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Twin Crises in the Gulf: Implications for India

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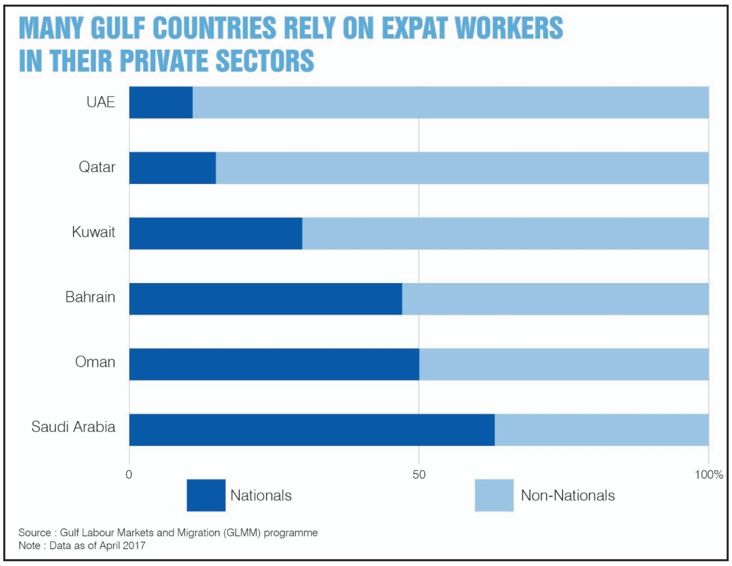
ABSTRACT

Countries in the Gulf region are facing a proverbial perfect storm: oil demand falling to its lowest levels in decades, disagreements within the group of oil-exporting nations on supply cuts, and the COVID-19 pandemic. The plummeting of oil prices is affecting these countries' fiscal positions, business sentiments, and economic growth. India has stakes in all this; after all, the country has strong economic, commercial and diaspora ties with the Gulf nations. In particular, Indian households that rely on remittances will be severely affected. The most urgent concern for India, however, is the welfare of its nine million citizens stranded in the GCC countries. This special report outlines the implications of the ongoing Gulf crises for India.

INTRODUCTION

India and the six Gulf Cooperation Council (GCC) countries—Bahrain, Kuwait, Qatar, Saudi Arabia and the UAE—have strong economic ties, characterised by high levels of trade and investment. These countries also host a large Indian expatriate community. About 9.3 million Indians live and work in the Gulf countries. In most of these countries, expat workers outnumber nationals (see Figure 1), and Indians account for the majority of expats in Kuwait, Oman and

Figure 1



the UAE.[1] About 70 percent of these are blue-collar workers, and the remaining are skilled professionals.[2] The large expat population has played an important role in the economic development of the Gulf countries, while being a key source of remittances for India. Expats in the Gulf remitted about US$49 billion in 2019—two percent of India's GDP and two-thirds of total remittances to the country that year.

The GCC is India's largest trading partner, accounting for over US$120 billion in trade flows in 2018-19, 17 percent higher than the previous year.[3] Two of India's top five trading partners, the UAE and Saudi Arabia, are in the Gulf region. The GCC accounts for 34 percent of India's oil imports; Qatar, in particular, is a dominant supplier of liquefied natural gas imports.[4]

Bilateral investment ties are also strong, with the Abu Dhabi National Oil Co. (ADNOC) and Saudi Aramco investing jointly with the Indian government in a refinery-and-petrochemical complex in Maharashtra. Aramco is also considering purchasing a stake in Reliance Industries Limited, while a consortium of Indian state-owned enterprises is involved in the exploration of oil blocks in Abu Dhabi.

Disruptions in the GCC, caused by the historic low oil prices due to a price war with Russia, and plummeting global demand as a result of the COVID-19 pandemic, are likely to have economic implications for India and welfare implications for the large number of Indians who live and work in the region.

Figure 2[5]

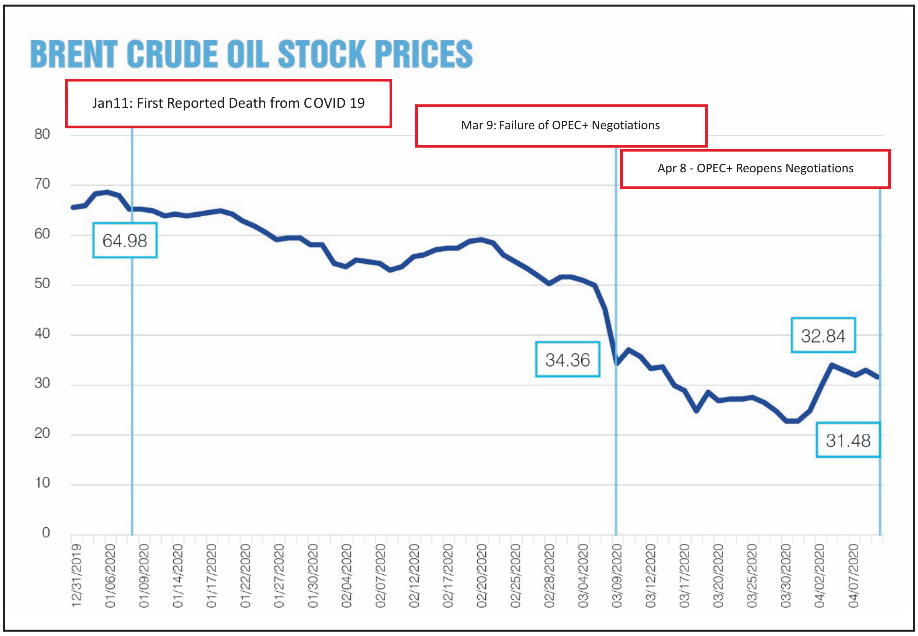
TOTAL COVID-19 CASES REPORTED BY GCC COUNTRIES

Country	Total Cases Reported
Saudi Arabia	2932
United Arab Emirates (UAE)	2659
Qatar	2210
Kuwait	855
Bahrain	823
Oman	419

As of 9th April, Source – ORF's Covid-19 Tracker

As the COVID-19 pandemic spread globally, negotiations between OPEC and its allies over oil output broke down in the first week of March. On 5 March, OPEC suggested a production cut of 1.5 million barrels per day for the second quarter of 2020. The division proposed was one mb/d of output cut from OPEC countries and 0.5 mb/d from non-OPEC allies, mainly Russia. However, on Russia's rejection of the proposal, Saudi Arabia boosted production to its full capacity—12.3 mb/d—while also announcing extraordinary discounts of about 20 percent in Russia's vital markets. Consequently, oil price immediately dropped by 30 percent and has been declining further since. Saudi Arabia retaliated on 30 March by announcing the ramping up of its exports by 0.6 mb/d.

Figure 3

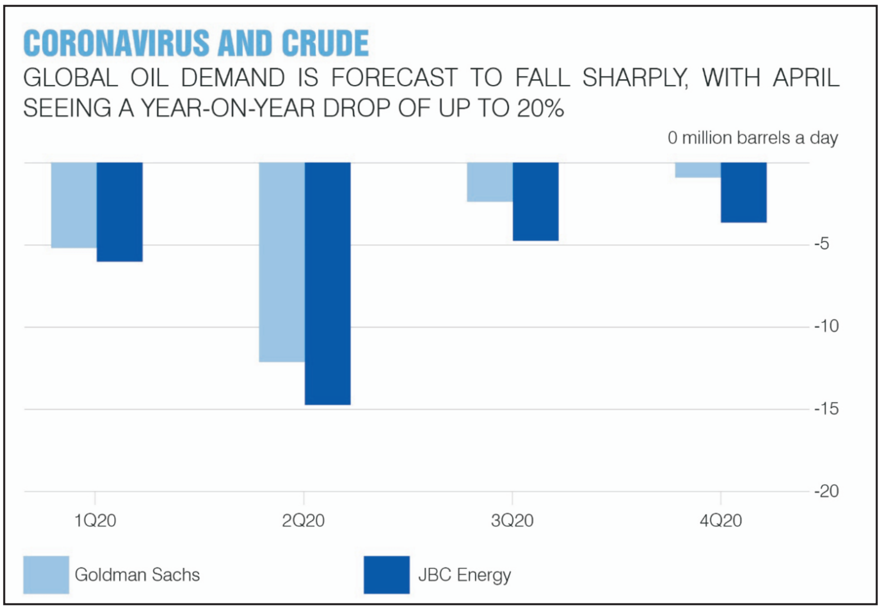


Source- Business Insider Oil Price[6]

Countries across the world have imposed lockdowns to curtail the further spread of COVID-19 infections, limiting production to essential commodities. With the crumbling of global value chains and the global economy coming to a halt, the demand for oil has seen a sharp decline of 30 percent,[7] amounting to 30 mb/d.

Given the importance of oil revenues for the GCC economies, the continuous fall in oil prices is a threat to economic stability in the region. OPEC

Figure 4



Source: Bloomberg

and Russia, backed by the G20, agreed to cut oil supply by 10 mb/d on 10 April to stabilise prices.[8] India has supported the price stabilisation efforts by buying crude oil stocks for its reserves. Oil prices, however, fell slightly after the G20 and OPEC announcement, suggesting that markets believe these measures will be insufficient, given the collapse in demand. Current estimates indicate crude oil demand is forecast to fall even further this quarter and remain below 2019 levels for the rest of the year.[9]

INDIA AND GCC: ECONOMIC, COMMERCIAL AND DIASPORA RELATIONS

India's relationship with the GCC countries has strengthened considerably in the last few years. In 2019, India and Saudi Arabia signed a memorandum of understanding (MoU) to form a strategic council led by the respective heads of states. Saudi Arabia is only the fourth country with which India has an inter-governmental mechanism headed by the prime minister.[10] Indian companies have an active presence in the GCC in a range of sectors, including technology, construction, hospitality and finance. The GCC countries invest heavily in Indian infrastructure as well as in the private sector. Saudi Aramco and ADNOC have signed a US$44-billion deal to build a mega refinery in Ratnagiri, Maharashtra. Aramco also plans to purchase a 20-percent stake in India's Reliance Industries. India and the GCC also cooperate on security issues like defence manufacturing, counterterrorism, cyber-security, and drug trafficking.

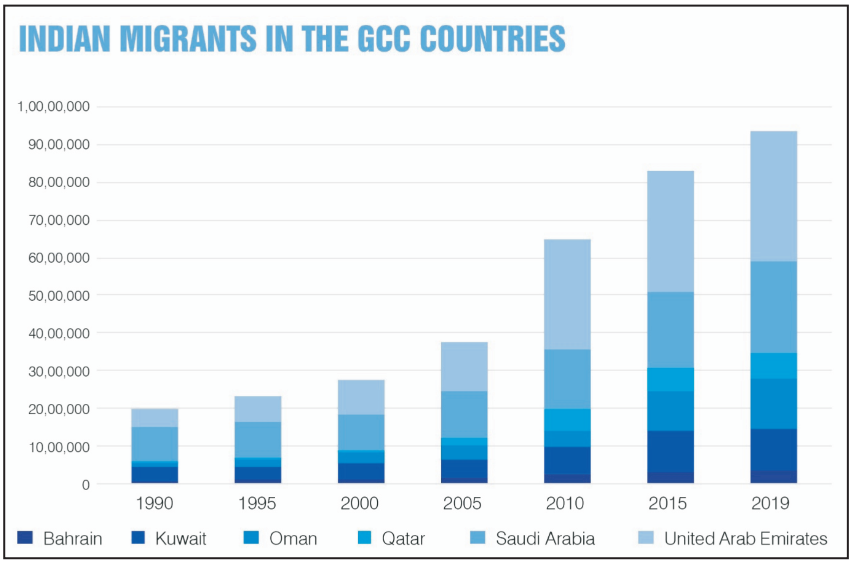
India has also cooperated with the Gulf countries to manage global oil prices. In 2018, India worked with UAE and Saudi Arabia to stabilise global oil prices, which increased as a result of US sanctions against Iran. India has strategic agreements with ADNOC[11] and Saudi Aramco,[12] signed in 2017 and 2019 respectively, to store crude oil in Indian reserves. At the peak of the oil price war in March 2020, India tried to strike a deal with Saudi Arabia and the UAE to allow them to park their excess oil stock in India's strategic petroleum reserve. While the deal fell through, India decided to buy oil stocks from countries holding excess supply to build up stocks while prices remain low.[13]

Five factors define the India-GCC economic relationship: India's diaspora in the Gulf, the remittances they send back home, bilateral trade (mainly crude oil), investment, and business links.

Indian diaspora

The migration of Indians to the Gulf countries has increased steadily over the last three decades, with the diaspora reaching 9.3-million strong in 2019. A huge proportion of Indian migrant workers in the Gulf are in the UAE; Saudi Arabia and Oman are also top destinations. While most GCC countries see a rise in new Indian migrants every five years, the trend shifted following the 2014 oil price shock, with the number of new migrants falling substantially.

Figure 5



Source: US Migration Data[14]

Although the GCC remains an attractive destination for Indian workers, migrants have faced issues owing to the employment system in the region, which leads to the exploitation of workers. Under the sponsorship system, known as *kafala*, the State delegates to the private employer the authority over a migrant worker's immigration and employment status.[15] Countries in the region have recently taken steps to rectify the situation, including implementing the Wages Protection System in 2019 and issuing various anti-discrimination regulations.[16] Some of these changes have been achieved through diplomacy, with the Indian government signing MoUs on labour rights and contracts with many GCC countries.[17]

Oil price falls mean reduced hiring in these countries, as well as large-scale layoffs. Following the oil price drop and resultant economic decline in 2015-16, the GCC countries enacted measures to reserve jobs for locals and reduced the number of visas issued to migrants. A study by GulfTalent on employment trends in 2016 found that following the oil shock, these countries took steps to not only increase the number of citizens in private-sector jobs, but also laid-off many foreign workers.[18] Emigration from India to the GCC countries halved between 2015 and 2017.

However, this trend was reversed in 2018 and 2019, as oil prices started to rise and several Indian companies won large contracts in the region. Overall, between 2015 and 2019, immigration to the GCC from India increased by 13 percent; migration to Saudi Arabia and Oman increased by over 20 percent, while the UAE has the largest number of Indian migrants among the Gulf countries.

Figure 6

EMIGRATION FROM INDIA TO GCC COUNTRIES 2015-17

Rank	Country	2017	2016	2015	%change (2017 over 2015)
1	UAE	1,49,962	1,63,716	2,25,512	-33%
2	Saudi Arabia	78,611	1,65,355	3,06,642	-74%
3	Kuwait	56,380	72,384	66,543	-15%
4	Oman	53,332	63,236	85,028	-37%
5	Qatar	24,759	30,619	59,340	-58%
6	Bahrain	11,516	11,964	15,619	-26%
Total All GCC countries		3,74,560	5,07,274	7,58,684	-50%

Note : Data is culled from various replies given in the Indian parliament. Ranking is based on 2017 statistics

Source: Times of India[19]

In 2016, nearly 10,000 Indian workers in Saudi Arabia lost their jobs. The Indian embassy stepped in to provide them with basic necessities and was ultimately forced to repatriate them.[20] The highest number of deaths in the GCC countries in the last four years was recorded in 2016 when 6,013 Indian nationals died. The number of suicides by migrant workers also increased in 2016 and 2017, at 303 and 322 respectively. The highest number of suicides were recorded in Saudi Arabia, followed by the UAE.[21]

Data from the Ministry of External Affairs shows that since 2016, some 77,155 complaints have been made by Indians working in the Gulf countries, with 36 percent of them from Saudi Arabia, followed by 19 percent from Kuwait. Most complaints were regarding the non-payment of salaries and the denial of labour rights and benefits.[22] A total of 28,523 Indian nationals died in the Gulf countries between 2014-18, with the highest number of deaths being in Saudi Arabia (12,828), followed by the UAE (7,877).[23]

Figure 7

COMPLAINTS REGISTERED BY INDIAN WORKERS IN GULF COUNTRIES

Company	Number of complaints*
Saudi Arabia	27,875
Kuwait	14,332
Oman	11,747
Qatar	10,778
UAE	9,745
Bahrain	2,669
Total	77,155

* Between 2016 and June 2019
Source: Ministry of External Affairs' response to a query in the Lok Sabha on July 17, 2019

Remittances

Figure 8a

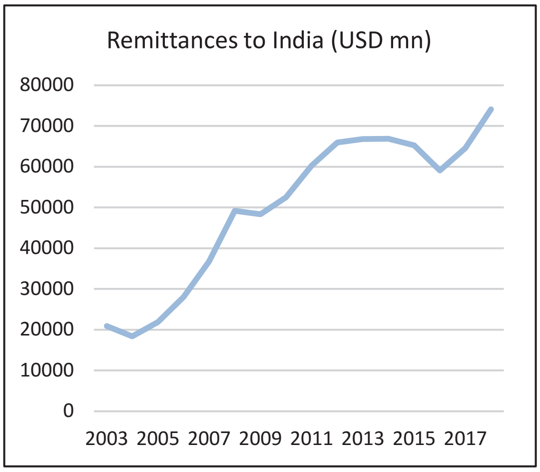


Figure 8b

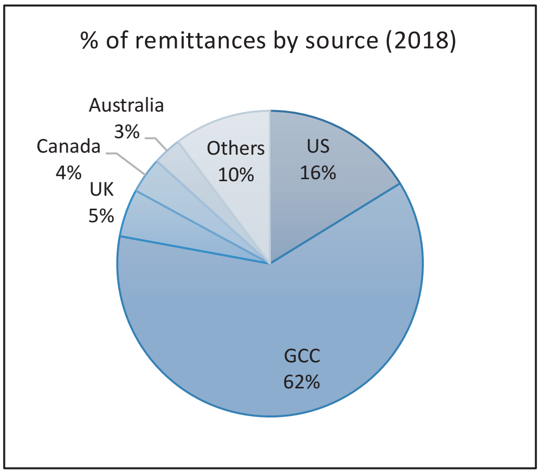


Figure 8c

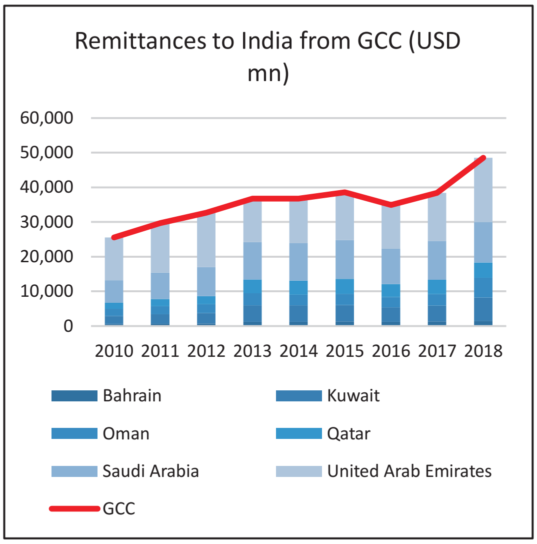
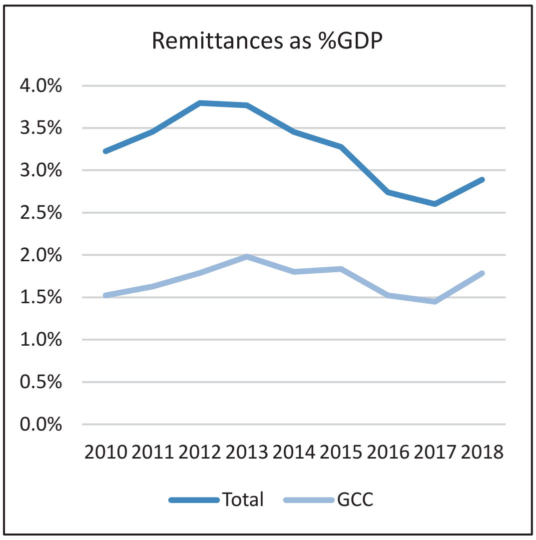


Figure 8d



The large diaspora sends money back home regularly and is responsible for India being the largest recipient of remittances in the world. Remittances from the GCC countries account for one-third of total remittances to India, and two percent of the country's GDP. The pattern of remittances to India shows a clear dip when oil prices fall, for instance in 2008 and 2016. The UAE and Saudi Arabia, which have the largest number of Indian workers, are also the most significant contributors to remittances.

Trade

The GCC is India's largest trading partner, with total bilateral trade at US$121.33 billion in 2018-19, amounting to 14.4 percent of India's total trade. In 2018-19, total exports to the region amounted to US$41.62 billion, while total imports from the region were pegged at US$79.71 billion.

Figure 9[24]

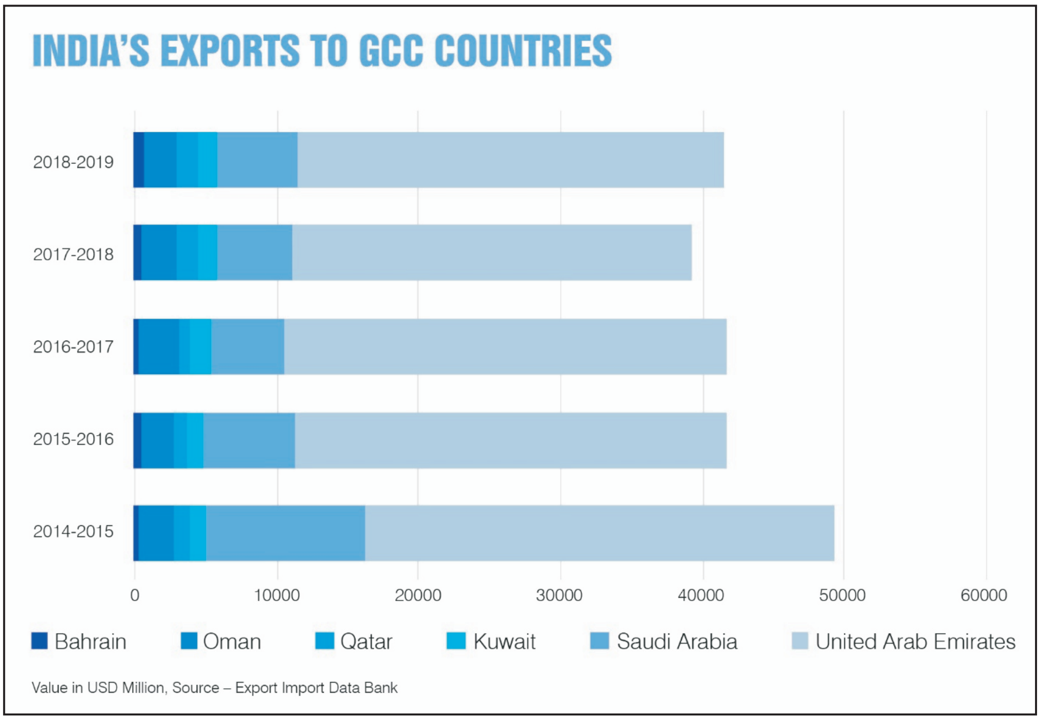
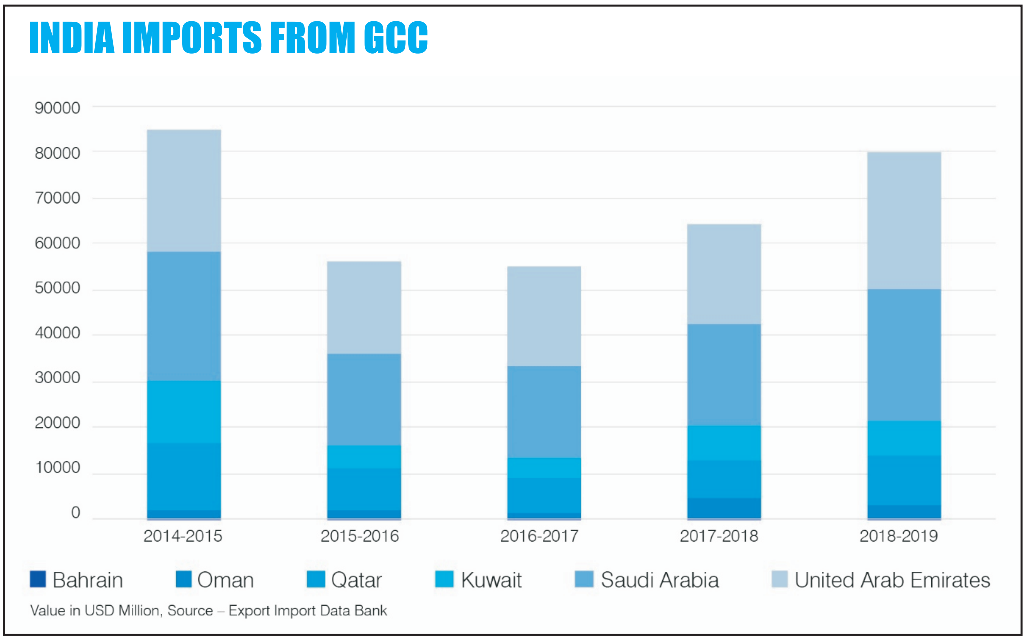


Figure 10[25]



The UAE and Saudi Arabia are amongst India's top five trading partners, mainly due to oil imports. In 2018-19, bilateral trade between the UAE and India amounted to US$59.91 billion, followed by Saudi Arabia at US$34 billion. The GCC countries meet about 34 percent of India's oil needs. However, its dependence on GCC countries for oil has fallen in recent years as India has looked to other suppliers such as Nigeria, the US and Iraq. The 2014 oil price decline, therefore, led to a reduction in India's import bill. Imports from Qatar and Kuwait have still not recovered, while those from Saudi Arabia and the UAE have increased in proportion to rising oil prices.

India mainly exports finished precious stones and jewellery items, mineral fuels and refined oil, and electronic items to the GCC countries. There was a sharp fall in the total value of exports to most GCC countries following the 2014 oil price shock, with Indian merchandise exports to the six countries contracting by 19 percent in 2015-16. Exports to the region have since recovered, with the UAE becoming the second largest market for India's exports in the world.

Investment

Although Indian investment in the GCC countries has been significant, investments in India by these countries have only recently gained pace, with the Gulf viewing India as a favourable destination for diverse investments.

Investments from the UAE comprise a significant proportion of the total FDI into India; as of December 2017, FDI from the UAE into India amounted to US$5.33 billion. The main sectors of investment are infrastructure, power, and services. The Abu Dhabi Investment Authority (ADIA), the UAE's sovereign wealth fund, signed an investment agreement worth US$1 billion with India's National Investment and Infrastructure Fund (NIIF) on water, transportation, energy and infrastructure.

ADIA has also committed to investing US$1 billion in HDFC's affordable housing fund, and US$500 million in renewable energy and highways in India. In the private sector, Dubai-based logistics firm DP World and NIIF have set up a US$3-billion fund that will invest in India's ports and logistics industry. Meanwhile, the total FDI from India to the UAE for 2015 was around US$6.5 billion, making India the third-largest source of FDI into UAE after the UK and the US. Several prominent Indian public and private sector companies operate in the UAE.[26]

Although Saudi Arabia's investment in India had been modest at US$228 million (April 2000-March 2019), the country has been increasing its investments in India. In February 2019, Saudi Arabia's crown prince, Mohammad Bin Salman Al Saud, announced the kingdom's intention to invest over US$100 billion in India in the areas of infrastructure, refining, agriculture, energy, petrochemicals and others.[27]

The Oman-India Joint Investment Fund, a venture between State Bank of India and Oman's main sovereign wealth fund, was set up in 2010 as a special purpose vehicle to invest in India, with an initial seed capital of US$100 million and further investment of US$220 million.[28]

Kuwait's estimated investments in India are over US$3.5 billion, of which approximately US$3 billion is by Kuwait Investment Authority, the country's sovereign wealth fund.[29]

While Qatar's investment flows into India have been modest at US$23.88 million from 2011 to 2016, in 2016, the Qatar Investment Authority, the country's sovereign wealth fund, and NIIF signed an MoU.[30] Furthermore, the Qatar Investment Authority has announced a US$450 million investment in Adani Electricity Mumbai Ltd in December 2019.[31]

India's total capital investment into Bahrain was approximately US$1.69 billion between January 2003 and March 2018, while Bahrain's total investment in India was about US$163 million between 2011 and 2016.[32]

Business links

Businesses in India and the GCC countries have a strong relationship, which has been supported by institutional mechanisms like the India-GCC SME Business Council and the GCC-India Industrial Forum. India also has business councils in most of these countries. Cooperation ranges across sectors like management and consultancy services, construction projects, transport and logistics, telecommunications, information technology, pharmaceuticals, healthcare and financial services.[33]

Indian financial institutions have a presence in the GCC, including the State Bank of India, Bank of Baroda, HDFC Ltd and ICICI Securities, and PSUs such as Air India, Air India Express, Bharat Electronics Limited, LIC, New India Assurance Co., Telecommunications Consultants India, Engineers India Limited, Engineering Projects India Ltd. (EPIL), and NBCC. Indian construction companies like L&T, Jindal, EPIL and Shapoorji Pallonji have won several large contracts, with L&T appointed as the main contractor to build the 40,000-seat Al Rayyan Stadium for the 2022 FIFA World Cup in Qatar. In the hospitality sector, Indian start-up OYO was selected to support the Saudi government in improving Hajj and Umrah services.[34]

According to the Saudi Arabian General Investment Authority, as of December 2017, 322 licenses have been issued to Indian companies for joint ventures/100-percent owned entities worth US$1.4 billion in Saudi Arabia.

Dubai is often the regional headquarters for Indian businesses looking to expand in the area, with over 64,000 active business licenses issued to Indians.[35] The UAE hosts 13 NRI billionaires, the highest number in the world.[36]

Around 3,200 Indian firms in Oman have invested an estimated US$7.5 billion. In Duqm SEZ, an Indo-Oman joint venture, Sebacic Oman is undertaking a US$62.7-million project to set up the largest Sebacic acid plant in the region. A 'Little India' integrated tourism complex project in Duqm, worth US$748 million, has been undertaken by an Indian company.

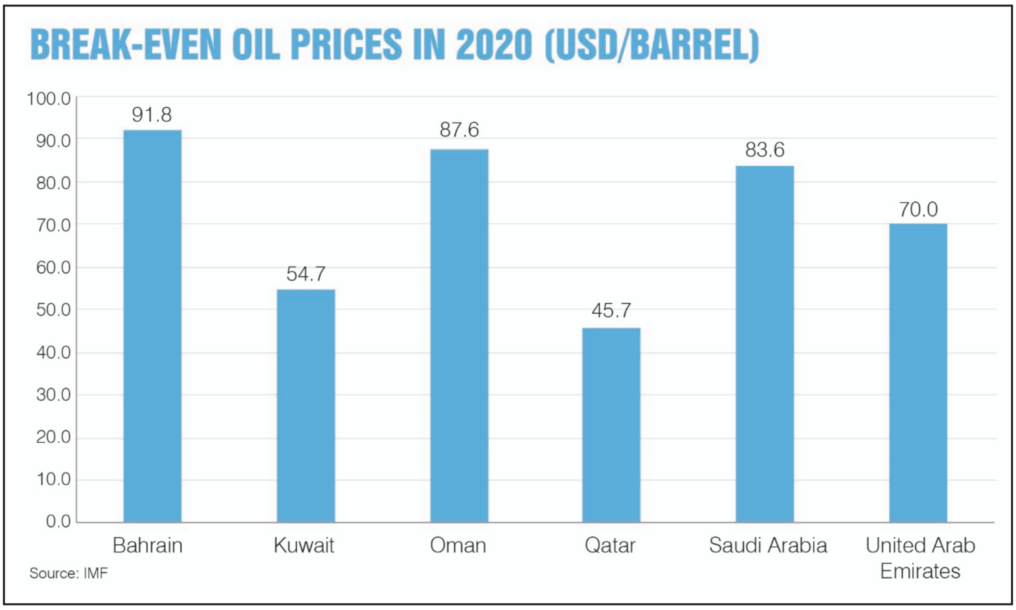
Saudi business investment in India is mainly undertaken through public sector enterprises. In 2018, a trilateral energy cooperation framework agreement was signed by ADNOC and Saudi Aramco to invest in the development of the US$44 billion Ratnagiri refinery and petrochemicals complex in Maharashtra.[37] Saudi petrochemical giant SABIC set up an R&D Centre in Bangalore with an investment of over US$100 million in November

2013, while in August 2019, Saudi Aramco announced that it would take over 20 percent of Reliance Industries oil and chemical business.[38]

OIL PRICE COLLAPSE AND COVID-19: DUAL SHOCKS TO GULF ECONOMY

Oil prices have fallen to their lowest levels in 17 years, with Brent crude falling temporarily to US$25 per barrel at the end of March, a loss of over 50 percent since the start of the year, and having since recovered only marginally. This has implications for the fiscal positions of Gulf nations, which rely heavily on oil revenues to run their economies. Most GCC countries cannot break even with oil prices below US$60 per barrel, which will lead to reduced fiscal space. While the initial reaction was to cut spending, with Saudi Arabia announcing cuts of US$13 billion,[39] the GCC countries have subsequently announced some stimulus measures.

Figure 11[40]



Business conditions have deteriorated sharply in the last quarter, with the headline Purchasing Managers Index indicating a contraction. The tourism sector, which accounts for a substantial proportion of GDP, is affected by travel restrictions due to the COVID-19 pandemic. Saudi Arabia was forced to suspend entry for the Umrah pilgrimage in February,[41] while the Dubai Expo 2020 has been postponed to next year.[42] The G20 Presidency, which should have brought substantial business tourism to Saudi Arabia, is now working virtually.

Figure 12

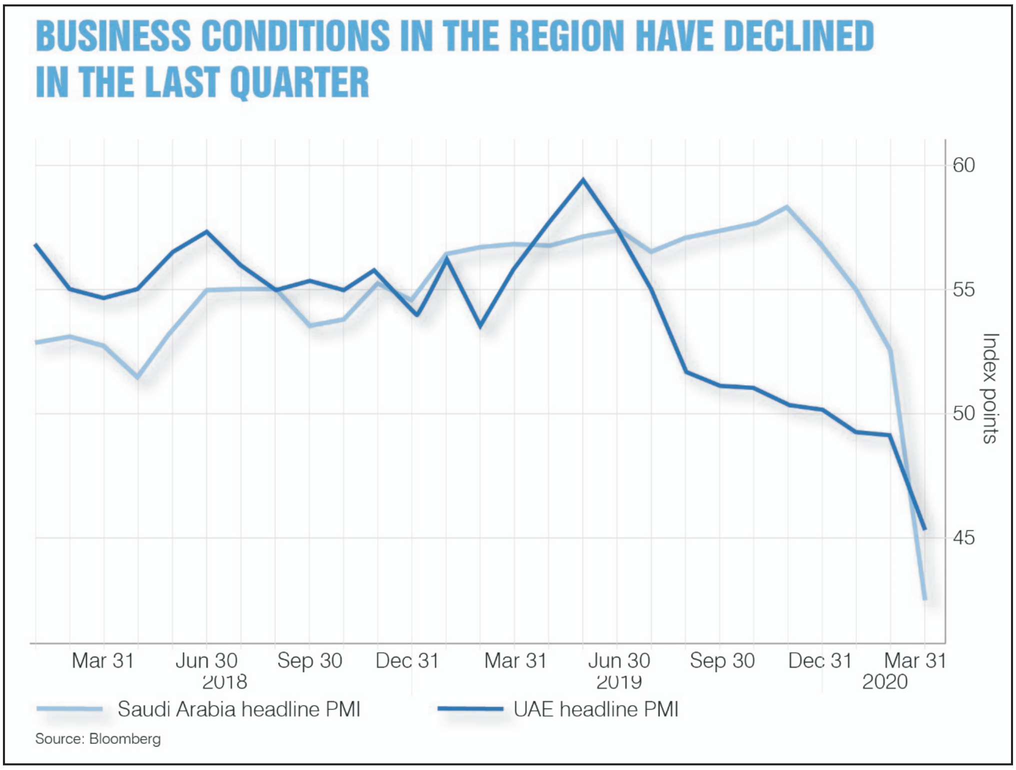
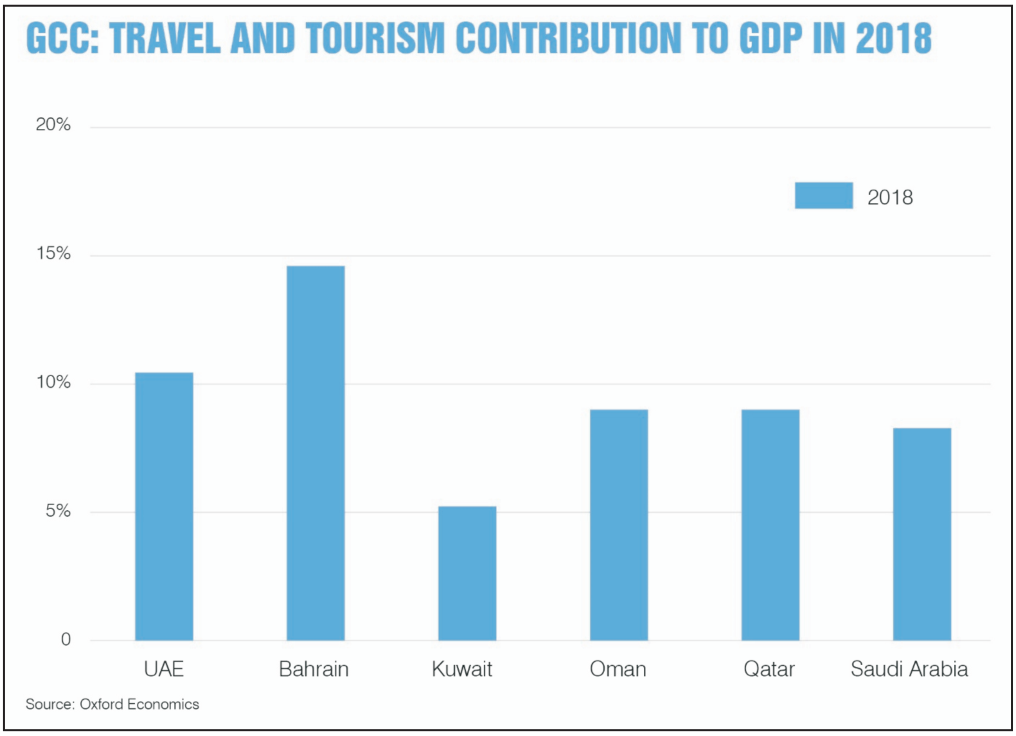


Figure 13



So far, these countries have focused on financial system liquidity and support to businesses, with the UAE, Saudi Arabia, Oman and Qatar all announcing support to the banking sector. A mix of other measures has been undertaken to provide loans to businesses, reduce taxes and fees, and increase subsidies.[43]

The slowdown is expected to affect migrant workers disproportionately. In these countries, public employment is much higher than comparable countries, with the government employing a fourth of all workers. This is, however, confined to citizens, who also receive compensations far over the rates in the private sector, which mainly employs expatriate workers.[44] Reports suggest that non-oil companies in the UAE are cutting jobs at their fastest rate in a decade.[45] While some GCC nations have announced support for citizens, with Bahrain[46] and Saudi Arabia[47] guaranteeing salaries to citizens working in private firms and the UAE announcing paid leave for federal employees,[48] measures to support migrant workers have been materially fewer. The UAE has simply allowed expat workers to depart to their home countries, taking unpaid leave for the duration of the crisis,[49] even as Saudi Arabia has announced free health care for all residents.[50]

Previous oil price fluctuations and the Indian economy

Several instances of oil price fluctuations have occurred in the past decades, largely as a result of shifts in the global economy or the policy of oil suppliers. The oil price collapses of 1985-86 and 2014-16 are largely associated with shifts in OPEC policy, when oil producers ramped up oil supply allowing prices to decline. Other episodes were a result of weakened global demand, such as the Asian Financial Crisis in 1997-98 and US-led recessions in 1990-91, 2001 and 2008-9. The price collapses associated with shifts in OPEC policy tend to persist for a few years, largely due to a decision by these countries to expand their share in global markets. The price declines that occur as a result of weak global demand usually reverse rapidly as economic conditions normalise. The Indian economy is sensitive to both high and low oil prices: it is highly dependent on oil imports, and both its trade balance and domestic inflation are affected by high oil prices. On the other hand, oil price collapses impact the employment prospects of Indians in the region, as well as the remittances they send home.

The Indian balance of payments crisis in 1991 was precipitated by the rapid increase in oil prices following the Iraqi invasion of Kuwait in 1991. The increase in the value of oil imports led to a sharp deterioration in the trade account. The decline in workers' remittances further exacerbated the crisis, by removing an important source of foreign exchange. Additionally, India was forced to undertake the biggest civilian airlift in history to repatriate over 100,000 workers from Kuwait at considerable cost.

The oil price declines during the Asian Financial Crisis and the Global Financial Crisis were relatively short-lived, and benefitted India through reduced import bills. The dip in remittances was slight and recovered rapidly to pre-crisis levels. The supply shock of 2015-16, however, had a more lasting impact. A number of workers lost their jobs and returned to India, and the flow of migrants has slowed significantly in subsequent years. Remittances declined more than 10 percent between 2015 and 2016, and only recovered significantly in 2018, when oil prices started rising again.

The 2015-16 shock, however, was accompanied by a realisation in the OPEC that other countries, particularly the US, had increased their share in global oil supplies. Simultaneously, the shift to more ambitious climate goals meant that alternate sources of energy would be rapidly adopted, reducing global dependence on OPEC oil supplies. They, therefore, made an attempt to diversify their economies beyond the oil industry, including by opening up to Indian companies and investing in Indian infrastructure and business.

IMPACT ON INDIAN DIASPORA AND BUSINESSES

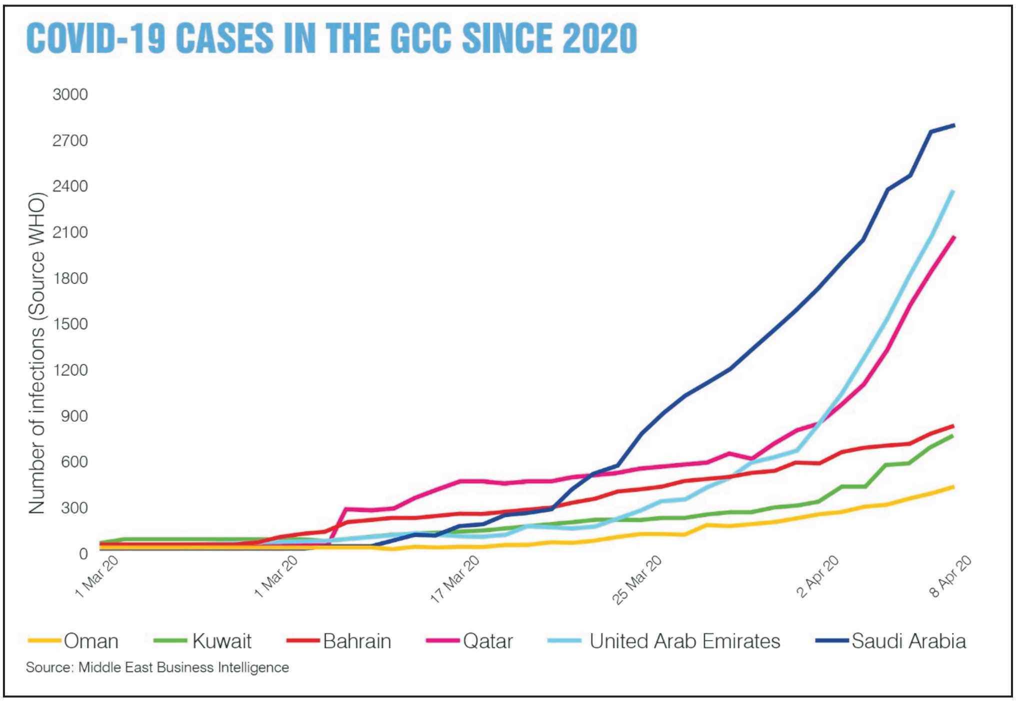
The current crisis is the Gulf region is unique as both demand and supply conditions for crude oil have changed rapidly. While an agreement has been reached to reduce supply, the COVID-19 pandemic has led to most countries locking down their economies. As demand is expected to remain weak over the next few months, the Gulf economies might be facing low prices in the long-term, for which they are utterly unprepared.

Besides the risk of being infected by the COVID-19 virus, the Indian diaspora must also contend with threats to their employment. The increased investment and commercial links that followed the 2015-16 oil price decline are unlikely to occur this time around, as the fiscal position of Gulf economies deteriorates.

Inadequate protection for migrant workers

The number of COVID-19 cases is rapidly rising in Saudi Arabia, the UAE and Qatar, which have large Indian populations. Migrant workers are currently stranded in labour camps, often in poor and unsanitary conditions.[51] While most sectors have been asked to implement remote working policies, the construction sector, where a large number of these workers are employed, has been exempt from these restrictions.[52] A report from the UK-based Business and Human Rights Resource Centre states that "construction companies are not acting decisively to protect their migrant workforce in the Gulf, both from the disease, or from economic hardship if they become infected."[53] The report goes on to state that labour camps have virtual prisons, without access to sanitation, nor at least even information about the outbreak. They are also facing economic hardships and are being laid off without wages or any guarantee of being rehired. Most companies are not paying salaries to workers who need to go into quarantine.

Figure 14[54]



Risk of punishment if countries do not evacuate their workers

The UAE has stated that it will review labour ties with countries that do not evacuate stranded workers, including the introduction of work visa quotas and the cancellation of MoUs with such countries.[55] The UAE has made clear that countries are responsible for repatriating their citizens but has assured cooperation in testing those who want to be evacuated. Indian states that send many migrants to the region are concerned. Kerala Chief Minister Pinarayi Vijayan has requested Prime Minister Narendra Modi to make an exception to the lockdown to evacuate citizens from the Gulf, citing inadequate quarantine and isolation facilities. The Dubai-based Kerala Muslim Cultural Centre filed a petition in the Indian High Court calling on the government to repatriate its citizens.[56]

Repatriation to India will be a challenge

As the economic contraction continues, the inevitable loss of employment will also lead to the workers losing their residence permits, and thus losing their status as legal migrants. The travel restrictions, however, will prevent them from returning home. Currently, most GCC countries have announced little support for immigrant workers besides Saudi Arabia's healthcare assistance.

The UAE recently announced a willingness to repatriate Indian workers after the necessary medical tests.[57] However, for India, repatriating workers from the Gulf will be a massive challenge, given the sheer number. The UAE alone has around 3.5 million Indian nationals.

Reports suggest that the thousands who returned before the lockdown have been vectors of transmission in states like Kerala and Maharashtra.[58] About 26,000 people had to be quarantined in Madhya Pradesh last month, after coming in contact with a worker who had returned from Dubai.[59] Any evacuation will mean quarantining millions in India at a time when the supply of medical facilities is inadequate to meet domestic demand. The Indian ambassador to the UAE has stated that no evacuation can take place until the lockdown in India ends, which is expected on 3 May at the earliest.

Prolonged downturn will affect future employment prospects

In the future, given that most of the workers will lose their jobs, they will likely face problems returning to the Gulf for employment. The GCC countries have enacted many provisions to boost the hiring of nationals in recent years, impacting the issuance of work permits to foreigners.[60] This has affected Indian workers; emigration to the Gulf from India halved between 2015 and 2017. As the current slowdown continues, there will likely be reduced hiring, while workers who have faced hardships in labour camps will hesitate to return. High levels of uncertainty regarding international travel restrictions will exacerbate this trend.

Remittance-dependent households will be hit

For many Indian households that depend on remittances from the Gulf, the change in employment prospects will create pressure to find other sources of income, at a time when the Indian economy is weakened. This will be particularly significant in Kerala, where remittances support one in four households, but to a lesser extent will also affect states like UP and Bihar. In Kerala, remittances are five times the funds devolved from the Centre to the state and account for a third of the state's GDP. There was a significant fall in remittances in 2015-16, which led to reduced migration in the following years.[61]

GCC investments into India could fall sharply

A large portion of GCC investment in India, particularly in infrastructure, is financed through the countries' sovereign wealth funds. The recent reduction in oil prices, and the resulting deterioration in public finances, will require drawing down these funds, which could impact their ability to invest abroad. Fitch Ratings estimates around US$110 billion being drawn from fiscal reserves and wealth funds in 2020, compared to only US$15 billion in 2019.[62] The GCC wealth fund asset values are estimated to have dropped by more than US$200 billion this year, putting further pressure on finances.[63] As the crisis continues, public finances are likely to constrain GCC investment in India.

Indian businesses in the region will face setbacks

Deteriorating business sentiment, supply-chain disruptions and restrictions on movements will affect the prospects of Indian firms operating in the region. Several Indian firms are active in the construction sector, which is likely to be impacted by social distancing measures. Many of the workers in this sector are migrants, and if they are repatriated, work will come to a standstill. Most construction projects are tendered by the GCC governments, which will struggle to keep them going as fiscal pressures grow.

Indian companies in hospitality, retail and tourism will be impacted by travel restrictions. India had planned investments worth US$30 million for its pavilion at the Dubai Expo 2020, to showcase Indian business to the estimated 25 million visitors; the event has now been postponed.[64]

CONCLUSION

The Gulf countries are currently facing a proverbial perfect storm—oil demand falling to its lowest level in decades, disagreements amongst the oil-exporting nations on supply cuts, and the COVID-19 pandemic. This is likely to impact India through the business and investment channels, but Indian expats in these nations will be most affected. Over nine million people, of which 70 percent are unskilled workers, are stranded in the GCC countries. They are at risk of infection, facing economic hardships, and are currently unable to return home. While repatriating them will be a challenge, it will be even more difficult to provide adequate quarantine facilities and healthcare if they return to India.

Given the current constraints on repatriating workers, India will have to act to protect the interests of its citizens in the Gulf. Given the threats to future employment, India will also need to assure the GCC countries of its full cooperation in supporting their measures to halt the spread of the virus. This will require the use of diplomatic channels and existing safety nets, such as the International (Indian) Community Welfare Fund and the Pravasi Bharatiya Bima Yojana health insurance scheme to ensure that they remain safe, and have access to sanitary living conditions, food and healthcare. The Indian business community should also be mobilised to support these efforts. In the UAE, such steps are already underway: diplomatic missions have offered support to local authorities in ensuring the safety of Indians, and Indian businesses and educational institutions have been asked to provide buildings for quarantine facilities. Indian healthcare groups are providing psychological counselling to the workers.

The trade and investment scenario is more uncertain and will depend on the trajectory of oil prices in the medium term. The IMF's World Economic Outlook projects oil prices at US$35 per barrel until 2021 and US$45 in 2022. This is far below the break-even price of most GCC nations and could lead to a prolonged contraction in trade and investment from the region. Maintaining strong business and diplomatic links throughout this period will be essential to ensuring that India will be one of the first to benefit when the fiscal situation begins to normalise. ORF

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