

A DOUBLE WHAMMY FOR INDIA-GULF ECONOMIC TIES

Relevant for: Indian Economy | Topic: Issues relating to Planning & Economic Reforms

Saudi Aramco's Ras Tanura oil refinery and oil terminal in Saudi Arabia. File | Photo Credit: [REUTERS](#)

The Gulf region is at the epicentre of a perfect storm: apart from the COVID-19 pandemic, it also has an oil price meltdown. Although this double jeopardy still has some distance to go before stabilising, given India's vital relations with the eight Gulf countries, the situation's impact on bilateral economic ties needs to be anticipated and managed.

The region, especially Iran, has been mauled by COVID-19, and the figures are yet to peak. The pandemic has put nearly a third of the world's population under some form of lockdown curbing the consumption of hydrocarbons, the mainstay of Gulf economies. A Goldman Sachs report published on March 30 estimated that COVID-19 had lowered the world crude consumption by 28 million bpd. The consequent oil glut began depressing the price. The Organization of the Petroleum Exporting Countries and other crude producers (OPEC+), however, failed to reach a production-curtailling strategy as Saudi Arabia and Russia, the cartel's two biggest producers, held different views. As a result, OPEC+ unravelled with each producer chasing a higher share in a collapsing market. Consequently, the oil prices went for a tailspin having fallen by 55% during March to an 18-year low on March 30. Though the market has recovered since and a wider production-sharing compromise is in the works, the general outlook remains bleak.

In a rare joint statement on March 16, the heads of OPEC and the International Energy Agency (IEA) warned that developing countries' oil and gas revenues will decline by 50% to 85% in 2020 with potentially far-reaching economic and social consequences. The economic outlook for the Gulf has indeed deteriorated, with Saudi Arabia's fiscal deficit expected to cross 8% in 2020. The global economy is expected to have a recession induced by COVID-19 this year. Even if it limps back to growth in 2021, the process may be slow and less energy-intensive: national self-reliance on strategic goods such as pharmaceuticals may deter their trade, and the tourism and hospitality sectors, the core of Dubai's economy, may take much longer to resuscitate. The pandemic has already made this year's Hajj and Dubai Expo doubtful.

India's economic ties with the Gulf states have two dominant verticals: the economic symbiosis and India's expatriate community. Bilateral economic ties are strong: the India-Gulf trade stood around \$162 billion in 2018-19, being nearly a fifth of India's global trade. It was dominated by import of crude oil and natural gas worth nearly \$75 billion, meeting nearly 65% of India's total requirements. Some of these countries have large Indian investments and some have planned large investments in India. Second, the number of Indian expatriates in the Gulf states is about nine million, and they remitted nearly \$40 billion back home. Both these intertwined pillars of India-Gulf ties have been affected by the recent maelstrom roiling the shared region.

India being the world's third largest importer of crude, a sharp and prolonged decline in oil prices helps its current account. However, this is not an unmitigated blessing. The Gulf's lower oil revenues also presage decreased bilateral trade and investments as well as expatriates' remittances — all of them adding to India's current financial stress.

Oil is a cyclic commodity and the Gulf producers have long evolved a pattern to handle its periodic lows. They tend to tighten their belts and dip into their reserves. They also transfer the

burden on to the last person in line, viz. the Asian expatriate. The fresh recruitment stops, salaries are either lowered or stalled, taxes raised and localisation drives launched. The net result is that a large number of expatriates return to their homes. This time there is an added complication of the pandemic, to which the Asian expatriates living in densely populated camps are particularly vulnerable. In case the pandemic worsens in the lower Gulf, panic-stricken, wage-deprived Indians may prefer to come back. This would create an exodus of epic proportions, the nearest example being the evacuation of over 1,50,000 Indians from Kuwait in 1990-91, albeit for political reasons, an event that upended India's economy. Apart from creating a logistical nightmare of transporting millions of expatriates back, they would need to be resettled and re-employed.

While hoping that the Gulf states are able to contain the pandemic and the oil shock, India needs to make some contingency plans in consultation with the individual countries. It should do whatever it takes to enhance their capacity to handle COVID-19 cases among the Indian expatriates. India's missions there also need to monitor the situation and try to avoid panic among its nationals.

In the longer run, it is quite clear that we need to find new drivers for the India-Gulf synergy. This search could begin with cooperation in healthcare and gradually extend outward towards pharmaceutical research and production, petrochemical complexes, building infrastructure in India and in third countries, agriculture, education and skilling as well as the economic activities in bilateral free zones created along our Arabian Sea coast eventually leading to an India-Gulf Cooperation Council Free Trade Area. Only then would we have sufficiently diversified the India-Gulf economic ties to protect them from such shocks.

Mahesh Sachdev, a former Ambassador, is President, Eco-Diplomacy & Strategies,
New Delhi

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