Chapter 1

INTRODUCTION

1.1 Background

International trade, as a major factor of openness, has made an increasingly significant contribution to economic growth. (Peng Sun and Almas Heshmati 2010). International business (IB) has been a subject of academic research since the early twentieth century, principally focusing on trade and inter-company relations. The study of export activities, foreign direct investment, technology transfer and the management of transnational corporations (TNCs) was recognized as an appropriate and valuable goal of academic research only in the past three decades (Robert Grosse and Jack N. Behrman 1992). Every country imports and export goods and services. USA imports textile items regularly. Japan and India import petroleum products, oils, pulses, gold, and many other products. To pay for imports, countries have to earn foreign exchange through export of goods and services-tea to tobacco, rice to yarn, garments, diamonds, engineering goods, leather and tourism to IT services. Exports provide substantial employment opportunities too (Justin Paul 2008). Comparative advantage is the rationale of International trade. So, open and fair international trade is beneficial for all countries. There are two basic types of trade between countries: the first, in which the receiving country either cannot produce the goods or provide the services in question, or where it does not have enough; and the second, in which it has the capability of producing the goods or supplying the services, but still imports them (Jonathan Reuvid and Jim Sherlock 2011).

World Trade Organization (WTO) is an international organization created to coordinate trading rules among nations. The World Trade Organization has 153 members (95 percent of total world trade) and is headquartered in Geneva, Switzerland. The WTO is governed by a ministerial conference, a general council, and the director-general (Ronald A. Reis 2009). The WTO has three main objectives: (1) to assist in the free operation of international trade; (2) to allow continued progress of liberalization of such trade through fair negotiations; and (3) to create a system for
the impartial settlement of international trade disputes. Its members are currently working to settle new trade negotiations called the Doha Development Agenda. One of the purposes of WTO rules which govern international trade is that they protect the welfare of small and weak nations against discriminatory trade policy actions of large and powerful nations. The WTO secretariat (2000) GATT Articles I (most-favoured-nation) and III (National treatment) promise that all WTO members will be given the same conditions of access to a particular country’s market as the most favored member, and all foreign suppliers will be treated the same as domestic suppliers. A key component of the World Trade Organization (WTO) is the Dispute Settlement Body (DSB). This body, as with the WTO itself, has only been in operation since January of 1995. The WTO, although relatively new, has made significant strides in improving the international trading system and resolving trade disputes. (Bryan Scott Cuppett 2000)

India was a founding member of the General Agreement on Tariffs and Trade (GATT) in 1947 and of the World Trade Organization (WTO) in 1995, and so has actively participated in the different rounds of negotiations. Up until the 1980s, India was not interested in exporting its goods and services abroad and not ready to open its economy to foreign investments. The aim of its economic policy was to ensure the country’s independent development. At the end of the 1980s, India was one of the most closed economies in the world. Its bilateral trade policy, heavily skewed toward the former communist countries, was full of grand statements about technology transfer, mutually advantageous relations and partnership for development – to very little purpose. (Laurance Henry 2008)

The Gulf Cooperation Council (GCC) was established by an agreement concluded on 25 May 1981 in Riyadh, Saudi Arabia among Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and UAE in view of their special relations, geographic proximity, similar political systems based on Islamic beliefs, joint destiny and common objectives. Presently it encompasses a total area of 2,672,700 sq.km. The official language is Arabic. GCC comprises of some of the fastest growing economies in the world, mainly due to an increase in oil and natural gas revenues coupled with a building and investment boom backed by reserves etc. Most of these economies which were affected during recent economic downturn has now recovered and growing at fast pace again. (MEA 2012)
The Gulf region has historical, political, economic, strategic and cultural significance for India. The GCC countries, namely Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and UAE, are moving ahead with their economic integration efforts and offer tremendous potential for cooperation in trade, investment, energy, manpower etc. India has traditional and friendly relation with all GCC member states. With a bilateral trade estimated at USD 113 billion during 2010-11, GCC is now India’s largest trading partner in the world. GCC countries have mutually beneficial complementarities with India in the field of investments which has already started from these countries both through FDI and FII. (MEA 2013)

The GCC enjoys strong cultural and historic ties with India. Led by India’s economic liberalization after 1990 and the “look east” policy of the GCC in the recent decade, the trade relationship between the two economies has flourished. With both regions emerging as the fastest growing economies in the world, the mutual cooperation is expected to increase underpinned by the complementary nature of their economic profiles and the rising interdependency. While India’s energy demand is burgeoning and the funding need for infrastructure development is at an all-time high, economic diversification, creating ample job opportunities and food security are the major priorities for GCC countries. Although investments from GCC into India have grown in the recent past, India has been unable to attract considerable investments from the deep pocketed GCC investors. According to the latest estimation of Government of India approximately 6 million Indians are working in the GCC (Gulf Cooperation Council) states. They are mainly engaged in unskilled, semi-skilled profession. Emigration from India to the GCC (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates) states is not a new phenomenon, it has a historical background and it increased remarkably since 1970s due to the ‘oil boom’. These huge bulks of migrant population are playing very significant role not only to the host countries (GCCs) but also have major developmental contribution to the place of origin. The GCC countries encircling the Persian Gulf are endowed with oil and natural gas which has made these countries one of the emerging economic powers in the modern era. (Dr. Naresh Kumar 2012)

It is utmost important for India to engage, develop and expanded its relations with the GCC countries in more diversified fields at least until India is able to discover new sources or destinations of energy which are relatively stable and secured. The region
is very significant for India; it sources more than 65 per cent of oil it consumes, strategically the region is very crucial for India to maintain its communication links with Europe and further, the sea routes are lifeline of Indian maritime trade and energy as more than 65 trade passes through the same region. Both the GCC and Indian governments are liberalizing their regulatory regimes in a bid to promote trade and investments. Increasing interdependency led by a discernable change in the economic profiles of both economies (in turn dependent on the GCC’s diversification drive and India’s surging domestic consumption) have helped build a stronger relationship. Apart from this, both regions have prioritized the development of free economic zones and numerous bilateral trade agreements have been signed, thereby strengthening the investment links. However, an agreement on the potential Free Trade Agreement is yet to be reached. (Zakir Hussain 2008)

1.2 Problem Statement

India is not an Organization Islamic Cooperation (OIC) member, for the first time in 2003 a senior Qatari official proposed that India should be invited to join the Organization of Islamic Cooperation. King Abdullah bin Abdul Aziz visited New Delhi in 2006, and while his stay in Delhi he proposed India to join OIC as an observer member. But the Indian officials are in this believe that our relations with Islamic nations, many of which are members of the Organisation of Islamic Cooperation (OIC), have become even more prolific over the last decade. (Rajendra M. Abhyankar 2013)

India is an emerging nation among the top exporting countries and its strategic friendly relations with all organization Islamic cooperation countries has not able India to expand its notable share in highly potential OIC market. (Shafeeq Rahman 2011). All the Muslim who are residing in OIC countries prefer to consume products which are compliant as their religious ethics and even when they’re traveling to other non OIC countries they check all the restaurants and shops to be served/buy Halal products. India in terms of quality and standard has the better range of products with other countries but the suspicion about Halal or Haram is the key obstacle in expanding the Indian export market to OIC countries. Muslim in India constitutes more than 14 percent of whole population and meat market is mainly owned by Indian Muslim who adhere the strict Shariah norms, whereas majority of Indian population
belongs to the vegetarian Hindu community strictly followed to manufacture only non-animal ingredient products. (Mahmoud Mohieldin et al 2011).

1.3 Aims and Objectives

This study aims to highlight the roles of some global organization in promotion of Import-Export and etc. between India and GCC countries. To facilitate identified aims, the following objectives are developed:

1. To measure the competitiveness of Indian Exports to the Gulf region by using revealed comparative advantage.
2. To measure the competitiveness of GCC’s Exports to India by using revealed comparative advantage.
3. To analyses trade growth between India and the GCC before and after formation of WTO.
4. To analyses the impact on trade relations between India and the GCC before and after formation of WTO.
5. To identify which country of the GCC has traded most with India using trade intensity index.

1.4 Research Questions and Hypothesis

Questions:

1. Which of the GCC member states trade most with India, as measured by their trade intensity index ratios?
2. How have India-GCC trade competitive performance been over the years as both are WTO members and following trade and services agreement?

Hypothesis:

1. There is no significant export growth between India & GCC before establishment of WTO.
   1.1 There is no significant export growth of fuel industry between India & GCC before establishment of WTO.
   1.2 There is no significant export growth of gems & Jewelry industry between India & GCC before establishment of WTO.
1.3 There is no significant export growth of Iron & Steel industry between India & GCC before establishment of WTO.

1.4 There is no significant export growth of Pharmaceutical industry between India & GCC before establishment of WTO.

1.5 There is no significant export growth of Textile industry between India & GCC before establishment of WTO.

2. There is no significant export growth between India & GCC after establishment of WTO.

2.1 There is no significant export growth of fuel industry between India & GCC after establishment of WTO.

2.2 There is no significant export growth of Gems & Jewelry industry between India & GCC after establishment of WTO.

2.3 There is no significant export growth of Iron & Steel industry between India & GCC after establishment of WTO.

2.4 There is no significant export growth of Pharmaceutical industry between India & GCC after establishment of WTO.

2.5 There is no significant export growth of Textile industry between India & GCC after establishment of WTO.

3. There is no significant impact of WTO on trade relations of India & GCC.

3.1 There is no significant impact of WTO on trade of fuel industry of India & GCC

3.2 There is no significant impact of WTO on trade of Gems & Jewelry industry of India & GCC

3.3 There is no significant impact of WTO on trade of Iron & steel industry of India & GCC

3.4 There is no significant impact of WTO on trade of pharmaceutical industry of India & GCC

3.5 There is no significant impact of WTO on trade of textile industry of India & GCC

1.5 Significance of the Study

This research is aimed to analyses business relations between the GCC countries and India. Since both India and the GCC countries are members of the World Trade
Organization (WTO), it is important to investigate India’s trade potential in this market. There have been many in-depth empirical studies related to international trade; especially studies on bilateral trade relations between countries. However, to date, there has been no academic study or research focusing on WTO and India-GCC trade relations. This study evaluates trade relation between India and GCC and the impact of world trade organization on both trade relations.

The prime minister of India gave a statement regarding the significance of India-GCC relations: “The Gulf region, like South-East and South Asia, is part of our natural economic hinterland. We must pursue closer economic relations with all our neighbours in our wider Asian neighborhood. India has successfully pursued a Look East policy to come closer to the countries of South-East Asia. We must, similarly, come closer to our western neighbors in the Gulf.” The Gulf countries provide an excellent market potential for India’s manufactured goods and services, especially in project services exports.

This region hosts nearly 5.5 million Indians who are contributing immensely to the economic development of both India and the countries they reside and work in. GCC countries have mutually beneficial complementarities with India in the field of investments which has already started from these countries both through FDI and FII. The trade and investment flows between the two have increased substantially. The oil-rich Gulf States with their massive oil revenues are engaged in an ambitious economic development and modernization programme, which has created a demand in GCC States for skilled manpower and labour. India, with its surplus manpower resources is a major source of supply.

1.6 Research Methodology

When a systematic investigation is done to study phenomena or issues then that process is scientifically called as research (Clough and Nutbrown, 2007). Research is a scientific process which investigate, discover information, data, and facts or finally reach an understanding (Cambridge online Dictionary, 2009). There could be various types of research: It may be academic research, applied research, or scientific research (Ryan et. al. 2002). In research there are two different approaches which a researcher can chose anyone or both together. For achieving the desired result and getting confidence that the research questions are answered correctly decide to choose an
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appropriate research approach. Classification of approach is into two major types: the qualitative and the quantitative.

In conducting this research, quantitative methods have been employed in order to achieve the objectives of the study. An analyses of revealed comparative advantage and trade intensity index have been undertaken to examine India’s economic and trade relations with the GCC countries and 5 industries for trade between India and GCC which have been selected by the researcher. India’s competitiveness versus the GCC and global markets are researched by revealed comparative advantage (RCA) index. Identifying which country of the GCC has traded most with India using trade Intensity index formula. Analysis of Independent t-test and simple linear regression to find out the growth and impact of trade on trade relations between India and the GCC is done in this thesis. Thus, the quantitative techniques which have been used are vital for this research to support and substantiate and hence validate the findings.

For this study secondary data were collected from the institutions, web sites and annual reports. Such as, The ministry of commerce of India, Director General of Foreign Trade of India, Reserve Bank of India annual reports, the United Nations Commodity Trade Statistics (UN COMTRADE) database, the International Monetary Fund (IMF) database, The World Bank (WB) database, and the World Trade Organization (WTO) database and journals. Being an Aligarh Muslim University student, the researcher used the facilities which were provided by the university, especially the research lab and online journal lab which were for researcher to use internet facility and download required data and research papers from trusty and authentic journals.

The Balassa’s, (1965) index on RCA was used in analyzing products where India has a comparative advantage over the rest of the world as well as the GCC countries. Five industries were selected to examine the export RCA between India and GCC countries. The UN COMETRADE data were used to analyze these matters. HS code 2-digits and SITC data classification were used due to its consistency and availability. It gave an understanding that among five industries which were selected by the researcher which industry that India produces have advantage in the GCC market and which industry which GCC produces have advantage in the Indian market. The findings reveal that which industry India as well as GCC countries should give
particular priority for expanding their trade relations. The trade intensity index for Malaysia and individual GCC countries was undertaken and it gives an understanding that which country of the GCC have traded most with India over the last 30 years. It also shows the trade development between India and the GCC countries.

Independent two sample T Test and simple linear regression was used in analyzing trade relations between India and GCC countries. In independent two sample t test 30 years of data have used to analyze whether there were significant growth between India and GCC countries before and after formation of WTO or not. The data for pre WTO was for 10 years and the data for post WTO was for 20 years. Also in simple linear regression the same data for the same period have used to analyze whether is there any impact on trade relations of India and GCC before and after formation of WTO or not.

1.7 Organization of the Thesis

This thesis consists of five chapters, first, second and third chapters are related to the theoretical foundations and the background of the study. Forth chapter is devoted to empirical study which analyzing the gathered data. Fifth chapter presents the findings, conclusions and recommendations.

Chapter one introduces the thesis, a brief explanation of international trade, World Trade Organization and Gulf Cooperation council. It also outlining the research objectives and questions, also explaining the methods data were analyzed in this thesis and in brief explaining the significance of the study and in the final stage explaining the organization of the study.

Chapter two reviews the previous works which had done by researcher and organizations. In this chapter researches which were related to World Trade Organization, Bilateral Trade relations between India and GCC, bilateral trade relations between India and other countries, bilateral trade relations between GCC and other countries and bilateral trade relations between India and individual GCC countries have studied and reviewed.

Chapter three highlights the World Trade Organization Agreements, its background and history. It also highlights the Gulf cooperation council background, historical foundation, the supreme council and summits.
Chapter four is devoted to the analysis of five industries trade relations between India and GCC. In this chapter analysis of revealed comparative advantage, trade intensity index, independent two sample t test and simple linear regression is employed.

Chapter five is dedicated to a discussion on findings from the analysis of data, and discusses the main findings by bringing together all findings and results from the data analysis. It also concludes the research and make forwards suggestions and recommendations.
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