CHAPTER IV

ECONOMIC RELATIONS BETWEEN INDIA AND THE GULF STATES

Like the other poor oil importing countries the Indian economy too has been subjected to severe strain by the oil crisis. No doubt now the situation has considerably changed. Presently the oil prospects are far better than those in early 70s. There is a glut in world oil markets. OPEC has lost its clout. Its total share in the world's oil production has come down from nearly two thirds to one third. By virtue of successive discoveries of crude and prudent oil policies new oil exporters such as Britain, Norway and the U.S.S.R. have emerged in world oil market. The traditional oil exporters of OPEC in general and Gulf region in particular are not in a position to dictate terms. Still India's position in regard to oil is not heartening. Her self-sufficiency in oil has registered a decline from seventy six per cent in 1984 to seventy per cent at present (1986). Therefore India has to depend to a large extent on external supply and her energy policy would have to be integrated with its Persian Gulf policy, for this region is and likely to continue as India's major oil supply (two thirds of total imports) area. Besides, India has been getting loans on favourable terms for various projects from certain financial institutions (such as Sandi Fund for Development and Kuwaiti Fund for Arab Economic Development) of the Gulf states. Indian exports to the Gulf include engineering goods, components of buses, trucks and tractors, steel, iron-ore, alumina, chemicals (Sulphur & Phosphoric Acid) and pellets. To present a precise view of Indo-Gulf economic relations each major oil supplier is undertaken as follows:

1. ECONOMIC TRENDS (Vol. XIII) No. 3, February 1, 1984, p. 33
1. RELATIONS WITH IRAN

The contact between India and Iran in economic sphere is not a new phenomenon; it is traceable to ancient times as corroborated by historical antecedents. In spite of upheavals, turmoil, and revolution in that country, the continuity of such relationship is maintained till recently. India entered into an agreement with Iran in 1973 for avoidance of double taxation of income of enterprises of the two countries operating aircraft in international traffic. The agreement provided for the exemption of the income of aircraft enterprises for the earlier years also. The then External Affairs Minister, Sardar Swaran Singh announced on his return to New Delhi on 22 February, 1974 after a visit to Iran that India and Iran had reached a major agreement on economic cooperation which included additional crude oil supply to India over the next five years. The agreement described by Sardar Swaran Singh as a significant step, also provided for extensive credit facilities from Iran to cover not only the import liabilities but also to augment exports to Iran. The agreement could reasonably be said to be a turning point in the relations between India and Iran. The terms of agreement were favourable to India in that India might not be called upon to make immediate payment for additional oil imports. The items to be exported by India to Iran under the agreement on a long term basis were pellets and pellet feeds, iron-ore and alumina. Large quantity of pellets was likely to be exported from Kudremukh project in Karnataka. Iran had agreed to give credit worth three hundred million dollars for developing new iron-ore mines along with the necessary facilities for

transportation and pelletisation, Iran would also import one lakh tonnes of cement per year on a long-term basis and for this too Iran would extend credit facilities for developing necessary facilities to the extent of sixty million dollars to seventy million dollars. Iran and India also agreed on cooperation in Fisheries in the Persian Gulf and the Indian Ocean, including supply of ships and in marketing the products. India agreed to supply Iran three lakh tonnes of cement that year (1973) and six to five thousand tonnes of steel products, among other items under the new agreement. The two sides also agreed in principle to establish joint ventures, 4

Fertilizer Plants in Iran.

Mr. Shahpurji said another project also for which Iran had agreed to provide credit and which was for the production of alumina based on bauxite. Iran had indicated that its requirement of alumina would be about one lakh tonnes a year over a period of ten to fifteen years. Preliminary estimates indicated that this credit might come to several million dollars. He further stated that in order that industrial import in India might be expanded now to meet the rapidly growing needs of the country for various commodities, it had been decided to set up a joint committee of experts with the objective of identifying industries in India which were of interest to Iran and determine the best manner in which Iran could assist to expand production so that additional quantities could be made available to that country. Iran also undertook to supply one million tonnes of crude per year to India for the next five years mostly under deferred payment, besides ensuring the present supply of 2.3 million tonnes a year for the Indian refiners and an additional three lakh tonnes a year.

4. TL TVJUH TVJ, No. 603B dated 27.2.74.
for the refinery when its capacity was expanded to 3.5 million tonnes. India would have to pay in cash for only a small portion of the additional crude supplies. The rest would be available against deferred payment at low interest rates. There would be no repayment for the first five years. Repayment would start in the sixth year and would be spread over five years in equal annual instalments. The rate of interest would be 2.5 per cent. Over the five year period the credit would amount to about four hundred million dollars. Additional supplies from Iran would be on Government-to-Government account. The agreement did not apply to crude imports by Burmah Shell and Caltex which were getting sizeable quantities for their refineries. In the coming years as the Iranian Government's share in participation in crude oil produced by foreign oil companies increased, the availability of crude with the companies would decline. The agreement also ensured that in the Fifth Plan starting from April 1974, India would not have to pay for additional crude supplies, except to a small extent. This would provide considerable relief in view of the strain on foreign exchange resources.

Iran promised to extend a credit of one hundred million dollars to India in 1974 for purchase of crude oil. Of this five hundred million dollars would cover shipment of crude over five years. The amount was to be repaid during the next five years at 2.5 per cent interest. The grant element was forty per cent. In August 1974 Iran had agreed in principle

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5. *IBID.*
to provide about four hundred million dollars as united credit to India. Besides, a positive understanding between India and Iran to augment trade and ensure extensive and wide-ranging economic cooperation was reached at the end of Ministerial level talks in New Delhi on 16 January, 1974. The leader of the Iranian delegation Mr. Hushang Ansari expressing his satisfaction at the outcome of the talks remarked that it certainly constituted a step forward. A joint statement said among important subjects discussed were oil and other commodities, development of India's mineral resources for export to Iran, maximization of industrial capacity in India for the benefit of both countries, extension of credit facilities to India and cooperation in the field of petro-chemicals. Justifying the decision of the petroleum producing countries to raise oil prices, Mr. Ansari said that it had been done to preserve the purchasing power of the oil producing countries to acquire commodities from the industrially advanced countries. He indicated that to take advantage of surplus revenue from oil, Iran was developing a new economic strategy which would place greater emphasis on development of agriculture, petrochemical, services and infrastructure. Mrs. 'Gandhi's visit to Iran in April 1974 marks a milestone in the history of economic relations between India and Iran. During this visit the talks on economic matters had been frank and in a cordial atmosphere and certain key decisions were taken. At a state dinner Mrs. Gandhi said that Iran and India had inherited similar problems and there was wide scope for developing the range and depth of mutual industrial and

6. ASIAN RECORDER, New Delhi, 1974, p. 12335.
7. THE TIMES OF INDIA, New Delhi, 17.1.74
scientific cooperation. "We welcome Iran's emphasis on regional cooperation in trade and economic development. Idealism and pragmatism are not always in conflict. For our own strength we should work for the economic development of the entire region." At a press conference when asked for her views on the Shah's idea on having a common market for the Indian Ocean area, she said India had always believed in multilateral and regional cooperation. In today's world it was more important than ever before. That was why any type of economic cooperation was very welcome. First, it would strengthen the region as a whole. If peace and stability could be achieved through economic cooperation it could do a lot of good to the international situation. Any kind of regional cooperation should not be directed against any country.

According to a joint communiqué issued on 2 May, 1974 at the conclusion of Mrs. Gandhi's visit Iran is expected to provide credits in excess of one billion dollars to India to help maximise the capacity of its export-oriented industry, establish a joint shipping line with an initial capacity of five lakh tonnes and triple the capacity of the Kudremukh iron-ore project to seven million tonnes. It was for the first time that Iran had agreed to extend soft loans to India. The frequent exchange of visits by the leaders of the two countries removed the existing misunderstanding and paved the way for fruitful economic

8. THE HINDUSTAN TIMES, New Delhi 30.4.74
9. KAYHAN INTERNATIONAL, Tehran 3.5.74
cooperation. India and Iran concluded on 31 August 1974 a five year trade agreement under which India would export more than one million tonnes of cement to Iran in the next two years. India would supply Iran with one lakh thirty thousand railway track sections and vast quantities of sugar, while Iran would deliver to India petrochemical products, machinery and transformers. Both sides agreed to set up a joint shipping company with 10 shares held equally by the two national shipping organizations. Besides, Iran and India signed in Tehran on 23 April 1975 a Protocol for an agreement under which production of selected Indian export items to Iran would be financed by Iran. Top of the list was a five year project for India to send Iran 7.5 million tonnes of iron-ore a year, starting in 1977 or 1980. Iran would grant a long term credit of three hundred million for exploitation of the Indian ore deposits. Iran would also invest in an industrial complex in India for paper, with most of the planned two lakh tonnes yearly output earmarked for Iran. The two countries agreed to develop the capacity of Iran's aluminium plant at Arak, India would supply three lakh tonnes of aluminium a year. Iran granted India a six-hundred thirty million dollar loan for development and exploitation of Kudremukh iron-ore mines to be repaid in iron-ore exports to Iran. The relevant agreement was signed in the presence of the Iranian Minister of Finance and Economic Affairs, Mr. Hushang Ansary and the then Indian

11. THE HINDU TIMES, New Delhi, 24.4.75.
Foreign Minister Mr. Y.B. Chawan on 4 November 1975 after talks at the Indo-Iranian fifth Ministerial Conference on expanded trade and increased economic and technical cooperation. Iran and India also finalized concrete economic deals that would give a new content and meaning to their friendly, economic and political relations.

According to a communique on the visit to Iran by the then Minister for Commerce Mr. D.P. Chattopadhyaya, India and Iran were to embark on many more joint ventures. Iran had responded favourably to India's proposal for developing the Rajasthan canal command area as a joint venture at a cost of U.S. three hundred million U.S. dollars and India would soon submit a detailed feasibility study to Iran. India and Iran signed in New Delhi in September 1977 a protocol which would pave the way for further expansion of economic cooperation between the two countries. According to the protocol Iran was to cooperate in exploiting the bauxite reserves in Orissa and Andhra Pradesh and in establishment of paper and pulp manufacturing industries. The signing ceremony took place at the conclusion of the sixth ministerial session of the Indo-Iranian Joint Commission for economic and technical cooperation. Shah of Iran's visit to India in February 1978 further strengthened the economic and other relations between the two nations. In a joint communique issued on 5 February 1978, Iran offered India additional crude supplies annually on credit terms or

12. THE TIMES OF INDIA, Bombay, 6.11.75.
lump sum payment to participate in or finance approved projects. Crude supplies which would be on credit terms would be at OPEC price. The then Prime Minister Mr. Morar Ji Desai took no time in accepting the lucrative offer. According to official sources the additional crude supply would not be a gift. The detailed agreement would later spell out terms of credit and its repayment in cash or kind. The bulk of repayment was likely to be through products made possible through approved projects. The Shah and Mr. Desai stressed the urgent need for the speedy establishment of a new international economic order based on inter-dependence, equality and justice. They laid particular stress on the need to reform the international trading system on these principles so as to bridge the gap between the industrialized and the developing countries which, if unattended to, would threaten the prospects of peace in the whole world. The leaders called upon the developed industrial nations to respect the right of developing countries to fair and equitable prices for their export commodities and to have access to advanced technology.

An Indian delegation ended its five-day visit to Iran on 9 May, 1979 with the signing of an agreement with the National Iranian Oil Company under which India was to get 2.6 million tonnes of crude oil that year. The crude was meant for the Madras refinery and general purposes. The supply was expected to fully cover India's requirements for the current financial year. This was the first agreement to be signed between the

15. THE HINDUSTAN TIMES, New Delhi, 6.2.78
Government of India and the new Government of Iran after the revolution.

In a joint statement issued simultaneously in New Delhi and Tehran in May 1982, the two countries agreed to set up in the near future an Indo-Iranian joint commission to give a fillip to their bilateral relations in economic, trade, industrial, science and technology, cultural and other fields. The two delegations drew up a detailed programme for enhanced economic cooperation. Iran has been one of the major oil suppliers to India and has interest in joint projects. An official delegation had visited Iran the same year (1982). Iran had shown interest in purchasing a large number of engineering and consumer items from India. The Indo-Iranian joint commission meeting in Tehran held in July 1983 removed the main obstacle in economic relations between the two countries i.e. the lifting of iron-ore concentrate from the Kudremukh plant. The two sides agreed to start lifting from 1984 iron-ore from the Kudremukh plant. It was expected that the remaining problems with regard to quantity, prices and delivery schedule would be sorted out later on. Therefore it can be regarded as a step forward in promoting the economic relations between Iran and India. Actually the six hundred sixty million dollar Kudremukh project aimed at exporting iron-ore to Iran and it was set up exclusively for this purpose. In the wake of Khomeini revolution in Iran the steel production plan of that country underwent a drastic change. Iran also agreed not to exclude its oil exports from the purview of the Asian Clearing Union of which both countries are members. Payments for Iranian oil would be credited

16. The Times of India, New Delhi, 10-5-79

in Indian currency for sixty days. Rupee funds would thus be generated for Iran to import Indian goods.

2. **RELATIONS WITH IRAQ:**

The agreement between India and Iraq on setting up Joint Planning Commission marks a milestone in the annals of economic cooperation between the two countries in modern times. It was decided to set up an Indo-Iraq Joint Planning Commission to study and utilize planning activities of the two countries for mutual benefit. This was confirmed after a four member Iraqi delegation led by the Planning Minister Dr. Hashem Jawad had discussions with the then Indian Minister of Planning Mr. D.P. Dhar and members of the Planning Commission in New Delhi. The two sides also agreed that consultancy organizations of the two countries, which have already had preliminary discussions during the visit of the delegation, would hold further discussions to arrive at specific collaboration arrangements between the two countries.

The agreement was initialled on 23 December, 1972. In April 1973 India and Iraq signed an agreement for the supply of 30 million tonnes of crude oil over a ten year period. It was one of the seven agreements signed in New Delhi on 6 April, 1973. The agreement was signed by Prof. D.P. Chattopadhyaya, the then Indian Minister of Commerce.

Other important agreements were between Ramabrahman, the then Chairman of the Indian Oil Corporation and Iraq for a fifty million dollar credit for the supply of crude oil to the proposed refinery at Mathura;

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another for a Government guarantee for the credit and another between
the same parties in respect of a gold clause in the credit agreement.
According to a Joint Press statement issued after the conclusion of
the talks, commercial exchanges between the two countries would be
on a balanced basis to the extent possible. The imbalance would be
corrected every six months by payments in convertible currency. The
fifty million dollar credit provided by Iraq in the form of crude
supplies was meant to assist India to meet part of the foreign exchange
cost of the Mathura refinery.

Iraq signed an agreement with India in March 1974 for sale
of two million tonnes of oil, of which almost half was to be financed
by 100–110 million of credits at 2.5 percent over ten years with
a five year grace period and a 39 percent grant element. The visit
of Mr. Saddam Husain, the then Vice-President of Iraq in March 1974
further boosted economic relations between India and Iraq. On 28 March,
1974 an agreement was signed for an Iraqi loan of one hundred ten
million dollars for the import of crude. Iraq also agreed to give
credits for setting up plants to produce alumina and pelletised iron-
ore in India. These products would then be exported on a long term
basis to Iraq. The oil credit would be repayable in ten years with
an initial grace period of five years during which no repayment would
be called for. Interest would be levied at 2.5 percent. The two
Governments also agreed to cooperate in the implementation of major

21. The Statesman, New Delhi 7.4.73
irrigation and agriculture projects in Iraq. The expanding bilateral trade would be given a boost in subsequent years, for which a concrete trade expansion plan for the period from 1 April, 1974 to 31 March, 1975 had been finalised. During Mrs. Gandhi's visit to Iraq the economic cooperation between India and Iraq was reviewed comprehensively. The two sides acknowledged that the trade relations had not always been as smooth as could be desired because of occasional bureaucratic delay. Besides, in November, 1977 the two countries signed in New Delhi a protocol for the fourth meeting of the Joint Commission envisaging wide-ranging technical and economic cooperation in the fields of industry, railways, agriculture and consultancy services. The protocol was signed at the conclusion of the Joint Commission meeting by the then Petroleum and Chemicals Minister Mr. H.N. Bhagwana and Mr. Ghanim Abdul Jalil, member of the Revolutionary Command Council of Iraq. Although India would assist Iraq in every field of economic activity on a long term basis, Iraq also agreed to double the imports from India from 850 million to $100 million—Rs.90 crores in one year. The two sides also discussed the possibility of setting up a Joint Shipping service between the two countries to give a boost to bilateral trade and commerce. India would assist Iraq in building grain silos, a specialised institute of engineering and three hundred housing units, and help in servicing and maintenance of instruments and equipment for the cement plants, develop the Iraqi iron and steel industries and set up an electronics complex.

23. The Hindustan Times, New Delhi, 29-3-74
24. The Times of India, Bombay 20-1-75
25. The Indian Express, New Delhi, 10-11-77
Iraq had offered to step up its crude oil exports to India by 4 million tonnes in 1979 to make up, to a considerable extent, the gap created by the disruption of Iranian oil supplies. This was revealed at a news conference in New Delhi on 30 December, 1978 by Mr. H.N. Bahuguna, on his return after attending the Indo-Iraq Joint Commission meeting in Baghdad. It was stated that Iraq which had supplied 2.5 million tonnes of crude to India in 1978 had agreed to make available a total of 6.5 million tonnes for 1979. The supplies would be at a higher level in the first quarter of 1979 to enable Indian refineries to maintain their normal crude throughout. India had been importing about 6 million tonnes of oil from Iraq. Though Mr. Bahuguna hoped the situation in that country would normalize, he said, efforts were being made to fill the entire gap through additional supplies from alternative sources. Total imports of crude for 1979 were projected at 16.75 million tonnes against 14.5 million tonnes in 1978. With the additional commitment of four million tonnes by Iraq and the increase of half a million tonnes promised by UAE, a total of 14.5 million tonnes of imports for 1979 had already been tied up. Iraq also agreed to step up its exports of kerosene to India from one lakh tonnes earlier to two lakh ten thousand tonnes for 1979. All the supplies would be completed by September 1979. It also committed the export of one lakh fifty thousand tonnes of naphtha to India. Likewise Iraq offered to raise export of sulphur to India from two lakh fifty thousand tonnes to four lakh fifty thousand tonnes and possibly to five lakh tonnes.

26. Indian Express, New Delhi 31.12.78
during 1979. Urea supplies would also be raised from thirty thousand tonnes to fifty thousand tonnes. Indian exports to Iraq, which had increased from fifty million dollars in 1977 to over one hundred million dollars in 1978 were targeted to raise to $153 million during 1979.

27

The year 1980 proved very fortunate to India in which she obtained contracts worth Rs.500 crores. The first half of 1980 saw Indian firms getting contracts worth Rs.50 crores and above whereas in 1979 the largest single contract awarded to a single Indian firm was worth Rs.40 crores. Although Indian companies share of projects under the massive development programme in Iraq is small compared to that of Japanese, West German and other firms. The demands for India's trained and skilled manpower continues to grow.

28

The signing of a protocol by India and Iraq in New Delhi on 21 April, 1980 marks further expansion in economic and technical cooperation between the two countries. India and Iraq had a $300 million trade both ways and it was expected to go up by $20 million in the year 1980. Iraq had been a steady supplier of oil to India.

In 1979 Iraq supplied six million tonnes of crude and in 1980 the supplies would be maintained at the same level. Iraq also assured that India's crude requirement would be met on special basis. Indian experts numbering two thousand were then assisting Iraq's economy in various fields. Iraq wanted this number to be increased substantially.

India promised to do its best to meet Iraq's requirements. The seventh

27. Asian Recorder, New Delhi, 1979, p 14731


29. The Times of India, New Delhi dated 22.4.80
session of the Ind-Iraq Joint Commission held in Baghdad was significant in that it thoroughly reviewed the economic relations between the two countries. The delegations were headed by the Iraqi Minister of Oil and the Indian Minister of Petroleum, Chemicals and Fertilizers. Ministerial level meeting was held on 21 & 22 October, 1981 and a preparatory official level meeting from October 17 to 20, 1981. The two sides reviewed the developments since the last session of the Joint Commission which was held in New Delhi in April, 1980. They had noted there had been commendable improvements in the fields of projects and other areas of technical, economic and trade relations. The Indian side appreciated the Iraqi Minister's statement that Iraq would guarantee future supplies of crude oil to meet India's requirements. The two sides also agreed to set up three sub-committees within the Joint Commission dealing with trade, with economic cooperation and with cultural and technical cooperation.

The sub-committee on economic cooperation reviewed progress being executed in Iraq by Indian companies. The Iraqi side suggested that legitimate claims for compensation filed by Indian companies would be considered through the concerned client organizations in accordance with certain general instructions to be issued by the Iraqi Government.

In the field of tourism detailed discussions took place and the two sides finalised a draft protocol on cooperation in the field of tourism between Indian Tourism Development Corporation and the Iraqi State Organization for Tourism. In particular, the two countries agreed

on an indicative plan of one hundred eighty dollar million dollars for exports from India to Iraq during 1980. The plan covered agricultural products (e.g. tobacco, tea, plywood, tamarind and spices), chemicals and minerals, bantonites, barytes, iron-ore fines, textiles, woolens and engineering manufactured items. The realisation of individual export contracts would depend on competitive offers in respect of prices, quality, delivery and after-sale services. India also provided another list of various types of products and commodities to Iraq for circulation to the concerned buying organizations. This would be followed by lists of reliable exporters of these commodities and products. India also agreed to import of dates, valued at $10 million from Iraq during 1982. From the beginning of 1983, Iraq would also make available to India specified phosphates and fertilizers etc.

3. RELATIONS WITH KUWAIT:

Kuwait signed an agreement with India on 13 February, 1974, providing for increased financial trade and possibilities of joint ventures. The agreement stemmed from a visit to Kuwait by the then External Affairs Minister Sardar Swaran Singh during a Gulf tour in 1973 and the work done by a special committee to follow up his talks. Another agreement between the two countries was signed on 27 January, 1976 under which Kuwait fund for Arab Economic Development would grant a loan of us $50 million for twenty five years at 4% for the Kalinadi hydroelectric project in Karnataka State. The two hundred million rupee project would have an installed capacity of nine hundred ten mw and would generate up to four thousand million K.W.R. by


harnessing the Kali river and its tributaries. Besides, Kuwait extended a loan of 9.4 million dinars (about Rs. 271.5 million) to India to help finance a hydraulic project. Agreement for a total of 22.35 million dinars (about Rs. 645.36 million) in loan to India, Bangladesh, Sudan, and Lesotho were signed in Kuwait on 4 July, 1978. The Bangladesh loan of 6.75 million dinars (about Rs. 194.91 million) would contribute to the cost of a national power grid. During the Kuwaiti Emir's visit to India in September, 1980 the two sides reviewed the progress of economic relations between the two countries.

India ranks seventh on the list of exporters to Kuwait. Indian exports include traditional and non-traditional items. Food products such as cardamom, tea, coffee, meat, spices, fresh vegetables and fruits constitute about 33 percent of India's exports. Engineering products like iron and steel rods, structural, pipes and tubes and automobile buses constitute another 33 percent and the rest of the exports consists of textile and jewellery. India, in turn imports fertilizers and refined petroleum products from Kuwait. India is the largest purchaser of fertilizers from Kuwait. During the year 1980 India imported a significant quantity of liquified petroleum gas (LPG) from Kuwait. The balance of trade has shifted in favour of India since 1976. An important aspect of Indo-Kuwait economic cooperation is the participation by the Kuwait Fund for Arab Economic Development in India's development.

During Mrs. Gandhi's visit to Kuwait in May 1981 she expressed her

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33. The Hindustan Times, New Delhi, dated 28-1-76
34. Asian Recorder, 1978, New Delhi, p 14469
35. The Times of India, New Delhi, dated 10-9-80
Government's appreciation for the assistance that had been extended over the past few years by the Kuwait Fund for Arab Economic Development. In mid 1980 Government of India made relaxations by permitting equity investment from oil exporting developing countries in industrial and other projects in India.

The Kuwaiti International Investment Company (KIIC) remitted Rs. forty-six crores to India to cover half the promised investment from Kuwait for the Rashtriya Chemicals and Fertilizers (RCFL), a public sector undertaking in Maharashtra. According to an Indian Embassy spokesman, another instalment of Rs. forty-six crores was remitted on 20 January 1982 thereby completing the purchase of bonds floated by the Indian company to raise funds from Kuwait for its Thal Vaishet Fertilizer project. With the remittance of the second instalment, the Thal Vaishet project attracted the single largest segment of investment from Kuwait. The issue of bonds in the Kuwait Dinar market was managed by the KIIC along with the Kuwait Foreign Trading Contracting and Investment Company and the Kuwait Investment company. An agreement in this regard was signed on 12 December, 1981 by the RCFL chairman and managing director Mr. Duleep Singh and KIIC deputy chairman and managing director, Mr. Salah al Marzook. The agreement is guaranteed by the Government of India and carries an interest of 12.25 percent. This was the first time that India came to the international financial

36. The Hindustan Times, New Delhi dated 10.5.81
market to raise funds and that the bond issue, totalling Rs. ninetytwo
crores, was also the biggest ever floated by any Kuwaiti institution in
the local market. The investment was the best example of growing ties
between India and the Gulf states and indicated the complementarity
between the Gulf investment and Indian expertise. Thal Vaishet project is meant for the production of ammonia.

The Kuwait Fund for Arab Economic Development (KFAED) granted
a soft loan of 14.3 million Kuwaiti dinars for the multi-billion-
dollar Thal Vaishet fertilizer project in Maharashtra. An agreement
in this regard was signed in Kuwait between the Kuwaiti Minister for
Planning and Finance, Mr. Abdul Latif Al Hamad, and the Indian
ambassador Mr. S.J.S. Chhatwal. The loan would be repaid with an
interest rate of 3.5 percent. The first instalment will be due on
1 May, 1987 and the last on 1 November, 2006. An administrative
charge of .5 per cent will also be lev<ed. Provision was made for a
grace period of five years. This was the first loan given by the
KFAED to India for development in the fertilizer sector. Earlier,
three loans had been given for development in the energy sector. The
loan would cover 5.1 per cent of the total project cost of the Thal
Vaishet, estimated at K.D. 82.2 million dinars. KFAED would also provide
a Rs. fifty crore loan (Kuwaiti dinars 14.6 million) to India for phase
of the South Basin gas development project. An agreement to this effect
was signed in New Delhi on 27 October, 1983 between India and the KFAED.
The South Basin offshore gas project aims at producing up to twenty
million cubic metres of gas a day from the South Beisin field located
approximately sixtyfive k.m. west of Bombay in the Arabian Sea at a
water depth of about fiftyseven metres. The project is to be implemented in two phases. Phase I includes facilities for producing at least five million cubic metres of gas per day in 1984 and at least ten million cubic metres of gas per day in 1985 together with the pipeline transport facilities to the coast in Gujarat, with a capacity of twenty million cubic metres of gas per day in 1984. Phase II includes facilities to bring the project to its capacity by about 1987.

In pursuance of the policy of expansion in economic cooperation India and Kuwait entered into an agreement to avoid double taxation of income from international air transport with retrospective effect from January 1, 1967. Under the agreement which came into force on 31 March 1983, income derived by aircraft enterprise of one country would be exempt from tax in other country. While the provisions of the agreement would apply retrospectively in respect of the earnings of the airlines of the two countries from 1 January 1967, the assessment in respect of the period prior to 1 January 1967, would be reopened.

4. RELATIONS WITH SAUDI ARABIA

The annual turnover of trade between India and Saudi Arabia registered a substantial increase in 1970. Under a contract signed between the Indian Oil Corporation and the Saudi Arabian Oil Company on 1 March, 1976 India would import 1.1 million tonnes of light crude oil from Saudi Arabia during 1976. In addition to crude received on government-to-

Government basis India would continue to get 2.75 million tonnes of Saudi Arabian crude from Exxon under the agreement signed at the time of acquisition of its affiliate Esso's marketing and refining operations in March 1974. Caltex also receives from its principals Saudi Arabian crude for processing in its refinery at Vishakhapatnam. Saudi Arabia participated in India's projects by extending loan to her. For instance, she extended on 2 June, 1977 her first ever loan to India worth one hundred million dollar for the Srisailam and Nagarjunasagar power projects. An agreement to this effect was signed in New Delhi by the then Finance Minister Mr. H.M. Patel and Dr. Mahsoun Jalal, Director General (earstwhile) of the Saudi Arabian Fund for Development. The Fund had an authorised capital of three thousand million dollar and was set up in 1974. The Fund authorities had earlier appointed a team of German experts to scrutinise the Srisailam and Nagarjunasagar power projects to assess their viability. The Srisailam scheme envisaged four generators of hundred ten M.W. with a provision for three more units later. These would be commissioned in rapid succession between March 1979 and October 1980, and the total cost was estimated at Rs. two hundred eight crores. The Nagarjunasagar scheme would use the dam in Andhra Pradesh for generating hydro-electricity. The generator was expected to be commissioned in August 1977. The total cost would be Rs. 12.97 crores.

42. THE TIMES OF INDIA, New Delhi dated 2.3.76
43. THE HINDUSTAN TIMES, New Delhi dated 3.6.77
Likewise, Saudi Arabia agreed to give a loan of Rs. two hundred sixty-five million for a new hydro-electric project in Bihar to be taken up by the National Hydro Power Corporation (NHPC). The Rs. two thousand seven hundred thirty million Koel Karo project would generate seven hundred ten M.W. of power by harnessing the South Koel river and its tributary.

Four oil-rich Gulf-States—Saudi Arabia, Kuwait, Qatar and the United Arab Emirates (UAE) promised oil supply to India to make up for the loss due to the Gulf war. The then finance Minister Mr. R. Venkataraman during a brief stopover in Doha (Qatar) on 17th November, 1980 on his way to Dubai from Dhamra (Saudi Arabia), told newsmen that the interim supply would not be a "big" quantity. But India's growing need for oil would be taken into account by the friendly Gulf neighbours while committing their oil sale for the next year. The four OPEC countries had temporarily raised their output or stayed their planned cutback totalling one million barrels a day to help the countries badly hit by the loss of supplies from Iraq and Iran. The worst hit was India which lost about seventy-five per cent of its supplies—six million tonnes from Iraq and five million tonnes from Iran. India and Saudi Arabia also signed in New Delhi on 14th April 1981, an economic and technical cooperation agreement aimed at encouraging investment and flow of capital and exchange of goods and products. By another agreement Saudi Arabia extended a loan of one hundred six million riyals (about $32 million) to finance the Koel.

44. ASIAN Recorder, New Delhi 1979, p. 15171.
45. THE HINDU, Madras dated 18.11.80.
Karo hydro-electric project in Bihar. The project envisages the construction of two earth dams across the north Karo river and south Koel river and the installation of power stations with a total generating capacity of seven hundred ten M.W. The participation of the Saudi Fund for Development in the project must be considered as a landmark in the promotion of close and fruitful cooperation between the Government of India and the Saudi Arabian Kingdom. The agreement also envisaged the formation of a joint commission to meet alternately in India and Saudi Arabia. It was finally decided during Mrs. Gandhi's visit to Saudi-Arabia in April 1982 and the first meeting of the joint commission was to be held in October 1982. It was also proposed that a delegation of Saudi businessmen and industrialists should visit India shortly to further explore the possibilities of mutual beneficial economic cooperation. In consequence, on 22 May 1982 India signed the first ever long term agreement with Saudi Arabia for importing just over five million tonnes of crude in the next 2½ years. This would be at the rate of two million tonnes per annum starting from 1 June 1982. The agreement would end in December 1984. Besides the long-term agreement India would also be importing 1.40 million tonnes of crude during 1982 from the Saudi based Exxon company of the United States. In the past Saudi oil had been supplied on an adhoc basis and supplies had been interrupted several times.

46. THE TIMES OF INDIA, New Delhi dated 15.4.81.

47. THE INDIAN EXPRESS, New Delhi Dated 23.5.82.
At the end of the first meeting of their Joint Commission in New Delhi on 11 August, 1985 India and Saudi Arabia agreed to further strengthen their bilateral cooperation in various fields and an agreement on a Rs. thirty crores Saudi assistance for the Koraput–Raigad railway line project was signed. The two countries also agreed to consider long-term arrangements for the exchange of Indian iron-ore with Saudi sulphur. The leader of the Saudi delegation and co-chairman of the Joint Commission, Sheikh Mohammad Abal Khail and the then Commerce Minister, Mr. Vishwanath Pratap Singh, discussed the possibility of exchange of Indian iron-ore and Saudi sulphur during their meeting. They agreed that the Joint Commission could be used for strengthening trade ties and finding new avenues for commercial exchanges. They also considered scope for joint ventures consultancy services in the context of expanding economic co-operation. During the discussion the issue of ban on import of Indian meat also figured and Mr. Singh suggested that Saudi Arabia should lift the ban on import of meat from India in view of the quality control and pre-shipment inspection by Indian authorities. The Saudi Minister promised that once his country's conditions were satisfactorily maintained, the matter would be reviewed. The Saudi team also discussed the arrangements for the supply of crude oil to India. The team met the then Energy Minister Mr. P. Shiv Shanker. They discussed the renewal of
the arrangement for the supply of Saudi crude oil to India. The contract for the sale of two million tonnes of crude oil every year was to expire on 31 December 1984. They also signed an agreement under which Saudi Arabia would give a Rs. thirty crores loan for the Koraput- Raigad railway project in Orissa. This would be the third loan to be advanced to India out of the Saudi Fund for Development. The earlier two totalling Rs. one hundred thirty cores, were given for the Nagarjunasagar and Srisailam projects and the Koel Karo project.

So far as Indo-Iranian economic relations are concerned the aforesaid agreements and contracts in economic sphere speak for the fact that their relations are based on complementarity and mutual understanding. The agreement for avoidance of double taxation of income between the two countries reflects the view that they have necessary will to honour the sentiments of each other and strengthen the friendship. A major agreement on economic cooperation including additional crude oil supply to India in February 1974 proved turning point in the relations between India and Iran. The agreement had two salient features. For one thing it provided for extensive credit facilities from Iran to cover the import liabilities. For another India might not be called upon to make immediate payment for additional oil imports. Going by the contents of contracts entered into by the two sides we find that Iran always took into consideration the difficulties and problems facing India and made full concession to remove

them. For instance, under the said agreement Iran had not only to import one lakh tonnes of Indian alumina per year on a long term basis but she also agreed to extend credit facilities for developing necessary facilities to the extent of sixty million dollars to seventy million dollars. Other such agreements whose terms were favourable to India include cooperation in fisheries in the Persian Gulf and the Indian Ocean, supply of cement and steel products to Iran, establishment of Joint venture fertilizer plants, Iranian credit for the production of alumina based on bauxite, supply of Iranian crude, one million tonnes per year for the next five years (from 1974) mostly against deferred payment, supply of an additional crude seventy thousand tonnes a year for Madras refinery when its capacity was expanded to 3.5 million tonnes and non-payment for additional crude supplies, except to a small extent in the Fifth Plan starting from April 1974. In order to monitor these agreements the two countries also decided to set up a joint committee of experts.

In January 1974 Ministerial level talks between India and Iran held in New Delhi, according to Mr. Hishang Ansari, the leader of the Iranian delegation, constituted a step forward. The subjects discussed in the meeting included maximisation of industrial capacity in India for the benefit of both countries, development of India's mineral resources for export to Iran, cooperation in the field of petrochemicals, extension of credit facilities to India and oil and other commodities. Mrs. Gandhi's visit to Iran in April 1974 must be considered as a milestone in the annals of economic and political cooperation between two states. The reason is that firstly, the talks were held in a cordial atmosphere and dispelled India's apprehension about Iranian hegemony in the region and
and secondly certain key decisions were taken by India and Iran. Mrs. Gandhi agreed for having a common market for the Indian Ocean and said if peace and stability could be achieved through economic cooperation it would do a lot of good to the international situation. But she cautioned, any kind of regional cooperation should not be directed against any country. The other important decisions taken in May 1974 at the conclusion of Mrs. Gandhi's visit include extension of soft loans to India, giving credit to India to maximise its industrial capacity and the establishment of a joint shipping line. A five year trade agreement between the two countries in August 1974 marks a significant development in the history of trade relations. Under the agreement India would supply to Iran at least one million tonnes of cement, one lakh thirty thousand railway track sections and vast quantities of sugar. Iran undertook to deliver to India transformers, machinery and petrochemical products. It was also decided to set up a joint shipping company with equal shares held by the shipping organisations of the two countries. The signing of a protocol in April 1975 is also noteworthy in that it contained a twenty year project for India to send to Iran 7.5 million tonnes of iron-ore a year, starting in 1977 or 1980. The protocol also provided for the grant of a long term credit of three hundred million dollars by Iran for exploitation of the Indian ore deposit. It had also the provision of investment by Iran in an industrial complex in India for paper, with most of the planned two lakh tonnes yearly output earmarked for Iran. The highlight of the Indo-Iranian fifth Ministerial conference held in November 1975, was the grant of six hundred thirty/dollars loan
by Iran to India for development and exploitation of Kundremukh iron-ore mines to be repaid in iron-ore to Iran. The ministers of the two countries also entered into concrete economic agreements that would give a new content and meaning to their friendly, economic and political relations. Therefore the importance of the fifth Ministerial conference cannot be lost sight of.

Shah of Iran's visit to India in February 1978 further boosted the economic relations between the two countries. Iran agreed to supply India with additional crude on credit terms favourable to India. The bulk of repayment was to be through products made possible from approved projects. The shah of Iran and Mr. Morar Ji Desai emphasized the need to establish a new international economic order based on equality and justice. They also stressed the need for reform in the international trading system to bridge the gap between the industrialised and the developing countries. In the wake of the revolution the first agreement signed between India and Iran in May 1979 related to the supply of crude oil meant for Madras refinery. Therefore the revolution did not disturb the continuity of economic relations between the two nations. In May 1982 the two countries decided to set up an Indo-Iranian Joint commission to give a boost to economic and other relations. This move was lauded by the people of both the countries due to the fact that Khomeini regime is also interested in the promotion of bilateral relations in various fields. The Indo-Iranian Joint Commission's meeting held in Teheran in July 1983 proved crucial in that it solved to a great extent the problem of the lifting of iron-ore concentrate from Kundremukh plant. The problem arose due to the minor shift in trade
policy effected by Khomeini regime. The two sides decided to invoke the
erlier agreement regarding the supply of iron ore and the remaining
problems i.e. delivery schedule, prices and quantity were expected to
be sorted out later on. Iran also expressed her readiness to keep oil
exports within the purview of Asian clearing Union. They also agreed
that payments for Iranian oil would be made in Indian currency for
sixty days.

In December 1972 India and Iraq agreed to set up Joint Planning
Commission giving testimony to the fact that both the countries are
interested in maintaining close economic cooperation. The commission
aims to study and utilize planning activities of the two countries for
mutual benefit. In April 1973 they signed as many as seven agreements
in New Delhi. One of the agreements related to the supply of thirty
million tonnes of crude oil to India over a ten year period. Another
important agreement was in connection with a $ fifty million credit
for the supply of crude oil to the proposed refinery at Mathura. It
was also agreed that commercial exchanges between the two would be on
a balance basis and the imbalances had to be corrected every six
months by payments in convertible currency. The visit of Mr. Saddam
Husein the erstwhile Vice President of Iraq in March 1974 marks a signi-
ficant development in that it paved the way for increased trade and
commerce between the two sides. It opened the flood gate of a host of
agreements i.e. an Iraqi loan of one hundred ten million dollars to India
for the import of crude from Iraq, Iraqi credit to India for setting
up alumina plants and plant for pellitization of iron-ore, cooperation in the implementation of major irrigation and agriculture projects in Iraq and finalisation of a concrete trade expansion plan for the period from 1 April 1971 to 31 March 1975.

Mrs. Gandhi’s visit to Iraq in January 1975 provided an opportunity to the two countries to review the economic cooperation comprehensively. Both the leaders came to the conclusion that the trade relations had not always been as smooth as it ought to have been due to occasional bureaucratic delay. During the fourth meeting of the Indo-Iraqi Joint Commission a protocol was signed that envisaged wide ranging technical and economic cooperation in the fields of agriculture, consultancy services, industry and railways. The protocol was signed in November 1977 that also contained among other things, an agreement by Iraq to double the imports from India from fifty million dollars to one hundred million dollars Rs. ninety crores in one year. This gesture on the part of Iraq was lauded by the people of India. Other features of the Joint Commission meeting include the discussion about the possibility of setting up a joint shipping service between India and Iraq, agreement by India to assist Iraq in building grain silos, three hundred housing units and a specialised institute of engineering. Iraq’s offer to step up its crude oil exports to India to make up the gap created by the disruption of Iranian oil supplies, is praiseworthy and speaks for the fact that Iraq is ever willing to accommodate the sentiments of India. Iraq agreed to supply 6.5 million tonnes of crude to India in 1979 whereas the supply for 1978 was just 2.5 million
tonnes. Iraq also stepped up its exports of kerosene to India from 600,000 lakh tonnes earlier to two lakh ten thousand tonnes for 1979. Other items for whose exports Iraq agreed to step up during 1979, were sulphur and urea.

The year 1980 saw a host of lucrative contracts between India and Iraq. India obtained contracts worth Rs. five hundred crores, an amount unprecedented in the history of Indo-Iraqi economic cooperation. A protocol signed in April 1980 envisaged further expansion in economic relations between the two countries. It was agreed that Iraq would maintain the 1979 level of its oil supply to India i.e. six million tonnes of crude in 1980 too. The outcome of the seventh session of Indo-Iraqi Joint Commission held in October 1981 was heartening in that India was assured of continued Iraqi crude supply in the future and there was agreement on setting up three sub-committees dealing with trade, economic cooperation and cultural and technical cooperation. These sub-committees played a vital role in the expansion of trade and commerce between the two countries. Iraq also agreed to give compensation to Indian companies after the consideration of their legitimate claims according to general guidelines issued by the Government of Iraq. A draft protocol for the promotion of tourism was also finalised after the discussion between Indian Tourism Development Corporation and the Iraqi State Organization for Tourism. The two sides agreed on an indicative plan of $ one hundred eighty million for exports from India during 1980. The export commodities include tea, spices, tobacco, plywood, chemicals and minerals, bantonites, barytes, woolens, engineering goods and textiles. Iraq agreed to supply India with dates, specified phosphates and fertilizers in subsequent years.
When we talk of Indo-Kuwaiti economic relations in modern times we inevitably shower words of praise on Kuwait Fund for Arab Economic Development, a Kuwaiti financial agency which has been principal aid donor to India. During a visit to Kuwait by the then Indian External Affairs Minister Sardar Swaran Singh in February 1974 an important agreement was signed by India and Kuwait that provided for increased trade and explored the possibilities of joint ventures. In another agreement signed in January 1976 Kuwait Fund for Arab Economic Development undertook to grant a loan of fifty million dollars for twenty five years at 4% for the Kalinadi hydroelectric project in Karnataka state. Besides, Kuwait's loan of 94 million dinars (about Rs. 271.5 million) to India meant to finance a hydroelectric project, also speaks for the fact that Kuwait has been liberal in granting loan to India. Kuwaiti Emir's visit to India provided an opportunity for a thorough review of Indo-Kuwaiti economic relations. India stands seventh on the list of exporters to Kuwait. The list of Indian exports includes a number of food products such as spices, meat, coffee, fresh vegetables, fruits, tea, cardamom, and engineering goods i.e. automobile buses, pipes and tubes, iron/steel rods and textiles and Jewellery. Indian imports from Kuwait include petroleum products and fertilizers. An encouraging feature of Indo-Kuwaiti economic relations is that balance of trade has shifted in favour of India since 1976. Participation by Kuwait's Fund for Arab Economic Development in India's development has created a lot of goodwill among Indians and Mrs. Gandhi during her visit to Kuwait in 1981 acknowledged the assistance extended by the KFAED and uttered a few words in appreciation.
of Kuwaiti leaders. India reciprocated this Kuwaiti gesture by permitting equity investment from Kuwait and other oil exporting developing countries in various projects in India.

We have a number of examples of investment by Kuwaiti financial institutions in Indian projects. Rashtriya Chemicals and Fertilizers (RCFL), a public sector undertaking in Maharashtra received Rs. forty-six crores from the Kuwaiti International Investment Company (KIIC), to cover the promised investment from Kuwait for it (RCFL). In fact India had floated the bonds to raise funds from Kuwait for its Thal Vaishet Fertilizer project. The project meant for the production of ammonia, attracted the single largest segment of investment from Kuwait. It is also noteworthy that for the first time India sought the help of international financial market to raise funds and the bond of Rs. ninety-two crores was also the biggest ever floated by any Kuwaiti institutions in the local market. Thal Vaishet project also benefitted from KFAED which granted a soft loan of 14.3 million Kuwaiti dinars. The loan is to be repaid with an interest rate of 3.5 per cent. The first instalment will be due on 1 May, 1987 and the last on 1 November 2006. The concession of providing a grace period of five years by Kuwait, also reflects Kuwait's brotherly attitude towards India. KFAED also provided loan for South Basin gas development project. South Basin field is located approximate sixty-five km west of Bombay in the Arabian Sea. To make air transport between Kuwait and India smooth the two countries entered into an agreement to avoid double taxation of income from international air transport. The
afresaid agreements give tesimony to the growing ties between India and Kuwait and indicate the complementarity between the Kuwaiti investment and Indian expertise.

Indo-Saudi economic relations in modern times is also, like other countries of the Gulf, based on complementarity, mutual benefit and long standing Indo-Arab economic tie. The trade between the two countries gained momentum in 1970s when the annual turnover of trade registered a substantial increase. Saudi participation in various India's projects through extending loans and continuous supply of oil to India explain the element of affinity between India and Saudi Arabia. According to an agreement signed in March 1974 apart from the crude received on Government-to-government basis India would continue to get 2.75 million tonnes of Saudi crude from Exxon (an American company based in Saudi Arabia). The Indian projects financed by Saudi Arabia include Srisailam Nagarjunasagar power project of Andhra Pradesh, Koel Karo Hydro-electric project of Bihar and Koraput Raigad railway line project in Orissa. We must be all praise for Saudi Fund for development which extended liberal assistance for Indian projects. The formation of Joint Commission between India and Saudi Arabia in 1982 contributed a lot to the promotion of economic relations between the two countries. The first meeting of Indo-Saudi Joint Commission was important in that it tried to settle certain important issues. It is in this meeting that Saudi plan to finance Koraput Raigad railway line project was finalised. Both the sides also discussed the possibility of a long-term arrangement for the exchange of Indian are with Saudi sulphur. They also talked about the expansion of trade and commence between India
and Saudi Arabia. The leader of the Indian delegation also raised the issue of meat export to Saudi Arabia and assured the Saudi delegation of the tightened quality control and pre-shipment inspection by Indian authorities. Saudi Minister promised to sympathetically consider the matter. The timely move by four oil rich Gulf States—Saudi Arabia, Kuwait, Qatar and the United Arab Emirates to supply crude to India to compensate for the loss due to the Gulf war, deserves compliments from us. It is noteworthy that India had lost about seventy five per cent of its supplies from the Gulf region—six million tonnes from Iraq and five million tonnes from Iran—at the beginning of the war.

Now we would like to discuss the genesis of the Indo-Gulf economic relations in recent times. In fact Britain's imperial needs brought India and the Gulf countries into close contact with each other. Trade and commerce between India and Gulf countries grew by leaps and bounds. India and Arab traders carried on between the two areas. Many children of the Gulf aristocracy came to India to receive their education in schools and colleges of the country. Indian currency came to be accepted as legal tender in the Gulf markets. Primary technical skill from India was regarded as handy for the Gulf people and saîe for British imperial interests. In the local military and police, personnel of Indian origin were preferred. Even the 'bazar' Hindustani was not really an unknown language for the local people. Many Indians took up permanent residence in the Gulf states. Two socio-economic developments on the global scene gave Indo-Arab relations a new turn and raised them to a new level of cooperation. The states of the Gulf region resumed
historical ties with India in the 1970s under the impact of these socio-economic changes. First of all the policy of socio-economic planning adopted in force India had not only raised the standard of living of its people but also enhanced their technical knowledge and skill. Thanks to that this transformation a new class of technologists arose in India, technologists capable of undertaking constructive enterprises both in India and in the countries of the Third World.

Generally speaking the revolution of rising expectations in the developing countries made the Indian technical elite available for service in the Gulf states. India already had a huge surplus of manpower, skilled and unskilled, which could be productively utilized in constructive projects abroad. Although a superior quality of technical know how was available in countries like Japan for use in the Gulf states, its supply was scarce in view of the smaller surplus, mostly in view of the wage structure in Japan, and partly irrelevant in view of the absence of supporting unskilled labour. Moreover the level of technology in India was more suitable for the sort of development envisaged in the Gulf states. The other factor signifying global socio-economic change was the discovery of large deposits of oil in the Gulf region and the world’s growing reliance on oil as the predominant source of energy. Its impact was definitely felt when the various oil producing countries adopted policies of nationalization of oil-drilling so that the newly acquired wealth provided a source of economic and technical advance of the local populations. In 1973 they used oil as an instrument of foreign policy in support of

50. M. Qureshi, INDO-GULF RELATIONS: AN OVERVIEW, article published in CONTEMPORARY GULF edit. by Sureshna Bhutani, New Delhi, 1980, p.91
the right, of the Palestinian Arabs. On the initiative of the Gulf States an organisation known as Organisation of Petroleum Exporting countries (OPEC) was set up to determine international oil prices. What oil has done is to turn India's spotlight on the Persian Gulf region. Almost overnight India realized that oil would not flow in for the asking; close concentrated and sustained contacts and goodwill would be necessary. Besides, the old picture that the Middle Easterners were "poor relatives" must be flung out of the window, for oil has brought unprecedented wealth in some most significant quarters. If India must buy there, it must also sell there and it has found that in the new environment export possibilities have in fact vastly increased. Thus during the last few years more delegations and visits to the Gulf states have been exchanged than in any comparable period. India's President, Prime Minister, numerous Ministers, high officials, business chiefs and top specialists have visited several states, heading the outflow of an extraordinary variety of Indians, from carpenters to plastic surgeons. And it has been a two-way traffic. The people of the Gulf have also discovered India: a developing country no doubt and yet commanding great resources and technological competence of the highest order in several fields. It is interesting to record that the closing down of the Suez Canal, while it bore heavily upon India's trade with Europe, brightened up its opportunities in the Gulf states. These developments on the global scene combined to

51. Ibid, p. 92

raise Indo- Gulf relations from an ideological convergence and political cooperation to the more concrete level of collaboration in the fields of developmental and reconstructive projects. Cooperation between the Indian labour force, managerial enterprise and technical know-how on the one hand and the capital resources of the member states of the OPEC on the other not only exemplifies the new pattern of Indo- Gulf relations, but also shifts the emphasis of Indian policy from diplomatic-political cooperation to economic-technical collaboration and its Arab focus from Egypt, Syria and the Lebanon to the Gulf States.

India's chief gain in various collaborations is however, in the field of foreign exchange and trade. A large number of skilled and unskilled workers as well as technical and educational personnel of Indian origin working in the Gulf states remit their savings in Indian banks increasing India's foreign exchange earnings. This is in addition to the profits that India's public undertakings and private companies make in the projects assigned to them. Moreover, India maintains generally favourable balances of payment with the Gulf States. Of course, in the case of Kuwait India's imports exceed its exports, but even this cannot be regarded as adverse to India's national interest; for its imports from the Gulf consists mostly of crude oil and petroleum products. India's exports to Kuwait registered about a five fold increase in the last five

53. Z.M. Qureshi Indo- Gulf Relations An Overview Op cit, p. 93
years. The export items to Gulf countries generally include sugar, rice, textiles, steel, tyres and tubes, commercial vehicles and jeeps, electrical equipment, pumps and motors, machine tools and handicrafts. The Gulf region is getting to be one of the major markets for Indian products. The import items include inter alia crude oil, petroleum products and minerals which are source items in India. India certainly stands to gain by its growing commercial relations with the Gulf states even where its trade with them might indicate an unfavourable balance. However far from being unfavourable, the balance is getting to be more and more favourable.

Realizing that politico-economic action-reaction is normally inevitable, India's foreign policy makers are having a hard look at the Gulf region on its scale of external relations.

Notwithstanding the good news from domestic oil industry and the talk of India becoming self-sufficient in oil it is unlikely that India would cease to be an oil importer. It must be realised as it appears from the present reckoning, that after Bombay High and related offshore structures we have yet no established source of additional crude and all increases in consumption after 1987-88 would have to be met by imports. It is feared that even by the turn of the century oil imports might well absorb 75 per cent India's export earnings. Views have also been expressed that the present slump in the price of oil may not last long. It is predicted that by the end of the century the forces leading to price rises would be stronger than those exerting a downward pressure on

54. IBLID p. 93-94.
prices. The current oil glut was a 'structural' phenomenon and that low prices would persist indefinitely was not correct. It is in the shadow of these anxieties that India's diplomacy has to be tailored; in the first place, to ensure a smooth supply of oil from external sources and secondly, to develop viable economic links with oil exporters so as to make both the partners mutually dependent on each other thereby reducing the vulnerability of the Indian economy to the whims and fancies of the oil exporting countries. To effect these, India's dependence on external supply has to be diversified and viable economic relations have to be built up with the Persian Gulf-states who are India's largest suppliers. So far as diversification of oil imports is concerned India's efforts have been commendable. Although Persian Gulf-states continue to be India's major exporters yet since 1980 we have on our list of suppliers such countries as Mexico, Venezuela, Malaysia, Algeria and Nigeria, Kuwait which was previously not our supplier has emerged as one. The Soviet Union which was a relatively small supplier in 1977 has over the years become a major one.

But in spite of these diversifications India's dependence on the Persian Gulf oil is still enormous. So it is imperative that India's energy diplomacy takes serious note of the development in the Gulf region and tailor its policy so as not to jeopardize its economic growth which

57. TIMES OF INDIA, New Delhi, 19 June 1983.
58. Partha S. Ghosh 'World Oil Outlook: Some Policy Implications for India', op. cit.
which a cut in the oil supply from the region might lead to. It is still in Indian memory that following the oil crisis of 1973 the oil exporting Arab countries had included India in the list of countries selected for oil embargo as well as oil squeeze. In the initial phase of the oil crisis Indian economy became so vulnerable to the dictates of the oil exporting Arab countries that some apprehended that India might even intervene in the Middle East to safeguard its vital interests. In March 1975, speaking at Iran's institute of International Political and Economic Studies, Christopher Bertram, Director of London based International Institute of Strategic Studies, expressed such apprehension.

No doubt Bertum's view smacked of a typical Western imperialistic solution of a given economic contingency. But what his fear underscored was the fact that India had vital stakes in Gulf oil for its economic development. The main determinant of India's policy towards West Asia is this fact. In the Arab-Israeli conflict India's policy has been one of expressing solidarity with the cause of the Arabs. That this policy has paid some dividends is evident from the fact that by forceful support to the Arab demand that Israel withdraw from all territory occupied during the War of 1967, India got the oil exporting Arab countries to promptly delete its name from the list of countries selected for the oil embargo and the oil squeeze. Alongside wooing the Arabs politically, India also made efforts to develop economic relations with these which had overnight become rich. Since 1974 India has been projecting to the Persian Gulf

countries its image as a nation that is eminently in a position to meet a sizeable portion of the goods and services they need for their dazzlingly ambitious modernization and development projects at rates considerably cheaper than those available in the developed capitalist countries. By the late seventies, India's vigorous economic diplomacy was rewarded with promising returns. Indian public and private sector companies built railroads, airports, township, housing projects, an electric power supply plant, a water filtration plant, a sponge iron plant and a fertilizer factor in countries located in the Persian Gulf region. India also became the second largest supplier of manpower to the region, after Pakistan.

Now that there is a glut in the world oil market and price of oil is falling India has an opportunity to strengthen its solidarity with the Arab countries by not exploiting their predicament. The recent development in Indo-Iran economic relations have indicated the usefulness of this strategy. It is believed that the Indian gesture of not demanding discounts when the prices of oil were falling have contributed to the setting-up of the Indo-Iran joint commission. Among the important items that have been negotiated is that the imbalance in trade, which favoured Iran ten to one, should be corrected to the extent possible and that Iran should supply oil to India against payment but give it sixty days time to pay as stipulated by the eight-member Asian clearing Union.

60. INDIAN EXPERTISE IN PROJECTS, Calcutta Engineering Export Promotion Council, Calcutta, November, 1980.
Besides, India's Arab strategy with the ostensible object of obtaining deferred payment facility for its oil imports and getting as large a share as possible of the enormous aid pie of Arab petrodollars for its developmental projects should also include a relatively accommodating approach towards Pakistan without of course compromising the basic tenets on which its Pakistan policy rests. Policy towards Pakistan is indeed much more central to India's foreign policy than its relations with the Gulf-states and hence the latter cannot determine the former; still efforts to normalization of Indo-Pak relations can contribute to India's building credibility with the Gulf people. To come closer to the Gulf countries India might consider making some readjustments, 'even if cosmetic', in the relationship with Pakistan. When Mrs. Gandhi visited Saudi Arabia in April 1982 she found that the Saudis saw India hostile to Pakistan, inhospitable to its own large Muslim minority and pro-Soviet. She took pains to persuade the Saudis that India had major differences with the Soviet Union over Afghanistan and certainly desired withdrawal of Soviet troops as quickly as possible and that India was seriously striving to improve relations with Pakistan. Many Indians now realize that a break through in Indo-Pak relations and India's ability to improve its relations with the United States are two essential conditions for its success in getting a large slice of Arab development and investment funds/Indian projects and ensuring significant Indian participation in Persian Gulf development.

62. Bhabani Sen Gupta, 'Bridging the Gulf' and 'The Gulf Narrows'
Both in INDIA TODAY (New Delhi), 1-15 June 1981 and 15 May 1982, respectively.
The price and availability of oil more often not depend on political factors rather than economic ones. The first oil crisis was sparked off by the Arab-Israel War of 1973 while the second by the collapse of the Shah of Iran followed by the Iran-Iraq war. Judging by experience it is quite likely that the current trend of falling prices might be reversed any day following a new flare up in the region. There also is existent the destabilising factor of undermanned offshore boundaries in the Persian Gulf. There is no other international water of comparable size in the world surrounded by so many different political units thirteen in all. With new discoveries of oil in the Gulf this element can be a potential ground for conflicts. Since a sustained peace in the region ensures a low price and easy availability of oil it is desirable for India to see that peace prevails. But the politics of the region being too complicated and the superpower interest being of a high order, India's capability to influence events there is rather limited. Still taking advantage of its position as the chairman of the Non-Aligned Movement India can use its good offices as far as possible to defeat the forces of destabilisation and prevent a fresh outbreak of hostility. The despatch of Romesh Bhandari, the then secretary in the External Affairs Ministry in 1983 by Mrs. Gandhi to the Middle Eastern capitals was in tune with this policy. Bhandari returned with images of a region poised for sudden, unpredictable and explosive developments. Things do not augur too well for the future in so far as India's oil

imports from the Middle Eastern Persian Gulf region is concerned. There is however, one redeeming feature of the present situation and that is since the world is becoming less and less depending on the Gulf for its oil supplies there is less possibility of political turmoil in the area having the same kind of impact that it had during the last decade. But for certain concluding remarks the present chapter on economic relations between India and the Gulf countries would remain incomplete. There are unique elements of complementarity between India and the Gulf countries of an enduring nature. India is a large country, with a vast and growing market, rich in a variety of natural resources and endowed with a substantial pool of skilled and unskilled labour. However these resources have not yet been fully utilised or exploited. This, in a sense, explains the fact that India is still a developing country. On the other hand the Gulf countries are rich in their endowment of oil based resources. They have been attempting to use their substantial oil resources to diversify their economies and to convert their non-renewable wealth into lasting welfare for their peoples. The constraints being faced in these countries are: Limited natural resources other than oil, insufficient, skilled and unskilled manpower and small domestic markets. India offers excellent scope for foreign investment, because of the large number of viable investment projects big and small ones. India at the same time, requires more energy and energy based resources to sustain its development. In contrast, Gulf countries need to invest their financial resources not only in high yielding investments, but also in terms of diversified portfolios, and not only in financial instrumentalties but also in physical capital. They also need to import certain
basic items, including food and other consumer items, and skilled and unskilled manpower from outside to assist in diversifying their economies.

The development profiles of the Gulf area economics and of India are changing. The dynamics of this change must be appreciated by both sides and the degree of complementary between their economics assessed and wherever possible utilized through joint endeavours. For instance substantial investment is taking place in the Gulf countries in basic petrochemicals; taking note of this, India's industry programmes could give greater weightage to downstream industries rather than basic petrochemicals. The Gulf countries would then have an assured market and also participate in profits from processing of basic inputs. India would have low cost feedstock materials. Similar tie up arrangements based on long-term contracts, can be made in other fields. Indian exports of agricultural items, including fruit and dairy products can meet the continuing needs of Gulf area markets and can be an element of food security for that region. Indian technology and management cadres, can assist in the industrial and economic advance of the Gulf Cooperation Council countries. Systematic utilisation of skills and services is essential for optimising resource development, enhancing the value of investment decisions, and realising the full development potential of India and the Gulf countries. The financial and other resources of the Gulf region, when combined with the range and sophistication of Indian skills and technology, are likely to be a source of strength to the developing world. Competent training facilities can be organised in India on an economical basis. Adequate technical skills are crucial for the industrialisation and the diversification
of the Gulf countries. For personnel from the Gulf area India is also in a position to offer technical skills in short supply in the Gulf countries at competitive rates. But without systematic efforts these possibilities are unlikely to be realised.

There can be no real and lasting development without adequate research and training. India has several well established institutions which can be drawn into a joint effort. Gulf countries are also developing research in areas of their specialisation. Research and training will in particular be required to see how the food products, and other agricultural commodities for export, need to be packaged, stored, and preserved, in order to cope with the climatic conditions in the Gulf countries, and to meet the consumer preferences in these countries. Clearly, more specific studies are needed. It would be particularly useful if there could be some cooperation in carrying out these studies between the concerned research institutions and business organisations in India and the Gulf.

Often, investors are too much influenced by short-term factors, but in trade and investment relations between two areas of the world, one has to take a medium term view. The combination of liquidity, profitability and security of projects both in the private and the public sector should be taken into account. India has maintained a steady growth rate of 3.5 per cent over the years. In the course of the Seventh Five Year Plan a faster tempo is likely and an explosion of consumer demand is expected. India offers a stable political and sound economic environment for business collaboration. The Government of India through its recent actions has improved this environment. Significant opportunities for collaboration exist and they can be tapped profitably. A foreign investor can receive
measurable returns in the form of dividends, royalties, lump-sum payments and equipment sales. This combination of resources, markets and export incentives creates excellent opportunities to increase earnings. In October 1980 India modified its industrial policy with respect to foreign investments, specifically to allow portfolio investment from oil exporting countries in new companies in a number of industries up to forty percent, even if it is not accompanied by technology. Results so far in terms of investment in India have been limited. India particularly needs to analyse the elements thereof and consider what procedural and other aspects need to be corrected. The Gulf countries should reevaluate their investment preferences and past attitudes, and India must convince intending investors from the Gulf region that investment opportunities in India have an edge over those available elsewhere. The Gulf oil countries themselves would seem to be somewhat disenchanted with the results of their large investments in Western markets, and there seems to be a growing awareness of the desirability of diversifying investments, gradually and with care. India could be a magnet for diversification, especially because of attractive rates of returns.

Recently, there is a new trend in the Gulf countries looking inwards and focussing on consolidation. The processes of urbanization, commercialisation and industrialisation mutually interact and are intertwined. A dynamic pattern of economic activity is emerging. Merchants of yesterday are the industrialists of tomorrow. Domestic output of many items imported earlier from the outside world would meet local requirements and be available for exports. India must view its trade exchanges with Gulf countries in this
dynamic context. The possibilities for expansion and diversification of mutual exports and imports are immense. It is also a fact that over the last few years GCC is playing a significant role in the economic endeavours of its member states. Relations with the GCC need to be strengthened to provide a good avenue for a coordinated approach to economic cooperation between India and the Gulf States. Joint ventures in India or in Gulf countries and even in third countries are likely to prove to be effective instruments for maximising benefit to be derived by all the concerned countries. In such fields as petrochemicals and aluminium, Joint ventures could be promoted by taking into account the aggregate demand of India and Gulf countries. So is the case with the hydrocarbons sector. Pioneering initiatives are called for. A few success stories will help to generate a favourable environment.

Certain well-apprised irrigation and agricultural projects in India could be considered by the Governments of the Gulf countries and their investment institutions, for major financing, specially with a view to assuring exports of agricultural and dairy items to the Gulf countries. Such buy-back arrangements and for exports to Third countries could figure in joint ventures. Effective steps on the part of Indian entrepreneurs are to be taken to penetrate what is a very large market and what will continue to be an area of very large agricultural imports, by dealing with problems of quality, regular supply, packing, and by ensuring that the agricultural products that are exported from India remain in good condition and can be marketed satisfactorily. The export policy of India should be stable one, so that the exports of commodities go on uninterrupted.
Over the seventies, the world economy has seen important changes in the traditional mechanism of international capital flows. It is an encouraging development, that some member states of the Gulf Cooperation Council have acquired a significant state and influence in the decision-making processes of the international financial system. The experience gained by these States should prove to be a valuable asset in building up financial relations between India and Gulf countries. There are many ways in which these relations can be strengthened. An existing financial institution in one of the Gulf countries could join forces with an existing financial institution in India, or a new development finance company could set up with joint equity participation. A joint investment trust is another possibility. As financial integration among the Gulf countries gathers momentum, a major Development facility jointly owned and operated by persons based in India and the Gulf will fulfil a felt need. Such a facility will commend the confidence of investors and industrialists. It will be in a position to mobilise funds for investment in productive enterprises and serve the best interest of both owners and users of capital. It may be expected to work out market related terms for loan finance, guarantee minimum return on equity capital, and service in other ways the expansion of commerce and industry. Besides, there is urgent need to bridge the wide gaps in communication and information. An aspect of the problem relates to the lack of institutional framework to discuss problems openly and to address them in a business like manner. Two suggestions may be offered. First, there should be increasing involvement from particular institutions working in the same field. They should set up committees, exchange visitors and send delegations, and
service contacts at individual and institutional level. The concept of
joint collaboration must obviously be extended to the fields of existing
institutions. Second, frequent seminars and Round Table Conferences
on Indo–Gulf relations should be organised in India as well as in
the Gulf, region. And many of the useful suggestions advanced in the
course of the discussions should be concertised in consultation with
the participants.