



The Arab Gulf States  
Institute in Washington  
Building bridges of understanding



## The AGSIW *Gulf Rising Series*

New Opportunities and High Stakes for  
Gulf-South Asia Relations

Robert Mogielnicki





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## The AGSIW *Gulf Rising* Series

Over the last decade the Gulf Arab countries have energized their role in regional politics, from the use of military intervention, to increased bilateral foreign assistance, to more robust regional coordination. This, combined with a perception of U.S. disengagement from the Middle East, has prompted Gulf Arab countries to seek and establish strong relations with other centers of power – regionally and globally.

This paper was developed as part of AGSIW's *Gulf Rising* series analyzing the energized role of the Gulf Arab states in the international system. The series looks beyond Gulf Arab relations with the United States to examine ties with other key countries and regions. Additionally, it investigates motivations behind Gulf Arab states' foreign policy choices and evaluates the implications for U.S. foreign policy toward the Gulf Arab states and the region.

## About the Author

**Robert Mogielnicki** is a resident scholar at the Arab Gulf States Institute in Washington. An expert in the political economy of the Middle East and North Africa, he previously served as a senior analyst with the Siwa Group and head of public relations and marketing for Oxford Strategic Consulting, a United Kingdom/Gulf Cooperation Council-focused research consultancy. Prior to his consulting career, he worked as a journalist covering political and economic developments in post-revolutionary Egypt and Tunisia. His work and commentary on the region have appeared in *Forbes Middle East*, *Al Jazeera's Inside Story*, *MEED*, *Al Bawaba*, *The National (UAE)*, *Gulf Daily News*, *Tunisia Live*, *Egypt Oil and Gas Magazine*, and *Egypt Daily News*.

Mogielnicki received his PhD from the University of Oxford's Magdalen College, where he conducted research in conjunction with the Oriental Institute and Middle East Centre. Drawing on extensive fieldwork in the United Arab Emirates, Oman, Qatar, Bahrain, and Kuwait, his dissertation examines the political economy of free zones in Gulf Arab countries. He earned his MA in modern Middle Eastern studies from St Antony's College, University of Oxford, and completed a master's thesis on labor policy formulation and implementation in the emirates of Abu Dhabi and Dubai. He received his BA from Georgetown University as a double major in Arabic and government, graduating magna cum laude and Phi Beta Kappa.

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## Executive Summary

The ties between the Gulf Arab countries and South Asia reflect evolving, dynamic relationships building on deep historical roots. Although the foundations of long-established interregional engagement remain intact, the economic, political, and security-related connections are undergoing a transformation in nature and depth. Examining the direction and rate of this change is key to understanding Gulf Arab states' foreign policy choices relating to South Asia and the approaches of South Asian powers to the Gulf.

The most visible aspects of this transformation involve the economic parameters of interregional engagement. South Asians have long played an integral role in Gulf Arab labor markets, but strict workforce nationalization policies in Gulf countries are squeezing expatriate labor markets, thereby threatening remittance flows to South Asia. Gulf officials and businesspeople also view South Asia as offering opportunities to deepen energy cooperation beyond the exportation of crude oil to the region and into newer downstream capabilities.

Beyond the energy sector, India's National Infrastructure Investment Fund and the China-Pakistan Economic Corridor have attracted significant attention from Gulf investors. In terms of trade, the United Arab Emirates and Saudi Arabia account for around 75 percent of the \$103 billion in total trade volume between Gulf Arab countries and India, and these figures are expected to grow in the coming years. Fiscal support packages and other forms of economic aid from Gulf states will further interconnect the regions' economies.

The strategic implications of interregional engagement between the Gulf and South Asia are becoming clearer and more pronounced. Gulf Arab states are taking note of India's rise as an important global actor and its position as a key regional and naval power in the Indian Ocean area. Closer political and security engagement between the Gulf states and India, however, requires balancing relations with Pakistan. Gulf Arab states also recognize that both India and Pakistan maintain close relations with Iran, and Pakistani and Indian engagement with Gulf countries and Iran is not mutually exclusive.

Closer economic and strategic ties will involve growing pains. The fate of South Asian workers in the Gulf depends largely on the trajectory of labor market interventions, while economic actors involved in trade and investment between the regions must navigate emerging commercial regulations, red tape, and other challenging aspects of the business environment. At the same time, the strengthening of Gulf-India relations risks antagonizing Pakistan, and the operating space for smaller Gulf Arab and South Asian states may be overshadowed by the dominant interactions among Saudi Arabia, the UAE, India, and Pakistan.

## Introduction

Saudi Crown Prince Mohammed bin Salman's red-carpet welcome by officials during his February visit to South Asia coincided with a worrying escalation of military conflict between nuclear-armed neighbors India and Pakistan. The crown prince's visit highlighted both the economic opportunities and high political stakes associated with interregional engagement between the Gulf and South Asia. The ties between Gulf Arab states and South Asian countries are not a new phenomenon but rather an amalgamation of evolving relationships with deep

historical foundations. However, the economic, political, and security implications of these relationships appear more significant and contentious than at any point over the last few decades.

This paper examines the current economic, political, and strategic aspects of Gulf-South Asia relations, and was informed by a workshop hosted by the Arab Gulf States Institute in Washington. The first session of the workshop examined the economic ties between Gulf and South Asian countries, focusing on labor markets, trade, investment, energy dynamics, and economic aid. Indeed, economic relations have long been considered the lynchpin of ties between the two regions, leading many observers to label the interregional relationship as fundamentally *transactional* in nature. Yet workshop participants stressed that the degree of economic integration between the regions and the nature of economic linkages challenge this portrayal. Joint economic initiatives and other commercial interests are related to regional disputes and geopolitical rivalries. Moreover, bilateral and multilateral agreements between the regions increasingly bundle economic and strategic priorities.

Therefore, the second session of the workshop assessed the political and strategic angles of the Gulf-South Asia relationship. Tensions between India and Pakistan shape the Gulf Arab states' political engagement in the region while also threatening Gulf economic interests. The Saudi-Iranian rivalry looms large in the cross-regional relationship, but the dispute with Qatar has been less apparent. China is a major player in South Asia and sees the region within its sphere of interest. It is within this complicated geopolitical context that Gulf Arab and South Asian states are developing new bilateral partnerships, multilateral coalitions, and institutional mechanisms to tackle common challenges on a diverse range of issues.

## Contextualizing Interregional Engagement

The impact of South Asia on Gulf Arab economies and societies has been apparent for decades. South Asian expatriates constitute a disproportionately large segment of Gulf labor markets, and South Asian countries are likewise major consumers of Gulf energy exports. South Asia's reliance on Gulf crude oil is likely to deepen due to sanctions on Iran and the expiration of waivers for purchasers of Iranian oil, like India. In addition to flows of human capital and energy resources, high volumes of trade in commodities and precious stones and metals move between the regions each year. South Asian businesspeople and entrepreneurs pour capital into the Gulf's various investment hubs, free zones, and government-sponsored business accelerators. These trade and investment flows are the result of long-run historical processes and socioeconomic linkages between the Gulf and Asia.

Government officials and businesspeople from South Asia have long voiced concerns that labor and investment flows are one directional, implying that the relationship with the Gulf has not been reciprocal. Yet the Gulf states are becoming an influential force in South Asian economies, politics, and societies. A renewed pivot toward Asia – described by one expert as the Gulf's "eastward shift 2.0" – suggests that this one-sided relationship may be changing. During visits to the region in February, Saudi Arabian Crown Prince Mohammed bin Salman pledged \$100 billion of investments in India and another \$20 billion in Pakistan over the coming years. Gulf firms are investing billions of dollars in infrastructure projects across South

Asia.<sup>1</sup> Meanwhile, Mohammed bin Salman and Abu Dhabi Crown Prince Mohammed bin Zayed al-Nahyan actively sought to reduce India-Pakistan tensions after a military escalation between the two nuclear-armed neighbors in February. U.S. and Pakistani officials praised the diplomatic efforts of the crown princes in helping to mitigate the crisis.<sup>2</sup>

The direction of change is not entirely positive. Gulf countries – namely Saudi Arabia, Oman, and Kuwait – have tightened employment policies related to expatriate residents. These policies disproportionately affect South Asians due to their large demographic representation in the Gulf states. With millions of expatriates leaving Gulf markets, remittance flows back to South Asian countries are drying up. South Asia also remains a challenging market for Gulf firms, which must compete with local and Chinese companies and often struggle to deal with barriers to trade and investment. In some cases, major deals between Gulf firms and local partners have been delayed due to local opposition to commercial projects. Moreover, the Iranian shadow looms large over the region and manifests in various economic and geopolitical forms.

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Although the foundations of engagement between the Gulf and South Asia remain intact, the economic, political, and security-related linkages are undergoing a change in nature and depth. Examining the direction and rate of this change is crucial for understanding the motivations behind Gulf Arab states' foreign policy choices relating to South Asia and the approaches of South Asian powers to the Gulf. This paper focuses predominantly on Saudi Arabia, the United Arab Emirates, India, and Pakistan, however, the emphasis on these four countries does not discount other important developments in the remaining Gulf Arab states and smaller South Asian countries.

## The Economic Parameters of Engagement

Despite a long history of economic linkages between the Gulf and South Asia, there remain gaps in the economic mechanisms of exchange. The Gulf Cooperation Council has not signed a free trade agreement with India, South Asia's largest economy, despite nearly a decade of negotiations. Meanwhile, the GCC has signed free trade agreements with the European Free Trade Association and Singapore. An arrangement over the India-GCC free trade agreement appears unlikely as long as the boycott of Qatar by Saudi Arabia, the UAE, Bahrain, and Egypt continues. There exists some degree of interregional cooperation through the Organization of Islamic Cooperation's Standing Committee for Economic and Commercial Cooperation. However, the committee's primary policy instruments, a trade working group and a project funding mechanism, focus more on intra-Organization of Islamic Cooperation trade and investment and less on strengthening cross-regional ties. The UAE signed a \$496 million currency swap agreement with India in early December 2018 to boost bilateral trade and

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<sup>1</sup> Natasha Turak, "[China Won't Judge You: Why Saudi Arabia's Crown Prince is Betting Billions on Asia](#)," *CNBC*, March 5, 2019.

<sup>2</sup> Ayesha Tanzeem, "[US: Gulf Countries Helped Ease India-Pakistan Tensions](#)," *VOA*, March 4, 2019



investment; however, the UAE's neighbors have not followed with similar initiatives. How economic engagement will be facilitated in the future depends upon the shifting economic parameters of regional interaction.

## Labor Markets

The most visible South Asian influence in Gulf Arab economies is within labor markets. Approximately 8 million Indians live in Gulf Arab states – the largest group of expatriate residents. South Asians accounted for nearly 60 percent of UAE residents in 2015, and South Asian residents constitute between 15 and 25 percent of the total population of Saudi Arabia.<sup>3</sup> Cheap South Asian labor reduces costs for Gulf-based employers, which in turn increases the competitiveness of these firms in global markets. In addition to low-skilled laborers, Gulf workforces contain increasing numbers of highly skilled South Asian professionals. Media outlets in the Gulf, such as *Arabian Business*, regularly publish lists of the wealthiest Indian businesspeople in Gulf Arab states.<sup>4</sup>

Increasingly strict workforce nationalization agendas intended to improve the quantity and quality of jobs available to citizens across the Gulf Arab states – especially Saudi Arabia, Oman, and Kuwait – are changing labor market dynamics in a manner that will disproportionately affect South Asians. A campaign launched by the Saudi Ministry of Interior in November 2017 led to around 1.3 million expatriate arrests and the deportation of several thousand foreign residents from the kingdom.<sup>5</sup> Hikes in fees for visas and medical examinations for expatriates further increased the pressures on expatriate segments of the labor force. The Omani government instituted hiring bans in nearly a hundred different professions across the sultanate. This hiring ban contributed to around a 14 percent decline in foreign construction workers in Oman from October 2017 to October 2018.<sup>6</sup> Meanwhile, members of Kuwait's Parliament are exploring options to deport millions of expatriates from the country over the next few years.<sup>7</sup>

These regional labor policies have the potential to profoundly impact South Asian economies that depend heavily upon remittances. In 2018, around \$80 billion in remittances flowed into India, 38.5 percent of which originated in the UAE and Saudi Arabia.<sup>8</sup> Pakistan and Bangladesh, among the top 10 global recipients of remittances, also receive substantial remittance flows from the Gulf.<sup>9</sup> The long-term impact of a reduced supply of expatriates on Gulf Arab economies remains unclear. Higher labor costs to employ local citizens and critical skills deficits owing

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<sup>3</sup> Central Intelligence Agency, "[Middle East: United Arab Emirates](#)," CIA World Factbook, accessed May 28, 2019; Françoise De Bel-Air, "[Demography, Migration and Labour Market in Saudi Arabia](#)," *Gulf Labour Markets, Migration and Population*, 2018.

<sup>4</sup> "[Richest Indians in the UAE](#)," *Arabian Business*, November 26, 2018.

<sup>5</sup> "[Close to 1.3 Million Illegals Netted, 300,000 Deported in 7 Months](#)," *Saudi Gazette*, June 24, 2018.

<sup>6</sup> "[Omanisation on Track as Visa Freeze Continues](#)," *Times of Oman*, December 23, 2018.

<sup>7</sup> "[Kuwaiti MPs Call for 50% of Expats to be Deported](#)," *Arab Times*, March 12, 2019.

<sup>8</sup> "[Globalising People: India's Inward Remittances](#)," *RBI Bulletin, Reserve Bank of India*, November 14, 2018.

<sup>9</sup> The World Bank, "[Migration and Remittances: Recent Developments and Outlook](#)," *Migration and Development Brief* 31, April 2019.

to rapid labor market interventions may increase commercial obstacles for Gulf-based firms, which are already weathering the effects of economic austerity measures implemented after the oil price crash in 2014.

## Energy Cooperation

Gulf Arab states function as important crude oil suppliers for South Asian countries. Crude oil from the Gulf constitutes approximately 42 percent of India's oil imports, and Saudi Arabia is India's largest trade partner for crude oil.<sup>10</sup> This trade relationship is especially significant given that the International Energy Agency expects Indian demand for oil to overtake China's by 2035.<sup>11</sup> Pakistan also benefits from its relationships with oil exporting countries in the Gulf. In May, Saudi Arabia granted the South Asian country \$275 million in deferred monthly oil payments over three years – an agreement potentially worth \$9.6 billion.<sup>12</sup>

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Increasing demand in South Asia has pushed countries like India to invest, somewhat ironically, in oil exploration projects in Abu Dhabi. For example, the Abu Dhabi National Oil Company awarded exploration rights for one of its geographical oil and gas blocks, onshore Block 1, to state-owned Indian oil and gas companies Bharat Petroleum and Indian Oil Corporation. The Indian consortium may develop and produce any discoveries, but ADNOC maintains an option to hold a 60 percent stake during the production phase.<sup>13</sup> Mohammed bin Zayed and Indian Prime Minister Narendra Modi attended the signing of the 35-year agreement.<sup>14</sup>

Officials in Gulf Arab states see opportunities for deepening energy cooperation beyond the exportation of crude oil to the region and into downstream capabilities that include refineries, petrochemical complexes, and storage facilities. Saudi Arabia's energy-related interest in Pakistan revolves around plans to develop a \$10 billion refinery and petrochemical facility at Gwadar Port, and officials estimate that the project will save Islamabad \$3 billion annually.<sup>15</sup> Meanwhile, Abu Dhabi is considering setting up oil storage facilities at Gwadar Port as part of a \$1 billion investment by Mubadala, the UAE's state-run investment company.<sup>16</sup> Mubadala's petroleum and petrochemical division owns 40 percent of the Pak-Arab Refinery, which is located in the city of Hub, through a joint venture with the Pakistani government.<sup>17</sup>

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<sup>10</sup> Rahul Roy-Chaudhury, "[India and the Gulf Region: Building Strategic Partnerships](#)," *International Institute for Strategic Studies*, August 29, 2018.

<sup>11</sup> BP, [2018 Energy Outlook](#) (London: BP p.l.c., 2018).

<sup>12</sup> Farhan Bokhari and Stephanie Findlay, "[Saudi Arabia Grants \\$9.6bn Payment Holiday to Pakistan](#)," *Financial Times*, May 23, 2019.

<sup>13</sup> "[UAE's ADNOC Awards Onshore Exploration Block to Indian Consortium](#)," *Reuters*, March 25, 2019.

<sup>14</sup> "[Indian Combine to Explore Abu Dhabi Block](#)," *Oil & Gas Journal*, March 25, 2019.

<sup>15</sup> Aamir Shah, "[Saudi Oil Refinery in Gwadar to Help Islamabad Save \\$3 Billion a Year](#)," *Arab News*, February 17, 2019.

<sup>16</sup> Jennifer Gnana, "[Exclusive: Mubadala to Take Investment Decision on \\$6bn Pakistan Refinery](#)," *The National*, November 12, 2018.

<sup>17</sup> "[About Us](#)," Pak Arab Refinery Limited, updated April 29, 2019.

Other areas of downstream collaboration between Gulf firms in South Asian markets have encountered obstacles. ADNOC and Saudi Aramco are the primary strategic partners in a proposed \$44 billion mega-refinery in Maharashtra.<sup>18</sup> However, local opposition from farmers living in the refinery's prospective location has led to project delays. The delay suggests that Gulf economic engagement in South Asia is not necessarily seamless and certain activities can be contentious issues. Despite the challenges, Gulf firms are increasingly participating in multilateral, strategic investments in the agricultural sector. One India expert described these investments as "food security for energy security." According to the expert, the UAE, in particular, has shifted its strategy from purchasing land in Africa to leasing land in India to improve its food security.

## Investment and Trade

Beyond the energy and agricultural sectors, other prominent Gulf investments in South Asia target large-scale infrastructure projects. Saudi Arabia is exploring investment opportunities associated with India's National Investment and Infrastructure Fund; Abu Dhabi Investment Authority, one of the emirate's sovereign wealth funds, already committed \$1 billion to the Indian fund in 2017 as the first institutional investor.<sup>19</sup> According to one expert, the UAE's position as an anchor investor allowed Emirati officials to "write the rules" that would shape future investment dynamics. A major thrust behind the creation of the National Investment and Infrastructure Fund involved reducing risk for international investors and ensuring accountability of transparent commercial practices through an institutional mechanism backed by the government. In February, Dubai's DP World launched a hyperloop project that involves high-speed cargo trains using magnetic levitation in a partial vacuum tube. The venture aims to revolutionize the movement of goods in India, a country with a population of over 1.3 billion people.

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Saudi and Emirati investor interest in Pakistan's infrastructure sector is shaped primarily by the China-Pakistan Economic Corridor, a collection of infrastructure projects stretching from the Chinese border to the Gwadar Port. Construction costs alone are estimated to reach \$47 billion, and China has pledged \$60 billion of investments in the initiative.<sup>20</sup> Gulf firms operating in Pakistani infrastructure projects will encounter competition from embedded Chinese firms and, in many cases, have to serve as third-party partners. With port and special economic zone projects ranking as a high priority for the corridor, companies like DP World will be well positioned to win associated commercial contracts. Gulf firms are also well suited to compete for infrastructure projects possessing industrial and energy-related components.

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<sup>18</sup> "Petrotech 2019: UAE Looks to Invest in Refining, Petrochemicals, Oil Storage in India," *Energy World*, February 12, 2019.

<sup>19</sup> Abbas Al Lawati, "Saudi Arabia Follows Abu Dhabi to Invest in India Infrastructure," *Bloomberg*, February 12, 2019.

<sup>20</sup> "China Pakistan Economic Corridor," Board of Investment, Prime Minister's Office, Government of Pakistan, accessed May 1, 2019; "CPEC Investment has Increased to \$60bn: Sartaj Aziz," *Dawn*, November 28, 2017.

Improving infrastructure connectivity between the Gulf and South Asia has helped to facilitate strong regional trade linkages. The UAE and India, perhaps more than any other two countries, reflect the strength of these ties. Nearly one-third of all international flights that leave India arrive in an Emirati airport; and a similar percentage of international flights leaving the UAE arrive in India. Given the substantial difference in population between the two countries, it is clear that the small country of the UAE is “punching above its weight,” with respect to its relationship with India, noted one expert. Public and private officials in the two countries are even exploring the possibility of constructing an underwater high-speed rail linking the emirate of Fujairah to the Indian city of Mumbai.

Indeed, the UAE ranked as India’s second-largest destination for exports in 2017 – much of which consist of pearls, diamonds, and precious metals – and India’s second-largest source for imports. Indian exports to the UAE reached \$28 billion, and Indian imports from the UAE stood at \$22.1 billion for the same year.<sup>21</sup> India serves as the UAE’s top destination for Emirati exports, while India and China were the top import origins for the UAE – with both countries responsible for 16 percent of the UAE’s total imports in 2017.<sup>22</sup>

Total bilateral trade between the UAE and India reached nearly \$50 billion in 2017-18,<sup>23</sup> which constitutes approximately half of India’s \$103 billion of total trade with the Gulf Arab states between 2017 and 2018.<sup>24</sup> The UAE and Saudi Arabia account for about 75 percent of the total trade volume between Gulf Arab countries and India. This level of exchange is set to grow: Emirati and Indian officials announced that they expect bilateral trade to exceed \$100 billion by 2020.<sup>25</sup>

## Economic Aid

Investment pledges and trade volume expectations from the Gulf states, particularly the UAE and Saudi Arabia, have been backed by fiscal aid packages for South Asian states. Saudi Arabia provided a \$3 billion direct deposit to Pakistan, and the UAE offered a similar fiscal support package.<sup>26</sup> These Gulf economic aid grants have, according to one expert, created a certain degree of leverage over Pakistan, but it is unclear what the Gulf states receive in return. The same degree of Gulf economic leverage does not exist with India. After the summer 2018 floods in Kerala, India refused nearly \$100 million in disaster aid relief from the UAE. According to an expert, this was due to India’s policy of addressing relief and reconstruction domestically.

Global humanitarian crises have the potential to impact the direction and scale of Gulf economic aid to other South Asian states and their Southeast Asian neighbors. For example, the ongoing crisis of Rohingya refugees fleeing from Myanmar is likely to influence relations between Gulf Arab states and Myanmar and Bangladesh. The Bangladeshi government permitted nearly a million Rohingya refugees to seek shelter within its borders, but the host

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<sup>21</sup> [“United Arab Emirates,”](#) Observatory of Economic Complexity, accessed May 3, 2019.

<sup>22</sup> Ibid.

<sup>23</sup> [“India-UAE Bilateral Trade,”](#) Embassy of India, updated April 16, 2019.

<sup>24</sup> [“Total Trade 2017-2018,”](#) Government of India, Ministry of Commerce and Industry, Department of Commerce, updated March 3, 2019.

<sup>25</sup> [“UAE-India Trade to Cross \\$100 Billion by 2020: Minister,”](#) *Khaleej Times*, January 19, 2019.

<sup>26</sup> [“Pakistan to Get \\$3 Billion Loan from UAE, Eyes Deferred Oil Payments,”](#) *Reuters*, December 21, 2018.

country is struggling to absorb the huge number of displaced refugees. Bangladesh hopes to capture \$35 billion of Saudi investments, and its treatment of displaced Rohingya may place the country in a better position to capture Gulf economic aid and investments.

## Strategic Considerations of Engagement

Economic considerations, while significant, are not the only factors driving the relationship between the Gulf and South Asia. In the view of one expert, the growth in Gulf-South Asia engagement accelerated after the September 11 attacks, a period when U.S.-Gulf relations underwent significant stress. The notion that “economic sense is common sense” resonated with many regimes in Gulf Arab states that had an interest in keeping political and economic reform separate. This led to a diversification of Gulf foreign policies beyond exclusive dependence on Western allies and toward partnerships with Russia and Asian states.

Events in South Asia also prompted Gulf Arab states to view enhanced links with the region as a strategic priority. In 2001 and 2002, intensifying tensions between India and Pakistan resulted in troop mobilizations on the Indian-Pakistani border. This reinforced the precariousness of calm between the neighbors – which the conflict over Kashmir frequently threatens to enflame – and the urgent need for effective diplomacy and security understandings.

The timing of Mohammed bin Salman’s February visit to South Asia and China corresponded with the development of greater tension in relations among Saudi Arabia, the United States, and European countries. The murder of Saudi journalist Jamal Khashoggi, human rights issues, and the ongoing Saudi-led military intervention in Yemen have strained Riyadh’s relations with many European governments and the U.S. Congress. The visit also took place during the most serious South Asia military clashes in over a decade. A February 14 attack on an Indian paramilitary convoy in Kashmir by a Pakistan-based militant group led to retaliatory Indian airstrikes and the capture and rapid release of an Indian pilot by Pakistan.

Following an easing of tensions, U.S. and Pakistani officials praised diplomats from Saudi Arabia and the UAE for helping to defuse the crisis between the two South Asian nuclear rivals.<sup>27</sup> At the same time, South Asian officials are helping to promote government-level outreach between South Asia and the Gulf states. Modi has made more visits to the Gulf than his last four predecessors combined, according to an expert. In early April, UAE President Khalifa bin Zayed al-Nahyan awarded Modi the Zayed Medal – the country’s highest civilian honor – for his efforts to boost bilateral ties, which is a clear indication of the high priority Abu Dhabi accords to the growing relationship with New Delhi.

## Strategic Partnerships

Gulf Arab states are taking note of India’s rise as a global actor and its position as a key regional player in South Asia and the Indian Ocean basin to which their own Gulf waters are adjacent. Saudi Arabia and the UAE signed strategic partnership agreements with India in 2010 and 2017 respectively. The Riyadh Declaration of 2010 delineated multiple areas of focus for the Riyadh-New Delhi relationship; however, the declaration did not establish specific

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<sup>27</sup> Ayesha Tanzeem, “US: Gulf Countries Helped Ease India-Pakistan Tensions,” VOA, March 4, 2019.

goals nor a concrete framework for the strategic partnership.<sup>28</sup> The UAE's Comprehensive Strategic Partnership of January 2017, one of 14 agreements signed during a visit to India by Mohammed bin Zayed, included a commitment for the UAE to invest \$75 billion in India over a couple years.<sup>29</sup>

These agreements likewise reflect New Delhi's efforts to cultivate stronger relationships in the Gulf. India has played its cards well in the broader Middle East and maintains a balanced position toward various regional rivals, for instance simultaneously building closer links to Israel, Saudi Arabia, and Iran. "No one [in the Middle East] is angry at India," remarked one expert. India's positive reputation with respect to its foreign policy strategy in the Middle East has permitted the country sufficient room to pursue its key objectives: the security of the Indian diaspora, free flow of oil, continuity of remittances, and defense of maritime interests in the Indian Ocean.

Gulf Arab countries must carefully manage their naval presence to avoid stepping on the toes of much larger naval powers like India. Considered a "blue water" fleet, the Indian navy contains two aircraft carriers and an increasing number of domestically produced vessels.<sup>30</sup> Naval officials in India hope to possess 200 ships and 500 aircraft by 2050. On the other hand, the smaller navies of the Gulf have traditionally focused on coastal defense and consist of expensive patrol ships.<sup>31</sup> Saudi Arabia boasts the largest fleet in the Gulf Arab states, but many of its frigates and service ships are reaching the end of their service lives. The Emirati navy possesses a strong sealift capability – the deployment of military assets using cargo ships – owing to bases in the Horn of Africa. However, the Emirati navy's small personnel size limits its ability to project power beyond the Gulf littoral.

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Gulf and South Asian naval interests are not necessarily bound to collide, but there needs to be an active dialogue on naval issues to prevent misunderstandings that could quickly escalate. India, the UAE, and Oman are members of the Indian Ocean Rim Association, a group that promotes sustained growth and balanced development within the Indian Ocean region. Moreover, the first joint UAE-India naval exercise took place in March 2018, providing an additional opportunity to develop cooperative capabilities.

## Balancing Relations

Closer political and security-focused engagement between the Gulf states and India, however, requires balancing relations with Pakistan. After 1947, the Saudi-Pakistani relationship became instrumental for Pakistan, and the bilateral relationship remains important for

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<sup>28</sup> "Riyadh Declaration: A New Era of Strategic Partnership," Ministry of External Affairs, Government of India, March 1, 2010.

<sup>29</sup> Kallol Bhattacharjee, "India, UAE Sign Strategic Partnership Pact," *The Hindu*, January 25, 2017.

<sup>30</sup> Eric Wertheim, "World Navies in Review," *U.S. Naval Institute Proceedings* 141, no. 3 (2015): 62–75.

<sup>31</sup> Tom Waldwyn, "Qatar, Saudi Arabia and the UAE: Expanding Naval Horizons?," *International Institute for Strategic Studies*, October 26, 2018.

Riyadh. According to one expert, some Pakistani elites expected Saudi Arabia and other Gulf states to back them unconditionally against India because of shared religious identities. Historic Gulf support for Pakistan and mutual collaboration in multilateral institutions like the Organization of Islamic Cooperation offer some context for this expectation. However, the Gulf's outreach to India suggests a clear understanding on the part of Gulf officials that the economic and strategic opportunities outweigh any marginal risk of incurring irreparable damage to relations with Pakistan. Therefore, as with any outside powers, Gulf Arab countries seek to build close ties to both major South Asian rivals.

Saudi Arabia and the UAE recognize that Pakistan and India will maintain relations with both the Gulf countries and Iran. While Pakistan may be "in the Saudi camp," in the estimation of one expert, the country nevertheless shares a strategically significant border with Iran that stretches for 596 miles. The Pakistan-Iran border intersects the contentious Baluchistan region, and Baloch people live on both sides of the border. Thus, geographic proximity requires some element of Pakistani-Iranian engagement, and historically Pakistan has indeed cultivated warm ties with Tehran.

India, even more, has pursued a strategic balancing of relations with both Saudi Arabia and Iran. India's interests in a partnership with Iran begins with New Delhi's strong need to find a pathway into Central Asia, starting with Afghanistan, which is a crucial area of concern for India. Yet Pakistan largely serves as a barrier to Indian access to Central Asia. India needs a reliable partner to ensure that it has the ability to enter the Central Asian sphere and such access is secured via Iran. Indian interests in Afghanistan and the former Soviet Central Asian republics include strategic, political, economic, and cultural concerns, and they directly affect India's rivalry with China. Therefore, even as India reaches out to Gulf Arab countries like Saudi Arabia and the UAE to build closer ties, New Delhi sees maintaining strong links to Tehran as essential.

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*Gulf Arab countries must carefully manage their naval presence to avoid stepping on the toes of much larger naval powers like India.*

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The economic rationales for this balancing strategy also include energy security and regional trade linkages. India has historically relied on Iran as a major supplier of crude oil. Despite U.S. sanctions on Iranian oil exports, sanctions waivers had permitted India to import a limited amount of Iranian crude without repercussions. The expiration of these waivers in early May forces India to secure new suppliers – Saudi Arabia and the UAE are expected to help meet India's energy needs. At the same time, the Indian government's substantial investments in Iran's Chabahar Port offer a supply route for landlocked Afghanistan, helping to establish an Indian corridor to Central Asia. The United States granted the project's management company, India Ports Global Pvt Ltd, a sanctions exemption because of Indian state ownership over the company and the central role played by Chabahar Port in the economic development of Afghanistan. The United States hopes to reduce Kabul's reliance on foreign, especially U.S., aid and stem the illicit opium trade. Ensuring the continuation of economic activities associated with Chabahar Port is part of this strategy.

India's need to balance its relationships with Saudi Arabia and Iran also stems from its concerns over violent extremism by Muslim radicals. Because of its experiences with the Kashmir dispute and similar controversies, and its constant conflict with Pakistan and Pakistani-backed

militant groups, India's perception of "Islamist terrorism" centers on Sunni radicals. India has little experience with, or reason to fear, Shia Islamist extremism. The Indian conception of the threat from Islamist extremists is much closer to Iran's perspective than a Gulf Arab one which often focuses on radical Shia violent extremists that do not typically clash with India. Moreover, India has much more profound cultural and religious affinities to majority-Shia Iran than with the Gulf Arab countries.

India is home to one of the world's largest Shia populations, an estimated 45-50 million people. Many Indians are therefore much more familiar, and comfortable, with Persian and Shia forms of Islam than Arab and Sunni ones, which they tend to associate with Pakistani-backed extremists. As a consequence, many Indian officials view the Shia as practicing a relatively liberal branch of Islam, noted one expert, and Shia Muslims formed a key constituency for Modi in his campaign for prime minister. All of this tends to promote closer relations to Iran and sympathy with its foreign policies, and therefore India does not see Iran as a threat in the same way many Arab and Western countries do.

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*While Pakistan may be "in the Saudi camp," in the estimation of one expert, the country nevertheless shares a strategically significant border with Iran that stretches for 596 miles.*

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In addition to balancing relations with Iran and Saudi Arabia, South Asian countries must also contend with persistent regional disputes like that over Kashmir. Gulf Arab states would welcome the chance to play a role in preventing these disputes from spilling over into broader conflicts. Oman, Qatar, and Kuwait, in particular, possess demonstrable credentials as regional and global mediators and conceptualize their international relevance on that basis. These smaller Gulf states could be seen by both sides as sufficiently neutral on this issue and experienced in such roles. Yet, it appears unlikely that India would support Gulf involvement in talks over Kashmir at this time, preferring instead to retain as much control over the dialogue as possible without interference from external powers.

## Conclusion

Government officials and businesspeople in the Gulf and South Asia see much to gain from greater interregional interactions. For Gulf states, emphasizing commercial ties to South Asia through investment pledges represents an easy win. South Asian countries, especially India, will enthusiastically support increased capital investments from the Gulf, having quietly grumbled for years that labor and investment flows between the regions were one directional. As Gulf-funded projects in South Asia materialize, though, the more difficult task of navigating commercial regulations, red tape, and other aspects of the business landscape in South Asia begins. Saudi Aramco, ADNOC, and Mubadala appear willing to wade into South Asian markets; however, their long-term presence is not assured. In some instances, major projects have been delayed due to local opposition, while others are cautiously pushing ahead through joint ventures with local firms.

The fate of many South Asians in the Gulf Arab states also remains ambiguous. Investors, entrepreneurs, and specialized professionals will still find a home in the Gulf states for the foreseeable future. For example, the UAE introduced long-term residence visas in early 2019. Qualified individuals can receive five- or 10-year visas and take advantage of a streamlined



renewal process. Yet other, less-skilled South Asian expatriates confront labor market pressures owing to tightening workforce nationalization policies in Gulf Arab countries. Governments in Saudi Arabia, Oman, and Kuwait are attempting to create employment opportunities for citizens by reducing the number of expatriate residents in their countries. This, in turn, will reduce remittance flows from the Gulf to South Asia and consequently produce a socioeconomic impact on the microlevels of South Asian societies.

Gulf Arab states understand that maintaining a balanced relationship with both India and Pakistan is a crucial component of their strategic engagement in South Asia. This engagement involves the deepening of political and security relations between the two regions. Although future escalations of conflict between Pakistan and India may alter the Gulf's balanced position in South Asia, this outcome is unlikely. Government officials in Saudi Arabia and the UAE have much to gain by positioning themselves as neutral power brokers between the two South Asian countries as well as much to lose by being forced to pick sides.

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*India does not see Iran as a threat in the same way many Arab and Western countries do.*

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Although a strategic foothold in South Asia provides an expanded Gulf Arab presence in Iran's sphere of influence, Saudi Arabia and the UAE will find it difficult to make much headway on implanting their anti-Iranian agenda in the region. The Indian threat perception of Iran differs substantially from the views held by Saudi Arabia and the UAE, and India relied heavily on Iran for crude oil imports before renewed U.S. sanctions and the end of oil-import waivers complicated this exchange. Meanwhile, Pakistan shares a border with Iran and therefore must maintain a certain level of contact with the Islamic Republic. China and Russia – two other actors operating in South Asia – are also open to engagement with Iran and unlikely to support an aggressively anti-Iran stance if it jeopardizes economic interests. Therefore, greater Gulf Arab involvement in the region will not necessarily reflect a waning of Iranian influence.

In the coming years, it remains to be seen whether the Gulf-South Asia relationship will be defined predominantly by Saudi Arabia, the UAE, India, and Pakistan or whether smaller Gulf states and other South Asian countries come to the fore and play a more visible role in interregional engagement. A growing Qatari-Turkish axis might push to expand economic interests in South Asia. Meanwhile, the fast-growing Bangladesh hopes to tap into Saudi Arabian investment largess, and the country's gross domestic product has consistently outpaced that of Pakistan for the last few years.

The evolving relationship between the Gulf and South Asian states warrants future research and analysis – not least because the outbreak of Saudi-Iranian or Indian-Pakistani conflict would profoundly reshape the parameters of these relationships. As economic integration between the regions continues to deepen, Gulf Arab and South Asian officials must consider the strategic implications of their mutual engagement.

