAE's policy of engaging with Asia to improve economic prospects and India's search for foreign investments to expedite economic growth and address the threat of extremism and terrorism. UAE's foreign trade with China and India has increased exponentially over the last decade, while its trade with Europe has come down. Trade between UAE-China was \$35 billion in 2011 and grew to \$54 billion in 2014. While it slightly decreased to \$48 billion in 2015 owing to low oil-prices, it is estimated to reach up to \$60 billion in 2016 and cross \$80 billion in 2017.<sup>4</sup> Similarly, its trade with India has grown significantly in the last decade — from \$13 billion in 2005-06 to \$49.7 billion in 2015-16.<sup>5</sup> Since the National Democratic Alliance (NDA) government came to power in May 2014, New Delhi has put efforts on attracting foreign investments and the Gulf countries can be a major source.

Undoubtedly, trade and commerce forms the backbone of the bilateral relations. The UAE is not only India's leading trade partner in West Asia but also its third largest after China and the United States while India is UAE's top foreign trade partner. Notably, the UAE is the only country in the Persian Gulf with which India has a favorable trade balance despite it being a substantial source of crude oil for India. India-UAE trade basket is quite diversified and in 2015-16, Indian exported goods worth \$30 billion to the UAE with heavy machinery, petroleum products and food and dairy products being the main export commodities.<sup>6</sup> During the visit of Prime Minister Modi in August 2015, the two sides agreed to further expand bilateral trade by 60 percent in the next five years.<sup>7</sup> It is important to note that with the launch of India-UAE Business Council in September 2015<sup>8</sup> and regular

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<sup>3</sup> Talmiz Ahmed, 'India-UAE: Step Up Natural Partnership', *Asian Age*, January 24, 2017,

<http://www.asianage.com/opinion/oped/240117/indiauaestepupnaturalpartnership.html>

<sup>4</sup> The World Bank; and Sandhya D'Mello, 'UAE, China Trade to Hit \$80b in Two Years', *Khaleej Times*, September 5, 2016, <http://www.khaleejtimes.com/business/local/uae-china-trade-to-hit-80b-in-two-years>

<sup>5</sup> Directorate General of Foreign Trade, Ministry of Commerce and Industry, Government of India [DGFT, GoI].

<sup>6</sup> Ibid

<sup>7</sup> MEA, GoI, 'Joint Statement between the United Arab Emirates and the Republic of India', August 17, 2015, [http://www.mea.gov.in/bilateral-documents.htm?dtl/25733/Joint\\_Statement\\_between\\_the\\_United\\_Arab\\_Emirates\\_and\\_the\\_Republic\\_of\\_India](http://www.mea.gov.in/bilateral-documents.htm?dtl/25733/Joint_Statement_between_the_United_Arab_Emirates_and_the_Republic_of_India)

<sup>8</sup> 'India, UAE Set up Joint Business Council', September 4, 2015, <http://gulfnnews.com/business/economy/india-uae-set-up-joint-business-council-1.1578273>

meetings through various business and investment forums, this target seems achievable.

The Emirates is also central to India's pitch for improving foreign direct investments (FDIs) inflow to the country with the large sovereign wealth and business acumen. Discussions about the establishment of US\$75 billion fund to be invested in infrastructure development in India, as agreed during Modi's August 2015 visit,<sup>9</sup> are proceeding. The UAE has been one of India's leading sources of FDIs. In the last two years, the overall FDI inflow in India has grown by 36 percent to reach \$40 billion in 2015-16 with the UAE's contribution being \$4.3 billion during the period April 2000 to September 2016.<sup>10</sup>

Though much below potential, an upward trend can be noticed with nearly three-fold increase from \$350 million to \$1 billion during 2014-16, thus becoming the fifth largest source of FDIs into India.<sup>11</sup> Navdeep Singh Suri, India's Ambassador to the UAE flagged real estate and petro-chemicals as possible focus areas for further investments by UAE companies.<sup>12</sup> Further, to give impetus to India-UAE cooperation, the government has approved the MoU for cooperation in the road transport and highways sectors. The proposed agreement will not only help increase investment in infrastructure development and enhance logistics efficiency but also help both countries in creating institutional mechanisms for cooperation in the field.

Indian businesses have equally established a strong footprint in the UAE. For example, the Jebel Ali Free Zone (JAFZA) is home to more than 800 leading Indian companies and Dubai and Abu Dhabi are home to a significant Indian business presence. Further, countries in the region are estimated to be spending more than \$4 trillion in developing economic infrastructure suitable for nurturing non-oil business activities. More importantly, Expo-2020, the world's third largest global event after the Olympics is going to be held in Dubai, and will boost infrastructure related activities in the UAE, opening opportunities for Indian investors.

In the energy sector, though UAE is only the fifth largest supplier of crude oil to India, there is significant mutual synergy in utilizing the infinite possibilities offered in energy cooperation. The UAE accounts for 8 percent of India's oil imports and was fifth largest supplier of crude oil to India in 2015-16,<sup>13</sup> India-UAE energy ties are likely to see further momentum. In 2016-17, India plans to import 2.5

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<sup>9</sup> 'UAE to Increase Investments in India to \$75bn, with Focus on Infra Fund', August 17, 2015, [https://www.telegraphindia.com/1150817/jsp/frontpage/story\\_37671.jsp#.WI8XedJ97cs](https://www.telegraphindia.com/1150817/jsp/frontpage/story_37671.jsp#.WI8XedJ97cs)

<sup>10</sup> Department of Industrial Policy and Promotion, Ministry of Commerce and Industry, Government of India [DIPP, GoI], 'Factsheet on Foreign Direct Investment', April 2000 to September 2016, [http://dipp.nic.in/English/Publications/FDI\\_Statistics/2016/FDI\\_FactSheet\\_April\\_Sep\\_2016.pdf](http://dipp.nic.in/English/Publications/FDI_Statistics/2016/FDI_FactSheet_April_Sep_2016.pdf)

<sup>11</sup> Ibid

<sup>12</sup> 'India, UAE Set to Upgrade Ties to Comprehensive Strategic Partnership', January 13, 2017, <http://economictimes.indiatimes.com/news/defence/india-uae-set-to-upgrade-ties-to-comprehensive-strategic-partnership/articleshow/56525965.cms>

<sup>13</sup> DGFT, GoI.

million tons more than what it purchased (16.11 million tons) in 2016.<sup>14</sup> Significantly, the Abu Dhabi National Oil Company (ADNOC), in a first of its kind deal, has agreed to store crude oil in India's maiden strategic storage facility and give two-thirds of the oil for free to India.<sup>15</sup>

### **Expanding Security and Defence Engagement: New Dimension of Strategic Partnership**

Another significant pillar of India-UAE ties is reflected in their growing cooperation in security and defense sector. Given the current state of flux in West Asia, India sees the UAE as an important partner to maintain peace and stability in the region. With the rise of global terrorist organizations and spread of radicalism in Gulf and South Asia, India looks to enhance security cooperation with the Gulf countries including the UAE to counter terrorist threats and combat online radicalization. Similarly, UAE and India are looking to enhance defense cooperation to ensure peaceful maritime trade, prevent organized crime and deny opportunities for global terrorist organizations to set up their networks in South Asia and the Gulf.

In February 2016, agreements were inked to boost cooperation in defense and security through joint defense training and exercises.<sup>16</sup> 'Desert Eagle II', a ten day air combat exercise, was held in May-June 2016 between the air forces of India and UAE.<sup>17</sup> Indian and Emirati militaries have regularly participated in defense exhibitions in India and UAE, and discussions are going on to explore opportunities for joint production of defense equipment in India and the selling of Indian military equipment to the UAE.<sup>18</sup>

Taking the relationship forward, on January 18, 2017, India approved the bilateral pact on maritime education and training.<sup>19</sup> The proposed MoU will pave way for recognition of maritime education and training, certificates and competency, endorsements, training documentary evidence and medical fitness certificates for seafarers and cooperation. During the visit of Crown Prince Al Nahyan in February 2016, the two sides had agreed to 'enhance cooperation to strengthen maritime security in the Gulf and the Indian Ocean region ... vital for the security and

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<sup>14</sup> 'Store Our Oil and Take 2/3<sup>rd</sup> for Free: UAE's Offer to India', February 11, 2016, <http://www.hindustantimes.com/business/store-our-oil-and-take-2-3rd-for-free-uae-s-offer-to-india/story-fiSZwbJh6abWWM3NfpEveI.html>

<sup>15</sup> Ibid

<sup>16</sup> MEA, GoI, 'India-UAE Joint Statement', February 12, 2016, [http://www.mea.gov.in/bilateral-documents.htm?dtl/26349/India\\_UAE\\_Joint\\_Statement\\_during\\_the\\_State\\_Visit\\_of\\_Crown\\_Prince\\_of\\_Abu\\_Dhabi](http://www.mea.gov.in/bilateral-documents.htm?dtl/26349/India_UAE_Joint_Statement_during_the_State_Visit_of_Crown_Prince_of_Abu_Dhabi)

<sup>17</sup> Press Information Bureau, Government of India, Ministry of Defense, 'IAF Participation in Ex Desert Eagle - II at UAE', May 27, 2016, <http://pib.nic.in/newsite/PrintRelease.aspx?relid=145749>

<sup>18</sup> Sushant Singh, 'Parikkar's UAE Visit to Focus on Widening Defence Relationship', n. 2.

<sup>19</sup> Press Trust of India [PTI], 'Govt Okays India-UAE Pact on Maritime', January 18, 2017, [http://www.ptinews.com/news/8304697\\_Govt-okays-India-UAE-pact-on-maritime-](http://www.ptinews.com/news/8304697_Govt-okays-India-UAE-pact-on-maritime-)

prosperity of both countries'.<sup>20</sup> In addition, the Union cabinet approved a MoU to facilitate and promote maritime transport, simplification of customs and facilitation of use of existing installations for the disposal of waste.<sup>21</sup> India has also announced its willingness to extend assistance to the UAE to achieve its Mars Mission in 2020.<sup>22</sup>

The India-UAE joint statement issued in January 2017 notes the need 'to provide further impetus to these relations, including through joint exercises, training of naval, air and land forces, as also in the area of coastal defense and through participation in defense exhibitions etc'.<sup>23</sup> It is significant to note that a unit from the UAE Armed Forces comprising personnel from Army, Navy, Air Force, Air Defense and the Presidential Guard accompanied by a UAE military band marched side by side with its Indian counterparts. Ambassador Suri stated that the development highlighted the depth of India and UAE defense cooperation.<sup>24</sup>

New Delhi considers the UAE as its 'valued partner' and the visit of the crown prince is expected to open doors for bilateral cooperation in many new areas. The rapidly expanding cooperation encompasses the areas of defense, maritime security, space, civil nuclear energy, defense manufacturing and industries and collaboration between security agencies with an eye on fighting the global menace of terrorism. A MoU was signed 'to establish cooperation in the identified fields of defense manufacturing and technology, including through studies, research, development, innovation and cooperation between public and private sector institutions of the two countries', including in the 'areas of armaments, defense industries and transfer of technology'.<sup>25</sup> Additionally, 12 more MoUs were signed between the two sides during the crown prince's visit including for cooperation in areas of cyberspace, maritime transport, prevention of human trafficking, agriculture and other areas of mutual interest.<sup>26</sup>

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<sup>20</sup> MEA, GoI, 'India-UAE Joint Statement', n. 16.

<sup>21</sup> PTI, 'Govt Okays India-UAE Pact on Maritime', n. 19.

<sup>22</sup> 'Government Approves MoU between ISRO and the UAE Space Agency', May 25, 2016, <http://economictimes.indiatimes.com/news/economy/policy/government-approves-mou-between-isro-and-the-uae-space-agency/articleshow/52434197.cms>

<sup>23</sup> Ministry of External Affairs, Government of India [MEA, GoI], 'India-UAE Joint Statement', January 26, 2017, [http://www.mea.gov.in/bilateral-documents.htm?dtl/27969/India\\_UAE\\_Joint\\_Statement\\_during\\_State\\_visit\\_of\\_Crown\\_Prince\\_of\\_Abu\\_Dhabi\\_to\\_India\\_January\\_2426\\_2017](http://www.mea.gov.in/bilateral-documents.htm?dtl/27969/India_UAE_Joint_Statement_during_State_visit_of_Crown_Prince_of_Abu_Dhabi_to_India_January_2426_2017)

<sup>24</sup> Binsal Abdul Kader, 'UAE Contingent to March on Indian Republic Day', *Gulf News*, January 10, 2017, <http://gulfnews.com/news/uae/government/uae-in-india/uae-contingent-to-march-on-indian-republic-day-1.1959896>

<sup>25</sup> MEA, GoI, 'List of Agreements/MoUs Exchanged during the State Visit of Crown Prince of Abu Dhabi to India', January 25, 2017, <https://www.mea.gov.in/bilateral-documents.htm?dtl/27967/List+of+AgreementsMOUs+exchanged+during+the+State+visit+of+Crown+Prince+of+Abu+Dhabi+to+India>

<sup>26</sup> Ibid

## Combating Extremism and Terrorism

India and UAE see each other as important players in maintaining peace and stability in their respective regions and have reinforced their partnership in countering terrorism, combating radicalization and preventing terror finance through intelligence sharing and close contacts between their National Security Councils. The growing strategic partnership between New Delhi and Abu Dhabi can be seen in their approach towards fighting terrorism and extremism. The most significant support from the UAE came to India after the Uri attack when Abu Dhabi sent out a very clear public statement suggesting India to take decisive action against perpetrators of the attack.<sup>27</sup> Even on Pathankot attack, the UAE supported India.

While India has stepped up its efforts to counter terrorist threats, it has become essential to underline that the problem it has been facing is due to terrorist groups operating from Pakistan. Though India's relations with the UAE and other countries in the Gulf and West Asia are independent of their engagements with Pakistan and Indo-Pak relations, India has stepped up efforts to raise the issue of cross-border terrorism and use of religion to incite terror activities against India during its engagements with these countries. This was visible in the joint statement issued during the visit of Abu Dhabi's crown prince as well as in the statements issued during Prime Minister Modi's visit to Saudi Arabia (April 2016), Iran (May 2016) and Qatar (June 2016).

The growing extremist activities in the region are of serious concern to the UAE. The assassination of five UAE diplomats in Kandahar on January 10, 2017 has raised serious concerns in Abu Dhabi regarding the terror attack on their citizens in Afghanistan. This was the first time UAE diplomats were targeted in a foreign country. According to media reports, Pakistan's Inter-services Intelligence and the Haqqani Network are considered to have carried out this terror attack.<sup>28</sup> Media reports suggest that the UAE diplomats were targeted because of growing defence and strategic cooperation between India and the UAE. Despite such sporadic incident, India-UAE strategic cooperation is likely to grow in future because they are based on strong economic, cultural and historical foundation. The holding of first Strategic Dialogue on January 20, 2017 is a signal of growing engagement in addressing security issues in the region.

There are, however, other dimensions to the growing affinity between India and UAE, especially a strong cultural component. India's cultural diversity and democratic ethos and UAE's multicultural and cosmopolitan environment

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<sup>27</sup> 'UAE Condemns Terror Attack on Indian Army Base', September 19, 2016, <http://www.khaleejtimes.com/20160918/3713/no-title>

<sup>28</sup> Shorbori Purkayastha, 'Afghan Gen Blames Pak's ISI & Haqqani Network for Kandahar Attack', *The Quint*, January 11, 2017, <https://www.thequint.com/tracking-terror/2017/01/11/afghan-gen-blames-paks-isi-and-haqqani-network-for-kandahar-attack>

complement their close business ties and growing strategic relations. During the visit of Prime Minister Modi, the government of Abu Dhabi announced plans for building the first Hindu temple in Abu Dhabi and allocated land for it.<sup>29</sup>

## Challenges

Though the two sides have shown greater desire to enhance bilateral relations and there are no outstanding issues or disputes between India and the UAE, there are some challenges to be overcome in order to realize the full potential and promises of the growing relations. As far as investments are concerned, the systemic problem faced due to slow implementation from Indian side is a major obstacle. For example, the UAE agreed to invest in India's infrastructure projects through formation of a \$75 billion investment fund during the prime minister's visit in August 2015. However, after more than two years, the modalities and governance structure for the fund has not been finalized. Media reports quoted UAE's ambassador to India Ahmed al-Banna as stating that 'the ball is in the court of Indian side to finalize the governance' for setting up the infrastructure investment fund and that the UAE side was 'ready for it'.<sup>30</sup>

While India needs to step up its efforts to tie the loose ends in the implementation of projects and investments funds, it also needs to ensure the execution of the investment projects with required expertise. As the UAE side lacks the technical expertise and human resources, it will be India's responsibility to ensure proper returns for the investments and to keep the UAE interested in Indian market. On the other hand, Indian companies operating in the UAE also face problems due to lack of clarity in many aspects of commercial regulations, labor laws and lack of transparency on part of Emirati businesses. While there are immense economic opportunities for Indian businesses in the UAE, these obstacles prevent their full realization.

While trade and energy are two of the most significant aspects of Indo-UAE bilateral ties, the bilateral trade has come down significantly in the past four years. Therefore, as India expands its sources for energy imports, it will have to look at other sectors to enhance bilateral trade. Potential areas include defense trade, food and agricultural products as well as automobiles. There is also a need to smoothen problems faced by Indian migrants due to cumbersome and strict regulations that favour the Emirati employers and at times leads to serious problems for Indian workers, especially unskilled workers. It has also been noticed that workers from

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<sup>29</sup> 'UAE Allocates Land for Abu Dhabi's First Hindu Temple', August 17, 2015, <http://www.aljazeera.com/news/2015/08/uae-allocates-land-abu-dhabi-hindu-temple-150817062426501.html>

<sup>30</sup> Archis Mohan, 'UAE Says Ball in India's Court to Set up \$75 billion Investment Fund', *Business Standard*, January 24, 2017, [http://www.business-standard.com/article/economy-policy/uae-says-ball-in-india-s-court-to-set-up-75-billion-investment-fund-117012301042\\_1.html](http://www.business-standard.com/article/economy-policy/uae-says-ball-in-india-s-court-to-set-up-75-billion-investment-fund-117012301042_1.html)



other nationalities including Filipinos and Bangladeshis are replacing Indian workers and it is reflected in slight drop in remittances inflow from UAE to India in recent years.

### **Way forward**

As India and UAE look forward to enhance their bilateral relations, there are areas that provide further opportunities and should be tapped to further the ties. There are untapped potentials as far as Indian health industry and medical sector is concerned. India is home to one of the finest human resources as far as the medical profession is concerned and its private hospitals have the necessary infrastructure, facilities and expertise to provide world class medical care within a fraction of the cost spent in developed countries. Hence, medical tourism can be an important area where India can attract Emiratis. There are further untapped potentials in the arena of renewable energy. The cost for production and transmission of solar energy in the UAE are a fraction to that of India and this is a priority area for the UAE government. Indian companies with expertise in this area can invest in the renewable energy sector in UAE. India can also learn from UAE's experience as it has been able to create a significant infrastructure in this area within a short span of time and with lesser cost.

There is a scope for improving the investment climate in India to attract UAE businesses. India has a huge market and there is a significant scope for growth in automobile industry, services sector, agriculture and allied industries. If business regulations are eased and the time spent on getting clearances can be reduced, it can lead to major investments from Gulf and Emirati investors. There is also significant potential in the education and training sector. India has some of the finest higher education institutions in engineering and management fields and given their cost-effective and world-class education, they can be a major attraction for Gulf and Emirati students who are looking for acquiring higher education and better skills. Further, there is a need for enhancing the people-to-people contacts for familiarisation and increasing interactions between think tanks, researchers and through academic exchanges.

In defense sector, there is a need to further enhance cooperation through joint training programs for Indian and UAE officers. India can also increase the number of Emirati officers who can avail training in its defense schools. This will lead to greater familiarisation within the defense establishment as both the countries move towards enhancing greater defence engagement. The visit of Crown Prince Al Nahyan is an important step towards building a new strategic partnership.

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