

## India & the UAE 'Trading Places'

India and the UAE officially established full diplomatic relations in February 1972, just a few months after the Emirates was founded. However bilateral ties go back much further, with maritime trade between this part of the Arabian Peninsula and India believed to have begun as far back as 3,000 BC when Arab and Indian merchants first exchanged pearls, copper and pottery for textiles, rice and spices. Over the centuries this activity has widened substantially to include closer cultural and social interaction, and today the UAE is India's second largest export destination, home to over 2.6 million Indian expatriates and the 10<sup>th</sup> largest foreign investor in India. An example of these ties is highlighted by the fact that there were 1,065 scheduled weekly flights between both countries last year, and almost all of these were reported to be full. In this piece we look briefly at the UAE's more modern history and how its relations with India became further intertwined.

### The Trucial States

Prior to unification the 'Trucial States' were independent Arabian Gulf Sheikdoms who, after signing various ad hoc agreements with Britain since 1820 eventually sealed an 'exclusivity' treaty in 1892 and officially became a British protectorate. During this time Britain took responsibility for the area's foreign relations and provided its security, in turn the British had a perfect vantage point from which to continue to monitor their own regional trade activity especially that of their most important colony, India. This situation continued until 1947 when the Foreign Office in London became more involved in the protectorate's administrative affairs, including appointing a permanent political officer to the area (based in Sharjah) and later, helping to form the 'Trucial Oman Scouts' a forerunner to the UAE's armed forces. In the 1960s Britain began looking to relinquish its responsibilities in the Arabian Gulf and Africa, leading to Kuwait and Bahrain becoming independent nations in 1961 and 1971 respectively, whilst on the 2<sup>nd</sup> of December 1971 Abu Dhabi, Dubai, Sharjah, Umm al-Quwain, Ajman and Fujairah came together to form the United Arab Emirates, with Ras Al Khaimah joining the federation in February the following year.

### Migration

Trade was one of the prime historical reasons why Indian merchants and sailors began settling in the Arabian Peninsula, but migration from the Asian sub-continent to this part of the world began rising sharply from the late 1970s as the now oil-rich Gulf States began to utilize their wealth to build infrastructure and modernize their economies. According to official records on regional migration, the number of Indian expatriates arriving annually in the UAE grew from just 4,600 in 1975 to almost 200,000 at the beginning of this century. These covered the entire breadth of Indian society from engineers, bankers and doctors to lawyers, teachers and blue collar workers. Apart from the more obvious economic benefits this migration has had for both the host country and its new residents, another interesting side-effect is the significant influence Indian cooking has had on traditional Gulf cuisine especially the adoption of long-grain basmati rice as well as various spices including chili, curry powder, cumin and cardamom.

5<sup>th</sup> April 2018

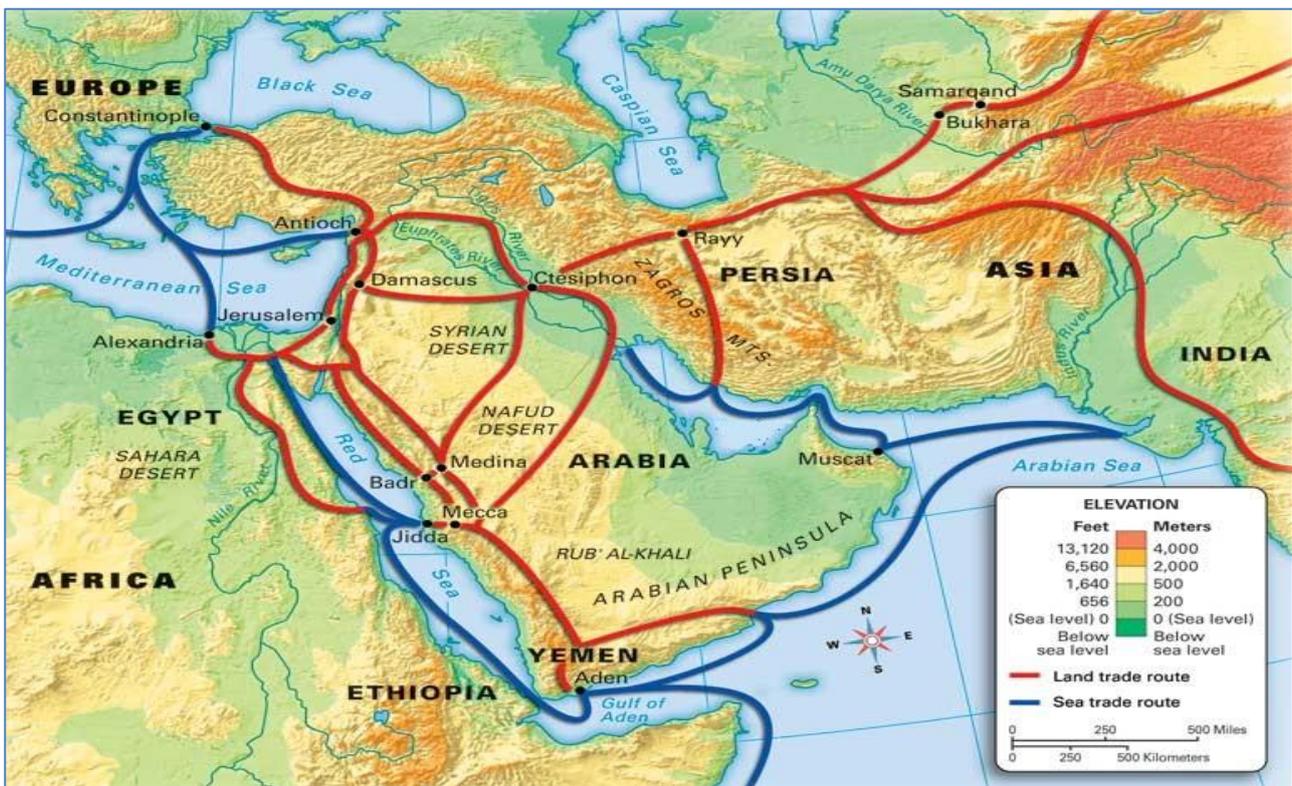
**Glenn Wepener**  
Executive Director & Geopolitical  
Analyst, Middle East & Africa

Please click [here](#) to view our recent publications on MENA and Global Markets

## The Gulf Trade Route

Trading activity between Asia and Europe has been taking place virtually uninterrupted for hundreds of years and the Arabian Gulf was, and still is a geographically important commercial hub in helping to support these flows, it is also regarded as the one of the key land and marine transit points along the ancient and modern-day Silk Road. In recent times the UAE in particular has leveraged heavily on its location, focusing on trade, transport and tourism to quickly become not just a superb holiday destination but also one of the world's major trading and logistics centres. This rise has been supported by the country's excellent infrastructure network, low tariffs and the removal of any unnecessary bureaucratic barriers such as exchange controls. Its ports are served by over 120 shipping lines, while Dubai International Airport (DIA) is now recognized as the world's busiest for international traffic, handling 88.2 mio passengers last year. (It's worth noting that India was the main onward destination by passenger volume for DIA.)

## Ancient Crossroads



(Source: Wikispaces)

## Importance of Pearls

The history of pearling in the Arabian Gulf stretches back almost 7,000 years, and until the 1950s this region was the source for almost 80% of the world's natural pearls. Bahrain is recognized as one of the prime centres for such activity, but Ras Al Khaimah, Dubai and Abu Dhabi also have a proud history of pearling. In fact at the beginning of the 20<sup>th</sup> century an estimated 70% of Dubai's 10,000 residents still relied primarily on the income they received from pearl fishing and/or trading. Meanwhile although pearl souqs had spread across the Gulf, the world's largest market was established in Bombay where the pearls were polished and then dispatched to jewelers in Europe, the US and elsewhere. The Indian Maharajahs were also avid collectors and many are seen draped in the finest strings of these gems in portraits. Pearling was central to the transformation of Gulf society with the revenue and opportunities generated attracting more people to the coast, resulting in a marked expansion of settlements like Abu Dhabi and Dubai. By the 1940s however the industry had begun to decline, a situation driven primarily by the growing emergence of cheaper cultured pearls, the disruptive effect of world war two, better opportunities created by the rise of the oil sector, and a decision by the Indian government to ban the import of pearls from the Gulf between 1947-48. Fortunately for some traders they had already become extremely affluent businessmen and were able to diversify into other sectors when this specific activity began to wane.

## Currency Connection

From the early part of the 20<sup>th</sup> century the Indian Rupee (which was pegged to the British Pound until 1947) was a widely accepted form of exchange across both East Africa and the Arabian Gulf, a system that continued until 1959 when concerns over a rise in gold smuggling, led the Reserve Bank of India to introduce the 'Gulf Rupee' which was for use outside of India only. Gold smuggling had become a serious problem for the Indian government in the 1950s due primarily to their citizens' voracious appetite for the metal which was mostly purchased in the Gulf and then imported into India. This in turn was putting pressure on the country's FX reserves, and duly forced the authorities to implement stringent duties on the precious metal, triggering a consequent jump in smuggling. In 1966 a devaluation of the external Rupee encouraged the Trucial States to begin using various other currencies such as the then recently introduced, Dubai Riyal, Bahraini Dinar and Saudi Riyal. Then in May 1973, and following the establishment of the UAE's central bank, the Dirham became the country's official national currency replacing all other currencies in use at the time. Fast forward to the present day where February saw the UAE and Indian governments sign a currency swap agreement allowing local businesses from both countries to trade directly in INR and AED. Other accords finalized at the same time included an MOU on the exchange of financial intelligence related to money laundering and terrorist financing.

## UAE & India in the 21<sup>st</sup> Century

Bilateral trade between these two nations has grown exponentially over past few decades, from just US\$182mio in 1982 to US\$52.70 bio in the 2016/17 fiscal year, while the Confederation of Indian Industry claimed recently that it expects these flows to expand further and reach US\$100 bio by 2020, a target that would receive a significant boost if ongoing discussions on a proposed free-trade agreement between the GCC and India are concluded successfully soon. According to the latest available official figures there are now more than 60,000 Indian companies currently operating in the UAE and several of these have become key investors in the gulf country's free-trade zones. Meanwhile a number of well-known Emirati-owned firms, including DP World, ADNOC and Emaar have recently invested over US\$8 bio into large scale projects in India. ADIA too has been active, tapping into opportunities across several sectors there including a business partnership with KKR India Financial Services and the purchase of minority stakes in two renewable energy producers, Greenko Energy Holdings and ReNew Power Ventures. On the property front, Indian nationals are the largest foreign investor group in UAE real estate purchasing US\$22 bio worth of properties in Dubai between 2013 and 2017. Conversely UAE based Indian expatriates are the most active non-resident buyers of real estate back home, as well as the number one source of remittances to India globally, transferring US\$12.6 bio in 2016 alone ([Click here](#) to see our recent study on the remittance market).

### India's Imports from UAE – 2016/17

### India's Exports to UAE – 2016/17

Commodity	US\$ Value	Commodity	US\$ Value
Crude oil	9.449 bio	Jewellery, precious gems	13.918 bio
Precious metals & stones	8.571 bio	Clothing	3.96 bio
Plastic & related products	665.23 mio	Fuel & chemical products	3.86 bio
Copper & related products	495.52 mio	Ships, boats	1.122 bio
Aluminium & related products	352.85 mio	Electrical machinery	663.53 mio
Animal/vegetable fats/oils	307.54 mio	Vegetables, cereals & grains	643.48 mio
Cement, salt sulphur, lime	298.30 mio	Nuclear reactors/boilers	639.07 mio
Iron ore & steel	288.63 mio	Iron & Steel related products	1.040 bio
Electronic products & equip	181.17 mio	Other	5.455 bio
Marine structures	159.30 mio		
Other	728 mio		
<b>Total</b>	<b>US\$ 21.498 bio</b>	<b>Total</b>	<b>US\$ 31.305 bio</b>

(Source: Indian Embassy)

## Conclusion

As outlined above the trade, social and cultural relations between the UAE and India stretch back several centuries and it's these historical ties that continue to underpin the strong bond between these two countries. Their respective governments are clearly keen to expand on this, highlighted by the fact that there have been four high level visits conducted between both nations over the past three years, the most recent being Prime Minister Narendra Modi's official trip to the UAE in February 2018, which the Indian ambassador described as signifying the "dawn of a truly golden era" in bilateral relations. Closer cooperation on all levels between the UAE and the world's fastest growing economy is therefore on the cards and likely to not only have a positive impact on the UAE's continued economic diversification program, but should also help attract greater FDI flows into India itself and further strengthen a key regional alliance in a somewhat more uncertain world.

**Glenn Wepener**

**Executive Director & Geopolitical Analyst**

**Middle East & Africa**

Market Insight & Strategy

FAB Global Markets

Tel: +971-2-6110141

Email: [GlennMaurice.Wepener@bankfab.com](mailto:GlennMaurice.Wepener@bankfab.com)

**Please click [here](#) to view our recent publications on MENA and Global Markets**

**Disclaimer:** To the fullest extent allowed by applicable laws and regulations, First Abu Dhabi Bank (the "Bank") and any other affiliate or subsidiary of the Bank, expressly disclaim all warranties and representations in respect of this communication. The content is confidential and is provided for your information purposes only on an "as is" and "as available" basis and no liability is accepted for or representation is made by the Bank in respect of the quality, completeness or accuracy of the information and the Bank has undertaken no independent verification in relation thereto nor is it under any duty to do so whether prepared in part or in full by the Bank or any third party. Furthermore, the Bank shall be under no obligation to provide you with any change or update in relation to said content. It is not intended for distribution to private investors or private clients and is not intended to be relied upon as advice; whether financial, legal, tax or otherwise. To the extent that you deem necessary to obtain such advice, you should consult with your independent advisors. Any content has been prepared by personnel of the Global Markets division at the Bank and does not reflect the views of the Bank as a whole or other personnel of the Bank.