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India: Interests in the Persian Gulf [redacted]

An Intelligence Assessment

Secret

ER 81-10291
August 1981

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India: Interests in the Persian Gulf [redacted]

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Information available as of 15 June 1981 has been used in the preparation of this report. Additional information was obtained, but the conclusions of the report were not affected.

[redacted]

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ER 81-10291
August 1981

India and the Persian Gulf

[redacted]

India: Interests in the Persian Gulf [redacted]

Key Judgments

The Persian Gulf provides India with about 60 percent of the oil it imports and a market for 10 percent of its exports. For the past decade, India has sought to strengthen ties with states in the Gulf for the purpose of establishing a secure oil supply, expanding trade, offering Indian technical expertise and skilled labor, and more recently encouraging Arab investment in India.

In large measure, India was able to cope with the changed conditions in world energy and trade in the 1970s because of its close ties with the nations of the Persian Gulf. Expanding economic relations substantially reduced India's trade deficit, and a steadily increasing flow of remittances from Indian laborers working in the Gulf strengthened the balance of payments. With payments prospects now deteriorating, India more than ever will count on dealings with the Gulf countries to ease its economic difficulties.

India has pursued two main political goals in the region. It has sought to prevent the emergence of an Islamic-Pakistani alliance directed against India. And it has sought to mitigate the danger of superpower conflict by urging Gulf countries to be nonaligned, especially by rebuffing US efforts at closer military and security cooperation. Both goals were at the core of Prime Minister Gandhi's visit to Kuwait and the United Arab Emirates in May 1981. The trip was Gandhi's first official visit abroad since returning to power in January 1980 and the first by an Indian Prime Minister to the Gulf area.

A constant supporter of Arab causes, India has bolstered its standing with the Gulf countries by demanding Israel's unconditional withdrawal from all occupied Arab territories, including East Jerusalem, and by recognizing the PLO as the sole and legitimate representative of the Palestinian people. India nonetheless carries some heavy political baggage in its dealings with the Gulf states. Three wars with Muslim Pakistan, frequent domestic outbreaks of violence between Hindus and Muslims, and strong ties to the Soviet Union continue to tarnish India's image in the Gulf.

[redacted]

India: Interests in the Persian Gulf [redacted]

Early Relations With the Gulf States

In the years following independence from Britain in 1947, India's preoccupation with economic development and its rivalry with Pakistan precluded much movement into the Persian Gulf. Without the economic and military capacity to establish a strong presence, India in the 1950s based its ties to the Gulf states primarily on emotional commitments to anticolonialism. India supported Arab causes partly out of moral conviction but also to counter Pakistan's influence in the area. New Delhi saw Pakistan's design to forge an Islamic alliance with Iran and the Gulf Arab states as a long-range challenge to its security even though Pakistani efforts never set well with the Gulf countries who viewed them as ill-conceived and unrealistic.[1] Pan-Islamism continues to get major consideration in India's strategic thinking as well as in its foreign and domestic policy because of India's large Muslim minority of 75 million people. [redacted]

The introduction of superpower rivalry into the Persian Gulf became a major issue for India in the 1950s. India sought to counter the intrusion with the concept of nonalignment. As conceived by Prime Minister Jawaharlal Nehru, who led India until his death in 1964, nonalignment held that national independence could not be sustained without independence in foreign affairs. The concept found widespread support among the growing national movements in the Gulf states and beyond and helped create conditions that led to active cooperation between India and the Gulf states in the late sixties. The closest ties to the Arab world developed with Nasser's Egypt, but these became a liability as the Gulf states competed with Egypt for regional leadership. The Indo-Pakistani war of 1965 and the declining position of Egypt in the Arab world further weakened India's influence in the Gulf. By the late 1960s, India reacted to its growing isolation in the region by cultivating stronger ties with the Gulf countries, reducing its involvement in inter-Arab rivalries, and loosening ties with Egypt. ([redacted]

[redacted]

Ties in the 1970s

Indian moves to improve relations with the Gulf states began to show positive results in the early 1970s. India's decisive military victory over Pakistan in 1971 left it the dominant power in South Asia, and New Delhi sought to extend its influence into the Gulf. India was therefore concerned about the Shah's military buildup and his plans to extend Iran's naval influence beyond the Gulf into the Indian Ocean. In addition, India was again fearful that Pakistan would successfully turn calls for Islamic solidarity into financial and military support for yet another confrontation [redacted]

India's drive to improve ties with the Gulf states also had a strong economic basis. As its oil import bill grew after 1973, New Delhi aggressively sought export markets in the Gulf, particularly for such nontraditional items as manufactured goods and construction materials. Collaboration in construction and industrial projects was also promoted, as was employment of Indian laborers. The higher cost of oil imports was eased by credits from Iran and Iraq that deferred payments. Indian exports to the Gulf increased at rates considerably greater than to any other single area, and remittances by Indian nationals from the Gulf states pushed foreign exchange reserves to record levels. On the political front India avoided entangling itself in inter-Arab squabbles and was able to maintain good relations with the Gulf countries by supporting the Arab consensus denouncing the Camp David Accords. The result was that India's new relationship with the Gulf both contributed to its economic well-being during the latter half of the 1970s and enhanced its status in the region. [redacted]

Recent Developments

New Delhi sees the political turmoil that has swept the Gulf countries since 1979 as threatening to its economic and security interests. The collapse of the Shah's regime in Iran removed a government that was developing strong economic ties to India and that sponsored programs bringing India closer to the Gulf states. The outbreak of the Iran-Iraq war in 1980 cut off India from its major oil suppliers, forcing New Delhi to make costly spot market purchases to ensure a continuing flow of crude oil. The Soviet invasion of Afghanistan increased superpower rivalry in the region as the United States countered the Soviet invasion by strengthening its ties to Pakistan. This has given life to one of New Delhi's worst fears, a Pakistan rearmed through US military aid and Arab financial assistance for Pakistani arms purchases. After fighting three wars with Pakistan, New Delhi is concerned that Islamabad will use its new weapons for a fourth confrontation. [redacted]

Since her return to office in January 1980, Prime Minister Gandhi has moved to strengthen relations with the Gulf states. Last year, the PLO representative in New Delhi was elevated to full diplomatic status as a gesture toward the Arab world. The move was designed to deflect domestic and foreign criticism of Gandhi's soft line toward the Soviet invasion of Muslim Afghanistan. Gandhi's visit to Kuwait and the United Arab Emirates in May 1981 marked the first time an Indian Prime Minister had visited the Gulf. She sought long-term oil supplies from both countries, pushed for joint ventures involving Arab financing, and apparently lectured her hosts on the virtues of nonalignment. [redacted]

Gandhi's efforts, however, have probably done little to enhance India's influence among the Gulf states. India is a supplicant in seeking long-term guarantees for oil imports, Arab petrodollars, and other economic advantages. Inter-Arab disputes make it difficult for New Delhi to preserve good ties with all the countries in the area, and balancing the conflicting interests is difficult. New Delhi's reluctance to take sides in the Iran-Iraq war has not helped India's standing in either Tehran or Baghdad. In addition, Gandhi is on the defensive at home and with countries in the nonaligned movement, including Saudi Arabia, because her foreign policies are increasingly seen as congruent with Moscow's. [redacted]

Economic Relations

Trade. India's trade with Persian Gulf countries grew spectacularly during the last decade. Exports increased from about $110 million in 1971 to more than $820 million in 1980, while imports, reflecting increasingly higher oil prices, climbed from $160 million to $3.3 billion in the same period. The importance of the Gulf in India's total trade has also changed significantly since the early 1970s. Exports to the Gulf, which amounted to 5 percent of India's foreign sales in 1971, accounted for 10 percent in 1980, while the share of imports rose from 8 percent to 31 percent as shown in table 1. [redacted]

Exports. The composition of India's exports to the Gulf changed dramatically during the 1970s from tea and spices to manufactured goods. Exports now include a growing share of capital- and technology-intensive items where India competes directly against developed countries for a market share. In 1978, the last year for which complete trade data are available, 31 percent of India's exports of iron and steel products and 28 percent of metal manufactures went to the Gulf (table 2). Sales of these items for industrial development programs have resulted in sizable increases in exports to Saudi Arabia since 1971, as well as to Kuwait and to the UAE. Exports to Iran peaked in 1976 at $315 million but have slumped badly since then, while sales to Iraq have been erratic. Indian businessmen are looking to both countries as potentially lucrative markets, however. They hope that once the fighting stops India will participate in rebuilding both economies. [redacted]

Continued growth of manufactured exports is pivotal if India is to avoid serious balance-of-payments shortfalls in the 1980s. As India's fastest growing markets in the less developed countries, the Gulf states are being counted on as major contributors to boosting Indian export growth. New Delhi's Sixth Five-Year Plan (1980-85) projects an average volume growth of exports of 9 percent annually, up from 6 percent in the 1970s. Export growth of manufactured products is projected to grow even more rapidly; iron and steel products, for example, are slated to increase 23 percent annually and engineering goods 13 percent. Implicit in the Plan's export projections is continued success in tapping Persian Gulf markets. [redacted]

Imports. Crude oil and petroleum products account for nearly all of India's imports from the Persian Gulf countries. Prior to the outbreak of the war, Iran and Iraq together were providing India with two-thirds of

Table 1

India:
Trade With Gulf Countries [a]

Million US $	Iran	Iraq	Kuwait	Saudi Arabia	UAE	Muscat/ Oman	Qatar	Gulf	Total	Percent Share
Exports										
1955	11	4	7	1	NEGL	1	3	27	1,261	2
1960	11	6	7	7	NEGL	1	4	36	1,278	3
1971	35	13	21	19	8	3	7	106	2,046	5
1972	27	13	14	15	8	4	4	85	2,160	4
1973	32	14	19	15	12	3	4	99	2,557	4
1974	55	26	27	16	33	8	9	174	3,238	5
1975	269	91	48	46	57	20	11	542	4,173	13
1976	315	74	55	70	77	21	11	623	4,665	13
1977	164	53	131	87	188	34	21	678	5,753	12
1978	195	60	132	145	169	35	21	757	6,315	12
1979 [b]	113	57	146	162	164	45	25	712	6,976	10
1980 [c]	124	73	165	221	172	48	21	824	8,033	10
Imports										
1955	52	5	1	51	NEGL	1	6	116	1,425	8
1960	63	5	NEGL	30	NEGL	1	3	102	2,355	4
1971	121	4	7	32	NEGL	NEGL	NEGL	164	2,178	8
1972	171	5	17	52	NEGL	NEGL	NEGL	245	2,451	10
1973	158	8	33	58	NEGL	NEGL	NEGL	257	2,423	11
1974	343	79	91	168	NEGL	NEGL	NEGL	681	3,793	18
1975	593	315	80	377	NEGL	1	NEGL	1,366	5,665	24
1976	532	386	72	337	95	NEGL	15	1,437	6,084	24
1977	568	313	86	373	87	8	15	1,450	5,676	26
1978	635	387	80	291	101	1	11	1,506	7,030	21
1979 [b]	425	711	126	238	124	2	11	1,637	8,273	20
1980 [c]	768	1,063	705	464	257	NA	62	3,319	10,860	31

[a] Data are for Indian fiscal year ending 31 March of stated year.
[b] Provisional.
[c] Estimated.

[redacted]

its oil imports, and the Persian Gulf as a whole provided about 80 percent. Although Iran resumed oil deliveries soon after the war began, Iraq was not able to do so. The loss of Iraqi crude forced New Delhi to purchase oil on the spot market at higher prices and was a major factor in pushing India's oil import bill up by $3 billion to $7.1 billion in the fiscal year ending 31 March 1981. As of mid-1981, Iraq's oil shipments to India had still not reached prewar levels and may not do so until the war is settled and oil production recovers. As an outgrowth of its experience with Iran and Iraq, India has lined up several new oil suppliers and is also diversifying its sources among Persian Gulf suppliers. This year, for example, the UAE and Kuwait together will ship 65,000 b/d, up from 20,000 b/d in 1980, and the Gulf's share of India's oil imports will slip to about 60 percent, as shown in table 3. [redacted]

Table 2

India:
Exports of Key Commodities to the Gulf, 1978

Million US $								Percent
	Saudi Arabia	Iran	Kuwait	UAE	Iraq	Total Exports to the Persian Gulf	Total Exports	Persian Gulf Share of the Total
Iron and steel products	37.2	22.3	21.7	19.9	0.8	101.9	329.0	31
Electrical machinery	8.9	6.7	11.3	9.5	11.0	47.4	259.0	18
Metal manufactures	11.6	11.0	8.9	17.4	3.0	51.9	184.0	28
Transport equipment	NEGL	9.5	4.6	2.6	2.5	19.2	137.0	14

[redacted]

Table 3 *Thousand b/d*

India: Oil Imports

	1980 [a]	1981 [b]
Total	388	423
Persian Gulf	300	239
Iran	110	100
Saudi Arabia	50	50
UAE	10	40
Iraq	120	24
Kuwait	10	25
Other countries	88	184
USSR [c]	78	95
Burma	0	20
Libya	0	20
Mexico	0	15
Algeria	0	10
Nigeria	10	10
Venezuela	0	10
Bulgaria	0	2
Pakistan	0	2

[a] 1980 data reflect level of imports prior to the Iran-Iraq war. Spot market purchases and unidentified suppliers pushed actual imports in 1980 to 490,000 b/d.
[b] As of 1 June 1981, negotiations were still under way for additional supplies. India will probably import 440,000 b/d this year.
[c] The USSR normally ships all its crude oil to India from the Persian Gulf and products, usually kerosene and diesel oil, from the Soviet Union. For 1981 the Soviets will export 50,000 b/d of crude to India; Iran will be the supplier.

[redacted]

Workers' Remittances

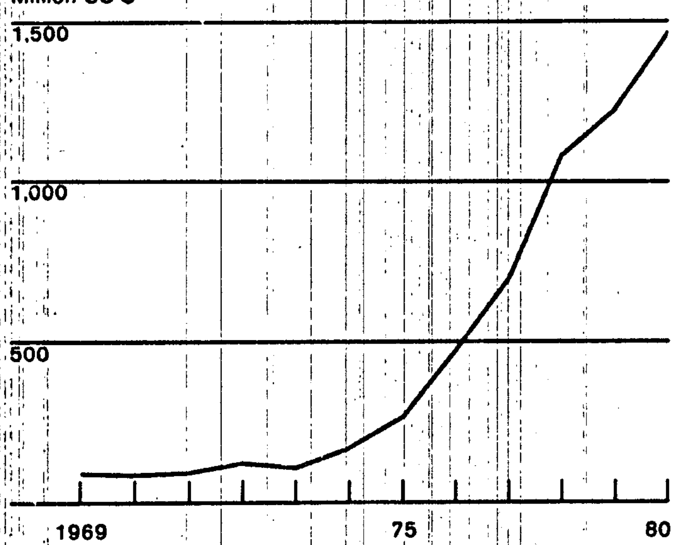
Remittances by Indian workers in the Gulf countries have been an important and growing source of foreign exchange for New Delhi since the mid-1970s. Remittances—of which at least half come from the Gulf countries—more than doubled between 1975 and 1977 to about $700 million and then doubled again in 1978-80 (see figure 1). The rising inflow of remittances was a major factor behind the steady growth of India's foreign exchange reserves from $750 million in 1975 to a peak of $8 billion in 1980. [redacted]

There were approximately half a million Indians working in the Persian Gulf countries prior to the Iran-Iraq war, roughly half employed in the UAE. The Indian press reported that 10,000 workers fled Iraq when the war broke out. An undetermined number of these workers have returned, as Indian contractors have made a strong effort to keep their various projects going. In addition, Indian firms have been awarded several new projects in Iraq this year. Thus, despite the initial panic exodus, the number of Indian workers has stabilized and perhaps even increased this year. There were no large Indian construction projects in Iran when the war started. The bulk of Indians there apparently hold professional jobs, many of them as doctors, and few have left the country. [redacted]

By and large, most Indian workers brought into the Gulf by Indian contractors are skilled and semiskilled. Unskilled Indian laborers, who may outnumber con-

Figure 1

India: Foreign Remittances



Note: India's fiscal year ends 31 March of stated year.

[redacted]

Table 4

India: Workers in the Persian Gulf [a]

Total	**390,000-420,000**
UAE	200,000
Kuwait	100,000
Saudi Arabia	50,000-75,000
Iran	20,000-25,000
Iraq	20,000

[a] Estimates as of 1 January 1981.

[redacted]

tract workers brought into the region legally, have entered on visitors visas and stayed to seek work or entered illegally by small boat or across sparsely policed borders. There have been some crackdowns and deportations of these illegals, but for the most part this horde of workers remains, doing menial work. There are also Indians in the Gulf who own and operate businesses, usually with an Arab partner. These establishments hire Indian executives and a vast army of clerks from the homeland. Outside of Iran, Indian engineers, bankers, and other professionals are scattered throughout the Gulf in undetermined numbers (see table 4). [redacted]

Prospects in the early 1980s point to slower growth of remittances from the Gulf than in the 1970s. Recent World Bank projections on India's balance of payments show a gradual increase in total private financial transfers from an estimated $1.7 billion this year to $2.2 billion by 1985. Remittances could increase faster than the World Bank has projected if employment opportunities open up as Iran and Iraq rebuild their damaged economies. Indian labor is generally well received in the Gulf, and Indian firms, especially contractors, are optimistic another boom is in the offing. Thus New Delhi will continue to seek better relations with the Gulf states in order to maintain a favorable climate for Indian labor and for garnering new construction contracts. [redacted]

Aid and Foreign Investment

Official development assistance from the Persian Gulf countries to India is a relatively new phenomenon. The aid flows began in 1974 following the initial rise in world oil prices. At its peak in 1976, this aid reached nearly $500 million, roughly 25 percent of the aid India received. For the period 1974-80, aid disbursements from Gulf States amounted to $1.8 billion or about 12 percent of the aid disbursements India received. The bulk of the aid, nearly 70 percent, was provided by Iran during the Shah's regime. Since the Shah's ouster, Iran has stopped disbursing aid to India, and the aid flow from the Gulf countries has also eased considerably. So far this year, India has received a $63 million loan from Kuwait for balance-of-payments support and a $132 million loan from Saudi Arabia for electrical power projects. Generally, India wants credits on soft terms from the Gulf countries with small service charges, low interest rates, and long repayment terms like the Kuwaiti loan, which carries an interest rate of 4 percent and repayment terms spread over 25 years (see table 5). [redacted]

Table 5 *Million US $*

India:
Official Development Assistance [a]

	1974	1975	1976	1977	1978	1979	1980	1981 [b]	Total
Total	**97.0**	**218.0**	**471.8**	**386.5**	**264.7**	**47.0**	**139.0**	**63.0**	**1,687.0**
Iran	0	145.0	409.0	346.3	212.7	0	0	0	1,113.0
Iraq	97.0	30.0	27.0	8.0	0	0	104.0	0	266.0
Kuwait	0	0	0	25.0	5.0	0	15.0	63.0	108.0
Saudi Arabia	0	0	0	0	40.0	40.0	0	0	80.0
UAE	0	43.0	0	7.2	7.0	7.0	0	0	64.2
OPEC Fund	0	0	35.8	0	0	0	20.0	0	55.8

[a] Disbursements.
[b] January-June.

[redacted]

At best, the level of aid from the Persian Gulf countries is likely to hover around $100 million annually in the next few years despite recent Indian efforts to boost both aid and investment inflows. In a policy change announced late in 1980, India said it would welcome OPEC equity investment in the industrial sector, even if new investors are unable to contribute technological skills. The action modified a decade-old policy discouraging all foreign investment that did not bring technological or marketing skills with it. New Delhi is giving priority to attracting OPEC funds into fertilizer, cement, petrochemicals, and other priority industries in an effort to reduce imports of these products. OPEC capital inflows would also help finance India's growing current account deficit, which reached $3.8 billion in the fiscal year ending 31 March 1981 and is expected to be in the $3-4 billion range again this year. [redacted]

Petrodollar investment, like investment from other countries, will be restricted to 40 percent of total equity under most circumstances. For the first time, however, India's foreign investment policy openly discriminates among countries to the detriment of American and West European capital. Even so, the response to date by Persian Gulf countries has been slow. There has been considerable talk, and the Indians appear optimistic, but no significant amount of capital has been forthcoming. While Gulf countries appear willing to invest in India, they are more interested in quick-yielding investment opportunities than in providing capital for the long-gestation basic industry projects that the Indians want. [redacted]

Bilateral Relations

Iran. India has a long way to go before relations with the Khomeini regime are as close as they were with the Shah's. During the Shah's era, India's relations with Iran grew substantially, although conflicting attitudes toward Pakistan, Iraq, and the USSR periodically posed problems. The Shah cultivated India by providing oil and economic aid and by his vision of a regional common market in which India would play an important role. He also developed close personal relations with Prime Ministers Gandhi and Desai. For its part, India valued Iran as the major source of its crude oil, some of which was supplied on long-term credit, and as a growing market for exports. [redacted]

The centerpiece of Indian-Iranian economic cooperation under the Shah was an agreement signed in 1975 that committed Iran to finance the Kudremekh iron ore project in the southern Indian state of Karnataka. Iran was to receive 7.5 million tons of iron ore concentrates per year for 20 years for steel plants to be built at Ahwaz and Esfahan. The export price of the iron ore was linked to the project's capital cost, initially set at $630 million. Iran paid $225 million toward the cost of the project plus another $250-300 million in advance payments for ore concentrates, but stopped payments in December 1979. The revolutionary government has soured on the project and probably will not finance it under existing terms. Tehran has postponed construction of the steel plant at Esfahan, and the Ahwaz plant is far behind schedule. Meanwhile, the cost of Kudremekh has increased to about $800 million. [redacted]

Unless the project is recast, and there are some signs that an accommodation may yet be worked out, India appears to be stuck with a white elephant. The ore concentrates from Kudremekh are designed specifically for the gas-fired direct-reduction steel plants Iran was to build, and there are few similar plants elsewhere in the world. Moreover, the high alumina and silica content of Kudremekh ore has made potential customers wary and the venture financially risky. As a partial solution, India is planning to build a pelletization plant, at a cost of about $100 million, to allow the ore to be used in conventional mills at home and abroad [redacted]

Other ambitious Indo-Iranian schemes planned during the Shah's regime have been quietly put aside. These plans involved about $1 billion of Iranian financing for projects including a paper plant in Tripura, an aluminum complex in Orissa, and the extension of the Rajasthan canal in Northwest India. Despite the loss of Iranian financing and the problem of settling the Kudremekh project, New Delhi has opted to play down its differences with Iran. India needs Iranian oil and is also looking to increase exports and participate in construction when Iran begins rebuilding its damaged economy. Recent attempts at improving bilateral economic relations have been frustrating for both countries. Tehran has sought to hire Indian technicians, engineers, and medical personnel and to purchase Indian equipment for its oil and fertilizer industries, but much of what Iran wants is either unavailable or in short supply in India. [redacted]

Iraq. Relations with Iraq have followed a steadier course than those with Iran. Close economic cooperation was established in April 1973 with an agreement that assured India crude oil supplies in exchange for construction of several infrastructure projects in Iraq. Since then Iraq has been a regular supplier of oil and, when the Iranian revolution deprived India of 120,000 b/d in 1979, Iraq boosted its exports from 50,000 b/d in 1978 to 120,000 b/d in 1979 to help meet the Indian shortfall. Iraq became India's major source of oil in 1979 and 1980, providing roughly 30 percent of import needs. Although the Iran-Iraq war temporarily halted Iraqi oil exports to India, they resumed in April 1981 but at a rate of only 24,000 b/d. In addition to supplying oil, Iraq provided credits from 1976 to 1979 to help India pay for its oil. Last year Baghdad provided a $104 million interest-free loan, which was billed as compensation for the higher prices charged for Iraqi oil (see table 6). [redacted]

In recent years, the Iraqis have shown increasing receptivity to closer relations with India. A surge in reciprocal visits by high-level officials from 1979 to the outbreak of the Iran-Iraq war led to further commercial links and exchanges in scientific and military fields. Indian companies have been active in Iraq with some 90 Indian contractors working on over 50 projects valued at $2 billion. The large Indian projects in Iraq include the construction of 2,000 houses in Baghdad (valued at $156 million), 2,290 prefabricated houses at Khoral Zuber ($151 million), several sewerage projects, bridges, roads, hotels, office buildings, airports, grain silos, and an expansion of Baghdad University. About half of these contracts were granted in 1980, prior to the outbreak of war. Work on many had barely begun when it was disrupted by the fighting. Indian contractors have since attempted to minimize the war's effect by keeping enough workers at each project to maintain a presence and satisfy Baghdad that they have not violated their contracts. [redacted]

India and Iraq have cooperated in military matters, partly because both signed friendship agreements with the USSR in the early 1970s and they depend heavily on Moscow for military equipment. [redacted]

Table 6 *Million US $*

India: Oil Credits From the Gulf Countries

	1976	1977	1978	1979	1980	Total
Total	223.3	90.9	117.8	4.1	104.0	540.1
Iran	145.7	59.7	114.0	0	0	319.4
Iraq	30.2	31.2	3.8	4.1	104.0	173.3
UAE	47.4	0	0	0	0	47.4

[redacted]

[redacted]

Saudi Arabia. India has had chronic difficulties in its relations with Saudi Arabia. Indian socialism, its friendship with the Soviet Union, communal problems with India's Muslim minority, and wars with Pakistan make it difficult for New Delhi to forge a closer relationship with the Saudis. An example of the difficulty India has had is the fact that the Saudis have banned the entry of Sikhs, an important and influential Hindu sect, from entry into the Kingdom. [redacted]

Despite these difficulties, commerce between India and Saudi Arabia has grown steadily since the early 1970s. Indian exports of roughly $15 million annually in the period 1972-74 climbed to $160 million by the end of the decade. The Saudis purchased industrial and construction materials while exporting crude oil, usually 50,000 b/d or about 10 percent of India's oil imports. There are some 50,000 to 75,000 Indian workers in Saudi Arabia, most of them from the southern state of Kerala—one of India's most literate states—and their knowledge of English has given them an advantage in finding jobs in Saudi Arabia. [redacted]

The Saudis have shown some interest in investing in India under New Delhi's modified investment policy. Saudi Foreign Minister Saud's visit to India in April 1981 was the occasion for announcing an agreement to establish a joint commission to identify projects for equity investment. At the same time, the Saudis announced loans of $132 million to India for construction of two power plants. [redacted]

The Small Gulf States. India has historical ties with the smaller states of the Persian Gulf—Kuwait, Bahrain, the United Arab Emirates, Qatar, and Muscat and Oman. Indeed, the smaller sheikhdoms were once ruled from New Delhi as part of British India, and the Indian rupee was legal tender in many of these countries until the mid-1960s. Gulf businessmen and government leaders regularly travel to India for vacation and medical treatment, and many have been educated in India. [redacted]

India's current economic ties to the countries focus mainly on increasing exports to Kuwait and the UAE and on efforts to attract equity investments. India has shared in the development boom in Kuwait and the UAE by increasing exports of machinery and iron and steel products, as well as by supplying more traditional items like spices and tea. Exports to the two countries, only $60 million in 1974, jumped to over $300 million in 1978. The UAE began supplying oil to India in 1975 and will provide 40,000 b/d in 1981. Kuwait will ship 25,000 b/d in 1981. Together the two countries will provide 15 percent of India's oil import needs this year. [redacted]

India's new foreign investment policy has had some success among the smaller Gulf states. Two Arab banks—The Emirates Commercial Bank and the Bank of Oman—have established branches in Bombay. The Al-Ghurian Group of Industries, based in Dubai, may invest in two projects in the Indian state of Gujarat—a $375 million alumina project and a $125 million seamless steel tube manufacturing plant. The plan calls for Al-Ghurian to import the entire alumina production—300,000 tons annually—for a proposed aluminum plant in Dubai. In addition, the Indian state of Maharashtra is negotiating for $1 billion in equity investment from the UAE for the manufacture and export of oil rigs and for establishing other oil-based equipment industries. There is also an Indian proposal for the UAE to set up a 200,000-b/d oil refinery on India's west coast. Under the proposal, the UAE would finance the refinery, supply it with crude, and import the refined products. [redacted]