ananta centre

Confederation of Indian Industry

CHALLENGES TO THE EXPANSION OF INDIA-UAE ECONOMIC TIES

6th December, 2016

A Report

THE ORGANISERS

anan**t**a
centre

ANANTA CENTRE is an independent and not-for-profit organisation that focuses on leadership development and open dialogue on important issues facing Indian society, to help foster its transformation. The Centre engages civil society, business, governments and other stakeholders on issues of importance to India's development and national security. The Centre is based in New Delhi and Kolkata, and has an international network of partners.

For more information, please visit ***www.anantacentre.in***

CII
Confederation of Indian Industry

THE CONFEDERATION OF INDIAN INDUSTRY (CII) works to create and sustain an environment conducive to the development of India, partnering industry, Government, and civil society, through advisory and consultative processes. CII is a non-government, not-for-profit, industry-led and industry-managed organization, playing a proactive role in India's development process. Founded in 1895, India's premier business association has over 7800 members, from the private as well as public sectors, including SMEs and MNCs, and an indirect membership of over 200,000 enterprises from around 240 national and regional sectoral industry bodies.

For more information, please visit ***www.cii.in***

PUBLISHED BY

ANANTA CENTRE

FIRST FLOOR, THAPAR HOUSE, 124, JANPATH, NEW DELHI – 110 001

T: +91–11–407 33 333 | F: +91–11–407 33 350 | E: admin@anantacentre.in | W: www.anantacentre.in

Contents

1.

Introduction

India and the United Arab Emirates have old civilisational, cultural and economic ties which have always drawn the people of the two countries together. In contemporary times, the two nations have been brought together by substantial energy and economic links and the presence of the three million-strong Indian community that has made a significant contribution to UAE's success story as business persons, professionals, technicians and blue-collar workers.

In the recent years, India and the UAE have entered into a comprehensive strategic partnership. Significantly, India is UAE's gateway to Asia, while UAE is the 2nd largest export hub for India. With the UAE reflecting its desire to invest 75 billion dollars in India, there is a wide scope for Indian companies to leverage on that. India and the UAE have signed a number of agreements and MoUs in areas of mutual interests, including trade and investment. Both the countries have much to offer and benefit from each other. Civil aviation, healthcare, education, tourism and e-commerce are sectors which offer a lot of scope and potential for both the economies to prosper.

✦✦✦

2.

Challenges to the Expansion of India-UAE Economic Ties

Investments, Energy, Trade and Defence are areas where there is an ardent need to overcome obstacles and work towards mutual benefits in the 21st century.

INVESTMENTS

1. The Asian countries are constantly on the lookout for oil and gas to fulfil almost 90% of their needs and have become a huge market for the Gulf. India is looking for long term investment options but in order to attract huge investments, it has to guarantee security for their investments and ensure returns. The challenge is that the UAE only comes with capital and not expertise and hence the Indian government needs to ensure that they get returns

2. India has never managed to get an oil concession from the Gulf. India's trade with the UAE has dropped from 75 billion dollars in 2013 to 50 billion dollars today. One of the biggest problems faced by the UAE investors while coming to India is that they have to spend a lot of time looking for investment opportunities. The opportunity cost of their time is high as they import international talent which increases their costs leading to smaller teams. The Indian side needs to understand this and must find out a way to reduce the time lag.

3. Another major point of contention is the large scale in which the UAE investors like to operate. The commercial investments in India do not have anything to offer to the UAE in return or to absorb for instance, 500 or more million dollars of equity investment from the UAE.

4. One of the many Indian companies doing business in the UAE is Tata's with its subsidiary Voltas. Voltas was the first company that went to the region and to have positioned its headquarters there. In Dubai, Voltas is an Engineering Procurement Construction (EPC) Company in the UAE. UAE is the 4th largest market for Tata's Jaguar and Land Rover. Tata also is a commercial vehicle supplier to the Gulf region and the UAE in addition to being present in the hotel industry there. They generate a lot of employment opportunities for the local people there. The Gulf turnover for Tata is around three billion dollars.

5. With UAE looking to move from oil based to non-oil based economy, company laws have to be worked upon to encourage more Indian investment. Also, there is a strong need for the Central Bank to publish its results as per the international standards. The stock exchanges there are still not seen with much credibility. In addition to this, the labour and commercial legislation is a concern as migration of labour from one Emirate to another continues to be a big problem. The agency rules relating to equipment import also differ for different Emirates.

6. In addition to unreliable financial reporting lack of credit worthiness and transparency on the part of UAE businesses and their owners has got some Indian companies in trouble. There is also a very strong need for partners outside special investment zones.

7. UAE still needs policies that are in line with global standards when it comes to their Intellectual Property Rights (IPR). The contract law with price controls being the most stringent law of the UAE government.

8. Since the UAE does not have a constitution, there is no clarity on the centre-state relations. There is a need for Indian companies to be registered separately with every Emirate since each Emirate wants to be a business centre as well as a profit centre.

9. The UAE looks at the Public Private Partnership (PPP) as another complication. The UAE investors demand consistent, predictable policies and tax laws around infrastructure instead of looking for Government guarantees.

10. The real challenge is to figure out the resources that should be invested in the commercial space, which will earn returns and thus attract foreign capital. The various problems that hinder this development include land acquisition due to the existing land legislations. There is also a need to generate confidence amongst foreign investors about the sanctity of contracts which presently plays a huge role in scaring them away from investing in India.

ENERGY

1. India over the next three decades will go through four energy transitions which will include a shift from traditional to modern sources, rural to urban demand, shift in the Indian role in the energy market and its carbon content. It is crucial for India to address these transitions. India will be driving oil demand in the coming years with its desire to secure energy source especially oil.

2. Indian imports of crude from the UAE have effectively declined. As of 2015 India is importing 8.5 million dollars, making UAE fifth in terms of its crude oil suppliers. India needs a safe passage for its oil and other energy needs. For all other energy users the ratio of their oil shipping ownership and consumption of oil are proportionate whereas in the Indian case, there remains a huge gap.

3. India needs to establish a strategic partnership with UAE where the UAE can help to store fuel for India's energy needs on its territory. One positive step in this direction is that India is building three storage sites and the UAE has agreed to finance a portion of the Mangalore storage site to be taken up by The Abu Dhabi National Oil Company (ADNOC) and given to India for free.

4. Given the unpredictability due to constant fluctuations in the global market, it is crucial for India to understand OPEC better to have access to information on energy market. This is also important for its fiscal balance.

5. Renewable energy remains at the top investment and strategic priority for the UAE. In terms of solar energy, there is a huge difference in the solar electricity tariff between India and Dubai. Although there is zero cost to transmit electricity, ROI and debt servicing cost account for 70% of electricity tariff. In UAE these costs are one-third of India. This is possible as investors are willing to give cheap loans to the energy sector in UAE. The Indian Engineering Procurement Construction or EPC companies present in the UAE should also be given similar deals which should be cheaper than what is available in India.

TRADE

1. After Saudi Arabia, the UAE is the highest per capita consumer of Consumer Packaged Goods (CPG). Furthermore in order to take advantage of preferential schemes of free zone areas several food manufacturing facilities have been set up. However, norms of the UAE on Intellectual Property – particularly trademark enforcement remain low. It is understood that there are no laws on copyright enforcement at all. In order to ensure growth in CPG industry both manufacturing and distribution, the local laws need to be updated to be in line with global trends. Adopting international protocols such as Berne convention or establishing reciprocity between two countries can also assist in building confidence.

2. The contract law particularly Agency Law has been designed to safeguard local UAE partners which makes entry and exit from commercial relationships cumbersome after registration with Ministry of Economy. These laws also create difficulty in enforcing rights of locals in case of infringement of rights by third parties. However, the UAE's vision is to create a free market enterprise and a large manufacturing base of Middle East. These current laws perhaps require a relook to

ensure alignment with the larger vision.

3. Ministry of Health of the UAE places a lot of importance to the health of its citizens. The official importers and exporters follow the stringent guidelines. However parallel/unofficial importers bypass the system and often import near expiry products posing harm to consumer health. The UAE needs to look at counterfeit imports, near expiry goods and import and sale only through authorised representatives.

4. Most food CPG companies are suffering from the UAE's selective price control mechanism on branded food products. Companies such as Nestle, Kraft foods, Kelloggs, Dabur, India Gate, cannot increase prices in response to international prices. While it is understood that the laws have been made to protect locals, but cash flow generators such as rent charged by locals, salaries paid to government employees, price of crude are not capped. They are all based on local and international demand & supply. Hence price cap or rigidity in price increase in food products is not viable for brand owners selling in the local market.

5. Furthermore, the food products are sold via retail channels- via Supermarkets and Co-operatives. There is no cap on them to not increase their rebates and margins year on year. So while the branded food companies are banned from increasing prices normally, the retailers have a free hand to charge more from the branded food companies. This creates an asymmetrical squeeze on brands.

6. India has been the workforce provider to the Gulf since the 70's. It is the same expats who remit large sums back to India in valuable foreign exchange. It is important to highlight that in the last 5 years a large Filipino base has replaced Indian jobs and the reduction in the remittances is visible. While Indians still maintain their share in top, middle level position jobs, this trend of job migration should be arrested as it may pose a challenge for India in the long term.

DEFENCE

1. India and UAE are traditional allies. There can never be a defence collaboration unless one has strong economic and trade relations. For a fruitful collaboration in defence, there needs to be investment with impetus being given to the private industry to develop products for the Indian markets. Also, enough opportunities need to be created to develop products and expertise to take them to the UAE market.

2. Trade between the two countries has increased from 170 million dollars to 60 billion out of which 36 billion is non-oil. Foreign Direct Investment (FDI) from India to the UAE has been significant almost about 55 billion dollars as compared to from UAE to India leading to serious concerns. This is a trade surplus for India.

3. Over the past decade there has been very little collaboration in defence. Many of the managers working for the Emirati companies and responsible for all the dealings are American/European, but they work as the representatives or retailers of the US/European companies. The process of dealing with all the Emirates separately becomes a problem as each one is guided by completely different norms.

4. Air defence is another area where India can assist the UAE given the new found expertise that India is building on. For instance, L&T has procured an order for 100 self-propelled track Air Defence guns in partnership with a Korean company. The product of the Korean company was not environmentally suitable but the product was acclimatised and made suitable to be used in the UAE. Therefore, acclimatised products being developed in India are products that can meet the UAE requirements. Hence, the Indian Companies should stress the fact that they can provide tailored products to the UAE instead of the sub-optimal products UAE has been buying for their region from the American and European countries.

5. Indian private sector shipyards will be able to provide offshore patrol vessels and there are designs existing for frigates and corvettes. The UAE has been buying

these from Europe and the US. India could well provide the UAE these interceptor boats developed by companies like L&T and others.

6. The trend in the UAE has been to discard defence equipment when the product develops a problem, as companies instead of rectifying it, discard it as they do not have adequate skill sets for repairing it. But the Indian companies can provide the facility for the upgradation of these systems, the way it the Indian Army manages to use the product much beyond its actual life.

7. The need to work with local partners in the UAE becomes a challenge as the only value that they do not bring is intellectual capital into the project.

8. Defence also becomes the last in trade between any two countries because of the geopolitical compulsions that come attached with trade in defence. And any equipment has a service life of 20 years and an after-life of 10 to 15 years, so there is a need to partner with a nation with whom the relationship will remain normal for a few decades.

9. As IP norms are not fixed in the UAE, it causes reverse engineering to pose a problem in defence trade. The private defence industry is yet to reach its critical mass and at this point any investment coming to this sector is premature. It will take another 5-10 years for investment to flow in Indian defence industry.

✦✦✦

3.

Recommendations

1. There is a need to create a mind-set in the Indian industry to consult their bankers to invite Gulf investment right in the beginning of conceiving their project. Investments should be made as both equity and debt. The possibility of having a semi-conductor fabricating industry in India with UAE investment should be explored.

2. India needs to reduce the opportunity cost of time for the UAE investors and get to their scale of investments. The long gestation period, great unpredictability, issues with local partners are some issues that have existed long enough and have inhibited investors from the UAE to invest in India.

3. Deeper engagement with the high levels of the government while looking at achieving partnership. Maritime and coastal security is one area where India can fulfil the needs of the Gulf region.

4. India should also look at the possibility of providing food security to the UAE. It also needs to stabilise its exports to the Gulf region and ensure that no negative publicity hampers its credibility.

5. India attracts a very high risk premium across the world. It needs to figure out ways and means to reduce this and the policies which would make India an attractive investment destination across the globe and especially for UAE. It also needs to deal with its non-performing assets putting them up for sale and identify the deterrents from the Indian policy side for investment that should be addressed.

6. In order to promote UAE investments in India it would be desirable to create a portfolio of large value projects ($ 500 million upwards) along with Detailed Project Reports (DPRs) which could be proposed to UAE investors. To provide stability, the promoters of the projects should be either sound public sector companies or leading private corporations in partnership with Indian financial institutions. Further investments in these projects could be linked to mechanisms which provides insurance for the invested amount and guarantee a minimum return and a speedy and reliable resolution of disputes. It would help if existing legacy issues are resolved urgently.

7. Setting up of the following projects could be considered: joint venture shipping company focussed on crude transportation, joint strategic crude storage facilities in India (to be expedited), ports and shipyards, servicing centres for defence equipment, food processing, pharmaceuticals, microelectronics and chip fabrication.

8. The strategic partnership with the UAE should definitely leverage into an oil concession for India. The situation is favourable as UAE investors have faith in the Indian political system. The need is to address regulatory issues that cause hindrance to investments.

9. Major regulatory changes in the UAE and the Gulf region will not take place as these regulations are linked to their political order which in turn is based on the social contract with their people and with their deep rooted beliefs that they do not need to give away freebies.

10. India has an enormous opportunity to enhance its trade outflow to the UAE as it does not want to continue to import high value equipment from the west in the middle of a global economic crisis. Possibility of investments in smaller equipment and projects would definitely make for a more lucrative offer.

11. UAE has no specific industry which is characteristic to the region. Among the trade deals in defence, one of them, through an American company, is its last leg of completion. Protective vehicles and protective gear is an area where some companies have set up shops in the Middle East. It will be difficult to get into collaboration with the UAE because there will be a risk of Indian high-end equipment running into the wrong hands.

12. There is a lot of potential for technological cooperation where UAE and India can engage and collaborate.

✦✦✦

4.

List of Participants

1. Ambassador Sanjay Singh (Chairman)
   Former Secretary (East), Ministry of External Affairs, Government of India

2. Ambassador Talmiz Ahmad
   Adviser, West Asia & North Africa, Ananta Centre *and Former Ambassador of* India to Saudi Arabia, Oman & UAE

3. Commodore Mukesh Bhargava
   Vice President, Larsen & Toubro

4. Mr R S Bhatia
   President, Bharat Forge Limited

5. Mr Sujoy Bose
   Chief Executive Officer, National Investment and Infrastructure Fund (NIIF)

6. Mr Pramit Pal Chaudhuri
   Distinguished Fellow and Head, Strategic Affairs, Ananta Aspen Centre & *Foreign Editor,* Hindustan Times

7. Dr Arunabha Ghosh
   Chief Executive Officer, Council on Energy, Environment and Water

8. Ambassador Ranjit Gupta
   Former Ambassador of India to Yemen and Oman

9. Ms Nithya Kochuparampil
   Consultant (Policy Planning & Research), Ministry of External Affairs, Government of India

10. Professor P R Kumaraswamy
    Centre for West Asian Studies (CWAS), School of International Studies, Jawaharlal Nehru University

11. Ambassador S K Lambah
    Chairman, Ananta Aspen Centre *and Former Special Envoy of* the Prime Minister of India

12. Ms Priyanka Mittal
    Chief Executive Officer, KRBL Ltd

13. Mr Basudev Mukherjee
    Head, Research-International, Confederation of Indian Industry

14. Ms Harshit Sehgal
    Senior Director, Ananta Aspen Centre

15. Mr Sanjay Singh
    Principal Resident Representative, Tata Sons Limited

✦ ✦ ✦

First Floor, Thapar House,
124, Janpath, New Delhi – 110001
T: +91-11-407 33 333,
F: +91-11-407 33 350
E: admin@anantacentre.in
W: www.anantacentre.in

Confederation of Indian Industry

The Mantosh Sondhi Centre
23, Institutional Area, Lodi Road, New
Delhi - 110 003 (India)
T: +91-11-457 71 000/246 29 994-7
F: 91 11 24626149
E: info@cii.in | W: www.cii.in