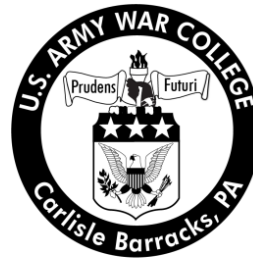


# Civilian Research Project USAWC Fellow

## India - Gulf Cooperation Council Relations: Raj Version 2.0?

by

Colonel Benjamin D. Crockett  
United States Army



United States Army War College  
Class of 2013

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## **Abstract**

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India's relations with the six countries of the Gulf Cooperation Council remain primarily founded on trade and other forms of economic interaction. But the old equation of oil flowing east from the Arabian Gulf and human resources moving west from India has diversified and become more complex and mutually prosperous. Moreover, political-military relations have both improved and expanded in the past generation. Yet the potential for greater cooperation with all Gulf Cooperation Council members exists and not just in the economic sphere. But three key countries continue to play a complicating role in the India - Gulf Cooperation Council relationship: Pakistan, Iran, and China. Each of the three presents very different opportunities and challenges to India, the Gulf Arab states, and their relations. This paper highlight India's evolving relations with the Gulf Cooperation Council members to include the most critical trends, future potential, and implications, opportunities, and recommendations for U.S. policy in the areas of energy, economic, political-military, and information and cybersecurity cooperation.





## **India - Gulf Cooperation Council Relations: Raj Version 2.0?**

An analysis a generation ago of the India-Gulf Cooperation Council (GCC) relationship would have focused largely on the oil and human resource dimensions: For decades Indian expatriates have filled millions of jobs in the Gulf while the GCC has been simultaneously exporting oil to India. The relationship today between India and the countries of the Gulf Cooperation Council is more diverse and nuanced, entailing extensive cooperation in information technology services, university level education, petrochemicals, military training, and many other endeavors beyond the scope of crude oil. Yet even the oil for labor correlation is relatively new in the historical relationship.

### **History of India - GCC Relations**

The subcontinent has had trading relations with the region that became the countries of the GCC for thousands of years. The Gulf is situated strategically between India and the Fertile Crescent, and relations date to at least the third millennium B.C. Seaborne trading was boosted by land based conflicts between two centralized empires--Persian and Roman.<sup>1</sup> The expansion of Arab enterprise and export of Islam increased India's connectivity with the wider world. And the temporal nature of the Monsoon, causing traders to wait for months for the change in winds for the return trip across the Arabian Sea, spurred migration and inter-marriage between Indians and Arabs. Centuries before trading petroleum gained importance, horses were the commercial prize most sought on the subcontinent from the Arab world.<sup>2</sup>

The British Raj amplified these economic bonds and added political and military features to the relationship. The Arab Gulf was governed from British ruled India, first from Calcutta and later New Delhi. The Raj in the 18th century established

protectorates along the Gulf coast, later evolving into nation states constituting the GCC, in order to protect the lines of communication for its commercial routes.<sup>3</sup> The legacy of this relationship has endured beyond India's independence and has provided a historical and socio-economic foundation for modern relations. The Indian rupee, first introduced and used in the Gulf in medieval times, was used in different forms as currency in the Gulf until the 1960's.<sup>4</sup>

The relationship between Gulf oil and Indian labor also began during the end of the Raj period. The presence of Indian laborers dates to 1935 when the Bahrain Petroleum Company hired 45 skilled and semi-skilled Indian workers.<sup>5</sup> By 1939, Indian laborers played key roles in the labor pools of Saudi Arabia, Bahrain, and Qatar. The financial rewards for Indian expatriates were usually far better than they could earn on the subcontinent, particularly as Saudi Arabia's King Abdulaziz insisted that Indians and Arabs employed by the forerunner of the Arabian American Oil Company be granted equal pay.<sup>6</sup> The impetus for the import of Indian workers was simply a function of labor supply and demand. The advent of the petroleum industry in the Gulf dramatically increased the demand for labor. Given shortages of local workers and the close proximity and historical relationship with the subcontinent, Indians filled the newly created jobs on a sustained basis.

Relations during the end of the Raj period were in some respects at the high water mark until the 1990's. King Abdulaziz's successor, King Saud, did pay an historic visit to India in 1955, but ties quickly cooled after that. India in the fifties and sixties was in a very different political, economic, and military position than the pre-independence subcontinent. The partition of India left the new country in relative disfavor with Arab

and Muslim states in general. Saudi Arabia and the other states that became the GCC favored Pakistan politically in the India-Pakistan conflict.<sup>7</sup> The Gulf states supported Pakistan's right to Kashmir and were sympathetic to Islamabad in its wars with New Delhi. In turn, Pakistan for decades has provided the Gulf states with soldiers and police.<sup>8</sup> India's foreign policy focus was largely reduced to its immediate borders with other South Asian states and China. The expeditionary role of India's armed forces under the Raj changed to one largely oriented on the Pakistani and Chinese borders.<sup>9</sup>

And newly independent India's economic policies, adopting socialist methodologies and import substitution, reduced its potential interaction with the Gulf economies. As the leader of the non-aligned movement, India's world view differed significantly from the pro-western Gulf countries. Though not an official ally of the Soviet Union, India's increased reliance on Soviet arms and relatively warm ties with the Soviet bloc reinforced the India-Pakistan split, creating additional distance with the Arabian Gulf.<sup>10</sup> As the last of the Gulf states achieved formal independence from the United Kingdom in 1971, their policies remained allied with the west and against the Soviet Union.

The oil crisis and other events of the 1970's changed the dynamics of India-Gulf relations. The 1971 war, though it diminished the international stature of Pakistan, did not lessen the political support it received from the Gulf states. The oil crisis and systemic increase in petroleum prices did not benefit India in terms of its energy imports, but it did cause a significant increase in the Gulf import of Indian labor with associated remittances supporting India. Economic development in the Gulf also produced greater imports of Indian goods.<sup>11</sup> However, political relations remained icy:

Relations with Saudi Arabia were dampened when India failed to condemn the 1979 Soviet invasion of Afghanistan. And India did not take the side of the Arabs in their disputes and conflicts with revolutionary Iran starting in 1979. The new clerical regime in Tehran called the Kingdom of Saudi Arabia un-Islamic and openly called for the overthrow of the monarchy. Saudi Arabia, in turn, supported Iraq in its war with Iran. Questionable charges of Iranian complicity in the takeover of the Grand Mosque in Mecca in 1979, later supplemented with the killing of over 400 protesting Iranian pilgrims in 1987 by Saudi security forces, caused the rift between Iran and Saudi Arabia to deepen.<sup>12</sup>

Developments with Iran in the 1970's and 1980's did not dramatically impact India, which remained on the sidelines of Iran's conflicts with its Gulf neighbors, but these very disputes did cause an important organizational change in the Gulf Countries, namely the development of the Gulf Cooperation Council. Two major events, the Iranian revolution and the Iran-Iraq war, were the twin drivers that led the Gulf states to come together to form the GCC. Fear of the Iranian revolution and the ideology it was attempting to export, an ideology that directly threatened the Gulf monarchies, led to this organizational vehicle for greater dialog and coordination.<sup>13</sup> Though, it is noteworthy that the GCC was not formed as a military alliance, but, as stipulated in Article Four of the GCC Charter, was primarily an economic cooperation forum.<sup>14</sup>

India's relations with the members of the GCC fundamentally changed in the 1990's. The dissolution of the Soviet Union and fundamental Indian economic reform served as two different but powerful 1991 catalysts for broad transformation in India-GCC ties, vastly improving political relations and greatly enhancing economic ties. The

end of the Cold War caused many impediments to relations to vanish literally overnight.<sup>15</sup> India's military benefactor, the USSR, a nation that had invaded Afghanistan and was uniformly opposed by the pro-West GCC, no longer existed. Though ties remained strong between the GCC and Pakistan, the cold war element of the India-Pakistan divide also dissolved, thereby giving the GCC one less reason to support Pakistan against India. The Gulf War in 1990 and 1991 did not fundamentally influence India-GCC relations, though it did prove to be a major embarrassment to New Delhi: Unlike other powers who successfully withdrew their citizens, India did not have the organic capability to evacuate its nationals from the GCC. This painful lesson likely informed India's long term planning for its contemporary and future military capabilities.

The other catalyst of change in relations was produced by Indian economic reform in the early 1990's. The same year that the Soviet Union dissolved, 1991, witnessed a balance of payments crisis in India that threatened the very structure of the post-independence Indian socialist political-economy. Economic liberalization was implemented, significantly reducing public ownership, government regulation, and impediments to foreign investment.<sup>16</sup> This economic openness and trade liberalization produced a substantially more robust commercial relationship with the GCC.<sup>17</sup> Gulf oil exports and human resource imports from India both expanded and diversified in the two decades since 1991. Most estimates of the total current Indian expatriate population in the GCC are around five million or slightly more, a significant increase from twenty years ago.<sup>18</sup> The United Arab Emirates alone has as many as 1.75 million Indian nationals, 700,000 just in Dubai.<sup>19</sup> And India's hydrocarbon imports from the GCC have also grown substantially from the early nineties.

Before exploring the intricacies of the contemporary relationship between India and the GCC, it may be useful to first examine those respective strategic interests that impact on the relationship. The Gulf Cooperation Council is composed of six monarchies of one form or another. Regime preservation and stability against both external and internal threats are a key and obvious interest for all six. Given the transition of Iraq to democracy over the past decade, the key remaining regional threat to the GCC countries is the Islamic Republic of Iran (IRI). The GCC is not monolithic but made up of different states with different interests, with Saudi as clearly the largest geographically, militarily, economically, and in other ways. While each GCC member views Iran through a unique prism, all have united to support the UAE in its territorial dispute with Iran over three Gulf islands, Abu Musa and the Greater and Lesser Tunbs.<sup>20</sup>

Concern over Iran encompasses another key interest of the Gulf countries, the security and unfettered access of the global commons in their region, most notably the strategic chokepoint of the Strait of Hormuz and the Arabian Gulf itself. In GCC eyes, no country threatens regional political and economic security more than their neighbor Iran. But the primary concerns are political and economic stability rather than weapons of mass destruction (WMD). While the IRI's evolving nuclear program is a GCC concern, that program and the dispute over it is seen in the context of its contribution to amplify the threat to the Gulf regimes and their stability: Armed conflict to stop or slow the WMD program might threaten the GCC's economic interests in secure lines of communication to and within the Gulf.

There are certain strategic interests that India has that are clear with regards to the Gulf. India shares the GCC's interest in secure and open lines of communication from the other end of the import-export equation. The GCC and India are both desirous of ensuring the unfettered access to Gulf natural resources.<sup>21</sup> India's conventional petroleum reserves are approximately six billion barrels and production has peaked. By contrast, Saudi Arabia has more than 250 billion barrels and Kuwait and the UAE each have roughly 100 billion.<sup>22</sup> Moreover, the Gulf's geographic location is optimal for minimal transportation export costs to India relative to other major oil exporters such as Nigeria, Venezuela, etc. The stability of the Arabian Gulf and its related lines of communication is also important to India due to the large Indian diaspora in the GCC states and their physical security.

India has other interests in the Gulf. Like the GCC, it is opposed to Iran's pursuit of nuclear weapons but does not want a related conflict that would threaten Gulf security. India continues to maintain a relationship on multiple levels with Tehran, political, economic, and military. Other interests play a role in India's involvement in the Gulf: India seeks to weaken Pakistan and compete and hedge against the People's Republic of China.<sup>23</sup> Also, India's counter-terrorism goals, particularly with regards to radical Islam supported terrorism, come into play in its Gulf policies.<sup>24</sup>

### **Contemporary Socio-Economic Relations**

But no dimension of India's interests in the Gulf has greater salience than the socio-economic one. Indeed, trade ties with the GCC over decades have expanded and evolved to the point of interdependence. India has granted Most Favored Nation (MFN) status to all the GCC countries and the two parties also signed a Framework Agreement

for Economic Cooperation in 2004.<sup>25</sup> In addition to the traditional GCC exports of oil, other forms of hydrocarbons and related products as well as investment income are flowing from the GCC to India. In turn, India has moved beyond providing just labor to furnishing knowledge driven technologies and services as well as cheap consumer goods. India and the GCC each have structural economic advantages whose utilization in their relationship is creating synergies benefiting both partners.<sup>26</sup>

The traditional GCC export to India, oil, makes up approximately forty percent of India's petroleum imports: This figure climbs to approximately 60 percent when combined with other Gulf oil from Iraq and Iran.<sup>27</sup> India is the fourth largest energy consumer in the world as of 2011 and its energy imports are expected to continue increasing significantly in the future.<sup>28</sup> Indeed, Saudi Arabia already supplies almost twenty percent of India's petroleum imports, but those Saudi imports may double in the next twenty years.<sup>29</sup> While growing oil exports are noteworthy, the rate of increase in other Gulf hydrocarbon related exports is actually much higher. Liquefied Natural Gas (LNG) was virtually negligible as an Indian import a generation ago, whereas today India is the sixth largest LNG importer in the world.<sup>30</sup> Qatar is the key Gulf supplier of LNG to India and commenced exports in 2004. It makes sense for India to import more natural gas and diversify its energy needs from too much reliance on one source, oil. Total GCC exports to India of all products have increased, particularly relative to the West: The US and the EU previously imported more from the GCC states in terms of the total value of goods, whereas now India imports more than either Western trading partner.<sup>31</sup>



One concept that would increase natural gas exports to India without subjecting them to potential blockage through the Strait of Hormuz is the Dolphin Project. This plan for a subsea natural gas pipeline from Oman to India could potentially carry gas from the UAE and eventually even Qatar. While aspects of the plan may not be yet economically or technically feasible, this project does represent an even broader potential role for India in its hydrocarbon relationship with the GCC: These gas exports to India could pass west to east through India's own domestic pipelines and be re-exported further east throughout Asia.<sup>32</sup>

Petroleum products represent an interesting dimension in the trade relationship between India and the GCC. One might incorrectly assume that petroleum products flow one way like oil and natural gas. In fact, India's robust refining and petrochemical capacity and close proximity to the Gulf have ensured a two way trade in many of these products. But there are other products that flow primarily from India to the Gulf, namely food. The GCC countries are heavily reliant on food imports, particularly from South Asia. India is the largest exporter of food to the GCC among its South Asian neighbors, providing both packaged products and staples like rice, wheat, sugar, and live animals.<sup>33</sup>

Agriculture is an area that exemplifies the compatible synergies of India and the GCC. India has tremendous needs for capital investment in many areas of its economy to include the agricultural sector. The GCC by contrast has impressive financial resources but will remain a substantial net importer of food for the foreseeable future.<sup>34</sup> Trade is most substantial between India and the UAE, its largest GCC trading partner. India is in turn the UAE's largest trading partner, even exceeding the U.S. and the PRC:

Bilateral trade in 2010-2011 was 68 billion dollars. It is noteworthy that imports and exports between the two countries are at roughly comparable levels, though many imports from India are re-exported through the UAE.<sup>35</sup> Saudi Arabia is the other large GCC trading partner of India--currently India is the Kingdom's fourth largest trading partner globally.<sup>36</sup>

Since the end of the cold war and India's trade liberalization in 1991, trade has substantially increased with all six GCC members. But GCC foreign direct investment in India has not grown on any level approaching the trading relationship. India's needs for investment go far beyond agriculture: Infrastructure requirements are expected to absorb almost one trillion dollars from 2012 to 2017 and New Delhi expects to source half that amount from abroad.<sup>37</sup> At the India-Saudi Business Meet in January 2006, Prime Minister Singh was quoted as saying that investment needs just in the power and telecom sectors are over \$100 billion for a five year period.<sup>38</sup> Why so little GCC investment in India given the high demand? India's poor investment climate is the simple answer. While certainly more open than 1991, India continues to follow policies that are protectionist relative to the GCC. Customs rates are relatively higher, administrative requirements are extensive, and a culture of "red-tapism" continues to plague India and pose major challenges to GCC investors.<sup>39</sup>

The social component of the socio-economic dimension of relations between India and the GCC is largely tied to the five million or more Indian expatriates present in the Gulf. Indian nationals form the largest expatriate population in the GCC states.<sup>40</sup> The percentage of foreign expatriates in the labor force varies from a low of 24 percent in Bahrain to a high of 92 percent in Qatar.<sup>41</sup> Total expatriate labor in the Gulf as of 2008

was around 10.6 million, so Indians compose almost as much of the expatriate labor pool as all other foreign laborers combined.<sup>42</sup>

The composition of Indian expatriates has both expanded and diversified over time. Migrant workers used to come primarily from Kerala in South India, but now come from a much wider range of Indian states. The number of low skilled workers acquiring emigration clearance to work in the Gulf increased from 466 thousand in 2003 to over 800 thousand in 2007.<sup>43</sup> But the number of skilled and professional workers has risen at an even higher rate. Unlike the seventies and eighties when over 90 percent of Indians were blue collar workers, today over 35 percent of Indians in the GCC are white collar specializing in service industries.<sup>44</sup> The expansion and diversification of the Indian diaspora in the Gulf has many implications. The need to protect those expatriates takes on greater importance among Indian political-military priorities.<sup>45</sup> The increasing number of knowledge workers among Indian expatriates is contributing to fundamental changes in the social and economic fabric of the Gulf at the behest of GCC governments that wish to transition from petroleum based to knowledge based economies: Growth in areas such as information technology, health care and medical sciences, research and development, pharmaceutical industries, higher education, etc. is correlated to the increasing numbers of Indian white collar expatriate workers.<sup>46</sup>

The India-GCC socio-economic relationship has in many senses driven the other relationships. The Bollywood movies and other Indian cultural phenomena that one finds in the Gulf are in large part popular because of the presence of the expatriate population. But the informational relationship between the two parties goes beyond movies and is more and more impacted by the explosion of the service sector and

information technology sharing between them. While the Gulf has been a lucrative market for Indian manufactured goods like textiles, spices, food products, and even electrical goods, the information technology and other white collar sectors have far more transformational potential. GCC higher education alone could be dramatically improved and altered over time with the continued influence of Indian educators, scientists, technology workers, etc. Economic relations have also been the foundation for political-military relations.<sup>47</sup>

### **Political-Military Relations**

As economic relations expand with the Gulf and other countries in or near the Indian Ocean, many political-military concepts from the Raj era have resurfaced, albeit shaped to the contemporary environment. The concept of an extended boundary of national security involving the Gulf, Arabian Sea, and even the entire Indian Ocean littoral, the belief that New Delhi must undertake a more deliberate role in the Indian Ocean region, and a willingness to devote means, strategic resources, for such a role's missions are all manifest in current Indian discourse.<sup>48</sup> But the first 60 years of India's non-aligned oriented history continue to inform the other side of this debate and serve as a break on any attempt to create a modern version of the Raj.<sup>49</sup> Indeed, there was considerable hesitation on behalf of the political leadership before it finally approved the Indian navy to participate in anti-piracy operations off the Somali coast, an undertaking that many other countries have joined and was not considered highly controversial among India's neighbors.<sup>50</sup>

India and the GCC have each created respective "Look West" and "Look East" policies designed to smooth and expand economic relations with large blocks of

countries that are playing greater roles in their 21st century trade and investment relations. But these policies have a political dimension. After India's adoption of a Look West policy in 2005 oriented towards West Asia and focused on the Gulf, the GCC countries adopted their Look East policy oriented towards their Asian partners. India's prominent role is exemplified by the fact that it is the first developing country and only the fourth country at all to be granted by the GCC "dialog partner" status after the U.S., the EU, and Japan.<sup>51</sup> In 2006, King Abdullah became the first Saudi Arabian monarch to visit India since King Abdulaziz 51 years earlier. To illustrate how much political relations have improved since India was seen in the Gulf through the dark lens of the Cold War and Pakistani relations, two GCC members, the UAE and Oman, both support India's bid for permanent membership on an expanded UN Security Council.<sup>52</sup>

The Indian Navy has been the primary service involved in planning and debate for a greater military role in the Gulf should contingencies arise. Given the dominant role of oil imports in India's economy, the potential vulnerability of the Strait of Hormuz to closure and resultant oil shocks are a significant economic threat. But securing sea lines of communication and ensuring the flow of oil and other products is not the only strategic role for the Navy--protecting the diaspora is also pivotal. The Indian expatriate population has increasing salience in domestic political discussions and has been a focus of military exercises aimed at evacuating this population in the event of emergencies.<sup>53</sup> India's aspirations to build a blue water capacity are significantly informed by its interests in projecting power into the Gulf to secure its commercial and demographic interests.<sup>54</sup>

Indian military cooperation with the Gulf has expanded to match its increased defense interests in the region. India has been training UAE military personnel in various disciplines at its training centers for years. In similar fashion, India's relationship with Oman has also included training for both officers and enlisted men and progressively enlarged. A Memorandum of Understanding (MOU) on Defense Cooperation was signed in 2006 between New Delhi and Muscat that included the exchange of military training and education, information technology, formal military visits, and military observers at exercises. The MOU is expected to also lead to the potential sale of Indian military equipment to Oman. In 2008, India and Oman agreed to further expand defense cooperation through the upgrade of combined naval exercises.<sup>55</sup>

Discussions are also reportedly underway between Oman and India about possible berthing facilities for Indian naval vessels, greatly enhancing India's ability to achieve its blue water navy power projection capability in the Arabian Sea and Gulf.<sup>56</sup> Even Qatar, with its small population and military, has augmented military relations with India in the form of a defense agreement.<sup>57</sup> In 2007, the two countries reportedly agreed to jointly produce unspecified military equipment. New Delhi and Doha have formed a maritime security arrangement that can be extended to other countries.<sup>58</sup>

During a 48 day tour of the Gulf in 2007, the Indian Navy conducted port calls or exercises with all six GCC states.<sup>59</sup> India has military relations with all the GCC states, but notably Indian military relations with GCC countries are bilateral rather than collective. Why? The reason is not unique to India. The GCC was founded primarily as an economic organization as previously discussed. Though the GCC countries have increased their mutual defense cooperation since their independence and used the

GCC as one construct to do so, there is no credible GCC force per se. The small GCC states are dwarfed by and fearful of Saudi Arabia which has hampered plans for any coherent, collective force.<sup>60</sup> Moreover, the militaries of the GCC are not very effective independently. Given Gulf monarchy interests in first and foremost preserving their regimes, effective militaries would potentially be threats to those regimes. The past century of Arab history is rife with military coups or officer led or inspired rebellions and revolutions--"professional standing armies have a tendency to eventually seize power in the Arab Middle East."<sup>61</sup>

India's political-military relationships with the Gulf states reflect in part its concerns over transnational terrorism, particularly in the form of Islamic extremism. While India is concerned with regards to the potential radicalization of its expatriate population in the Gulf, the majority of whom are Muslim, the Indian GCC diaspora has thus far proven generally resistant to the appeal of radical Islam.<sup>62</sup> India prefers to see the Gulf evolve towards political and religious moderation which would mirror India's world view favoring responsive, democratic regimes and simultaneously minimize Gulf support for Islamic fundamentalism. India desires that the Gulf states remain stable and wants to prevent the emergence of additional failed states in the region such as Somalia and Afghanistan.<sup>63</sup> The greatest longstanding Indian concern regarding linkages between the Gulf and radical Islam has arguably been Gulf financial support to radical Muslim groups, particularly Saudi support for Pakistani and Kashmiri groups that New Delhi considers to be terrorist organizations.<sup>64</sup>

### **Pakistan, Iran, and China**

Like Pakistan, two other states that complicate relations between India and the GCC are Iran and China. However, Pakistan, in sharp contrast to its initial history with India, may be the least significant long term concern of the three in India-GCC relations. While the issue of Kashmir may remain a flashpoint for generations between India and Pakistan, it does not seem to retain the same influence on New Delhi's relations with the Gulf that it once did. The Cold War context of the wars between India and Pakistan is now past history. Saudi Arabian and other GCC dialog with New Delhi ignores prominent Islamic subjects like Kashmir in favor of building mutually beneficial trade and financial ties. Pakistan remains an ally of sorts and retains close military ties with several GCC members, but that closeness is increasingly disassociated from the relationship with India. There is a rising inclination on the part of the GCC to avoid situations of substantive binary choices between India and Pakistan.<sup>65</sup> And a complementary motivation for India is to minimize conflict with Pakistan in order to neutralize the issue in the Gulf where it wishes to expand economically and militarily.<sup>66</sup>

The military cooperation between Pakistan and the Gulf states, particularly Saudi Arabia, should not be understated. Cooperation has evolved over the past four decades: A 1982 protocol accord and other 1980's agreements with Saudi Arabia have been upgraded by a more comprehensive defense cooperation agreement. And the relationships have gone beyond traditional defense cooperation pacts in that, just as India has filled the lion's share of labor shortfalls in the civilian sectors, Pakistan has traditionally provided the Gulf countries with military and security service personnel. And Islamabad supported Riyadh with 11,000 troops during the Gulf War in 1991. In addition to providing land forces, Pakistan has provided hundreds of Pakistani officers and



sailors to serve aboard GCC state warships and at naval bases; Pakistani instructors have played prominent roles at the Jubail naval school in Saudi Arabia.<sup>67</sup>

But is the military cooperation between the Gulf and Pakistan still relevant to the Gulf's relationship with India? Given that much of the political alignment that was previously associated with that military cooperation no longer exists, it appears that the GCC can have positive political and military relations with both South Asian countries. And the Gulf, rather than reinforcing divisions, seems to increasingly serve as both buffer and conduit. It is estimated that \$10 billion is unofficially traded between India and Pakistan annually, mostly through the Gulf countries. The Gulf in this unofficial role greatly facilitates economic cooperation. The indirect lines of communication used through the GCC could be building blocks for slowly improving official ties during peaceful periods but also healthy alternative means of communication during potential bilateral crises.<sup>68</sup>

Given greatly expanding ties with India, in many ways it seems in the interest of the Gulf to de-hyphenate India and Pakistan. Rather than see India as a friend of the Soviet Union as it did 25 years ago, the GCC now can see India in largely free market non-regional terms--a gross national product exceeding a trillion dollars, a population exceeding a billion people, a burgeoning military expeditionary capability, and the most influential knowledge community in Asia.<sup>69</sup> Rather than seeing New Delhi through Islamabad tainted glasses, Riyadh today may see it increasingly in the context of its primary perceived threat and Gulf concern, Tehran.<sup>70</sup>

Given the history of disputes between the GCC and Iran, particularly after the Iranian revolution, the continuation of those disputes into the 21st century should not

be a surprise. Most fundamental arguments have not been resolved--territorial disputes between the UAE and Iran, GCC support of the US military presence in the region, occasional IRI threats or insinuations to hamper or close the Strait of Hormuz, etc. Indeed, the 2003-2011 Iraq war and more recent political events in Bahrain and Syria have reinforced differences, specifically related to the Sunni- Shi'a schism. The majority Shi'a populations in Bahrain and Saudi Arabia's Eastern Province are a particular area of political conflict that is becoming more, not less pronounced this decade with the tumult in Bahrain and persistent Saudi allegations of IRI interference domestic Arab affaris. Indian foreign policy is increasingly caught in the awkward middle of these areas of confrontation as New Delhi has relations with both sides.<sup>71</sup>

Despite the salience of economics in the India-GCC relationship, commerce plays a declining role in the trilateral calculations of India, Iran, and the GCC. The tightening international sanctions regime on Iran has substantially lessened the trade relationship between Iran and India, increasing the reliance of India on GCC and other sources of hydrocarbons. The two major energy deals signed by Iran and India in the past decade have not made material progress. The 25 year LNG contract for up to \$22 billion has not fulfilled the first dollar of the deal. And the 1700 mile Iran-Pakistan-India (IPI) pipeline has met equivalent success within India, none, though Iran claims development progress on its side of the border. The IPI deal has been often cited by U.S. critics of Indian relations with Iran as a major concern, though the rationale behind that concern is questionable. The pipeline would transit all of Pakistan which is an energy importer itself and would play a comprehensively greater role in the pipeline project than India. And if such a theoretical pipeline was actually built, Pakistan would

have effective veto authority over a major source of Indian energy imports, an observation duly noted by India's strategic community.<sup>72</sup>

Political-military relations remain a concern to all three parties--Iran, India, and the GCC. Iran and India share some common interests, such as containing their common neighbor Pakistan, which the GCC cannot effectively neutralize. But military relations between Iran and India should not be overestimated. Despite the apparent stationing of some Indian intelligence personnel in Iran and joint exercises as examples of the defense and intelligence relationships, these links must be seen in the context of mutual interests against Pakistan and India's rising concerns about PRC and Pakistani military cooperation.<sup>73</sup> In actuality, the India-GCC military relationship is much larger than India's with Iran. And New Delhi's ties with Tel Aviv, while mostly overlooked by the GCC, constrain defense cooperation with Tehran.<sup>74</sup> The overall India-Iran relationship is relatively underdeveloped despite some warnings to the contrary stemming from some U.S. pundits concerned about sanctions erosion and increasing the isolation of Iran.<sup>75</sup>

The most dangerous political-military dimension of the trilateral relationship is probably the potential for nuclear weapons development. The GCC and India oppose the development of IRI nuclear weapons, and New Delhi has voted against Iran at the IAEA on all occasions in recent years.<sup>76</sup> Politically, the GCC must keep in mind Israel's nuclear status in articulating concerns about the IRI program. While more distant and less threatening, Israeli nuclear status serves as a constraint on the intensity of GCC opposition to Iran's nuclear program in the Muslim world.<sup>77</sup> But GCC opposition clearly exists: The Gulf states and particularly Saudi Arabia have come to see Iran's nuclear

program as an enabler of other IRI efforts against the GCC in the form of propaganda, proxies, appeal to Shi'a, etc.<sup>78</sup>

The most interesting nuclear development in the Gulf may be more quadrilateral than trilateral in nature. The GCC states have expressed interest in peaceful nuclear energy development. While they are unlikely to pursue any overt nuclear weapons programs, the development of commercial nuclear energy creates proliferation options and associated potential future nuclear weapons capability. The fourth partner in this equation is Pakistan, a concern for both Iran and India. Pakistan offers the expertise to not only assist the GCC's peaceful nuclear power ambitions but also the knowhow of the only Muslim nuclear weapons state.<sup>79</sup> Given India's likely interest in a piece of the commercial nuclear energy pie and Iran's likely concerns about GCC capabilities and complaints about international double standards, the dynamics between the four actors may see increasing friction in this arena. U.S. Ambassador Dennis Ross in 2012 commented publicly that Saudi Arabia's King Abdullah told him in 2009, during a discussion about the possibility of Iran acquiring nuclear weapons, "If they get them, we get them."<sup>80</sup> While this statement does not specify how Saudi Arabia would obtain nuclear weapons, the clarity of the intent is beyond question should Tehran obtain the bomb.

In contrast with the impact of Pakistan and Iran on India-Gulf relations, China's influence is currently almost exclusively economic. The PRC does not have noteworthy military relations with any of the Gulf states. The nature of China-GCC ties is intrinsically economic. The PRC, depending on which expert one asks, is either a competitor or adversary of India politically and militarily despite their economic ties. And China is an

economic competitor of India in the Gulf--the two countries do not collaborate and engage in multilateral trade with the GCC. Given overall growth and trading patterns, China will likely be the most important GCC trading partner in terms of gross dollars by 2020, both for imports and exports.<sup>81</sup> India-China competition in the Gulf is mostly limited to consumer goods, particularly labor intensive manufactured products such as textiles, and industrial supplies. But India and China have competitive advantages in different commercial areas in their GCC trade relationships. India has a comparative advantage in food and beverages. China has a comparative advantage in capital goods.<sup>82</sup>

Given the continuation of current growth rates, China's bilateral trade with the GCC states by 2020 could surpass \$400 billion annually.<sup>83</sup> But such bulk trade analyses do not account for the influence of the diaspora on the economy or qualitative impacts on shaping the future economic landscape in the Gulf. India's intellectual capital is viewed as a crucial resource for developing technology and knowledge based growth. Despite India's "red-tapism", the GCC economies have much greater confidence in India's legal and political institutions to ensure a sustainable and stable business framework over time, relative to institutions in China. There is greater confidence in India's respect for the rule of law in general and specifically for property rights than there is with regards to China.<sup>84</sup> One of India's challenges is that it cannot replicate multilaterally its "Look East" success in its "Look West" policy: The fractured nature of India's western neighborhood and the absence of integrated regional economic organizations make for a much more complex business environment. The GCC is simply not the functional equivalent of the Association of Southeast Asian Nations.

While business relations dominate this trilateral relationship today, China could play a political-military role in the future as it develops an expeditionary naval capability. Just as with India, economic interests and the security of hydrocarbon resources are informing China's political and military interests in the Gulf. China doesn't have the diaspora and historical and social ties of India.<sup>85</sup> But the PRC navy is growing faster than the Indian navy and is beginning to project power in the South China sea and conduct ship visits throughout the Indian ocean. Both India and China sent ships to the Gulf of Aden in late 2008 after Somali pirate attacks on vessels from their countries. Similar to India, as China's trading role with the Gulf expands, its desire to protect its goods and the sea lanes they transit will expand. But cost as well as diplomatic sensitivities may play roles in shaping that desire into more of a multilateral effort than a unilateral one.<sup>86</sup> The Gulf states do not see China as an adversary, so it is really only India that would see increased PRC political-military presence in the Gulf and Arabian Sea as a threat to its influence, much akin to China's growing muscular business relationship with the GCC.

### **Recommendations for U.S. Policy**

The United States has much to gain from a comprehensively improving and integrating India-GCC relationship. The mutual dependence of India on Arabian Gulf oil and the GCC on Indian agricultural products among other goods and services will likely both increase. Some projections show a rough doubling in GCC dependence on Indian foodstuffs from \$24 billion in 2008 to \$49 billion by 2020.<sup>87</sup> Burgeoning economic cooperation could be further enhanced through a free trade agreement (FTA) between the GCC countries and India. Negotiations between the parties started in 2004 but have

been slow due to a lack of consensus. There are many examples of bilateral FTA's between India and other countries--Japan, South Korea, etc. And the FTA in 2008 between the GCC and Singapore could serve as a multilateral guidepost for a much larger and more complex agreement with India.<sup>88</sup>

**Recommendation 1:** The US should use its leverage and influence to encourage and as appropriate assist and accelerate bilateral or multilateral FTA's between India and GCC members; moreover, the US should use this opportunity as facilitator to seek improved bilateral and trilateral economic relations between the US and both India and the GCC, to include an eventual FTA between all parties. Moreover, the enormous indirect trade between India and Pakistan via the GCC can be positively linked to FTA progress. Given that Pakistan has a smaller but somewhat similar economic relationship in its food for hydrocarbons trade with the GCC and is simultaneously pursuing an FTA, the US should use the dual tracks of GCC talks with the two South Asian neighbors as a communications and economic bridge between India and Pakistan.<sup>89</sup> The US should encourage greater GCC investment in India, both in infrastructure and in agriculture; correspondingly, the U.S. should use trilateral fora to encourage India to reduce red-tapism, facilitating both U.S. and GCC investment in India.

But potential Indian and Pakistani cooperation in one area is counter to U.S. interests--any future Iran-Pakistan-India natural gas pipeline. The crucial leg for such a pipeline is in Pakistan, and the primary U.S. objection is to an expansion of Iranian hydrocarbon exports counter to the intent of international sanctions. **Recommendation 2:** The U.S. focus in the future to prevent the IPI should be in talks with Islamabad, not

New Delhi. The U.S. should encourage research and development of commercially viable natural gas pipelines from the GCC to India rather than from Iran. In a related manner, more oil should be routed from the Arabian Gulf through pipeline to the Arabian Sea via Oman and Fujairah to lessen the impact of potential Gulf or Strait of Hormuz security incidents. The US should encourage India to decrease its overreliance on Arabian Gulf oil and partner with U.S. firms to exploit fracking (hydraulic fracturing) and other new technologies that will allow Indian domestic and offshore exploitation of oil and natural gas that was previously not economically recoverable.

India is uniquely positioned to work with the Gulf countries as a partner and handmaiden on their long term journey from hydrocarbon rentier states to broader, more modern service and knowledge economies. The most optimal scenario for the GCC, according to the Economist Intelligence Unit, is that it converts tangible hydrocarbon wealth into intangible human capital by investing in education and skills that are needed to transition to a diversified economy with more value-added, skilled sectors. In this scenario, education will likely be the most important GCC economic policy issue and undertaking until 2020.<sup>90</sup> **Recommendation 3:** Given the increasing percentage of knowledge workers among the five million strong Indian expatriates in the GCC, the U.S. should encourage India and the GCC to expand educational, medical, engineering, and other service sector enterprises in trilateral partnership with the U.S. Indian knowledge workers partnering with American institutions and information systems would formulate the optimal recipe to maximize GCC acceleration towards a knowledge economy.



The intersection of energy security and cyber security is one that directly impacts the GCC, India and the U.S. immensely. The recent cyber attacks, allegedly orchestrated by Iran, that damaged tens of thousands of Saudi Aramco computers and also targeted Qatar's Rasgas, demonstrate the growing need for greater cooperation to protect that intersection.<sup>91</sup> **Recommendation 4:** The U.S., India, and the GCC should form a trilateral contact or working group to begin the process of formal cooperation on energy-cybersecurity. Given the long term U.S. role in the region and India's unique knowledge, socio-economic, and hydrocarbon consumer roles in the Gulf, cooperation on this issue with the GCC should be more purposeful and formal than more general and diffuse private sector oriented cooperation to assist the GCC with knowledge economy development. Safeguarding the intersection of energy security and cybersecurity is an enterprise that could prove as pivotal to prevent resource shocks as more traditional geographic and physical areas of concern such as securing global commons, ports, and pipelines.

But those geographic issues remain important, as do intensifying fiscal pressures in Washington D.C. **Recommendation 5:** The U.S. should encourage India to match its growing naval and expeditionary capabilities with expanded roles enforcing maritime security and freedom of navigation in the Indian Ocean, and particularly the Arabian Sea and Gulf. Unlike the PRC, India is not a strategic competitor of the U.S. and shares the same democratic and human rights values; therefore, the benefits of greater security cooperation with New Delhi in the region do not incur the same costs as they would with Beijing. India imports more hydrocarbons from the Gulf than the U.S. does, but has essentially been receiving a free ride for generations in terms of security

associated costs--the time for burden sharing is overdue. The dreams of some U.S. officials of an alliance with India on par with the U.K. or Australia will probably not be realized, certainly no time soon, given New Delhi's non-alignment history and continuing need to assert its independence from Washington. Multilateral enterprises will often be more easily feasible for India's participation than bilateral ones, particularly in the defense and security realms. More trilateral and multilateral military exercises and cooperation, in addition to functional benefit, are additional means to gently push India out of its non-alignment shell into a more comfortable pattern of frequent military operation with the U.S., the GCC, and other partners with interests in securing the Arabian Gulf.

The GCC countries will also benefit greatly from more real world military and security experience, though the small size of their armed forces and institutional constraints may limit their potential gains. The U.S. should encourage greater GCC financial burden sharing for freedom of navigation and other security cooperation enterprises, making U.S. participation more palatable in times of fiscal constraint and sequestration and facilitating India's relatively limited defense cooperation budget.

## **Conclusion**

While there is no chance of another Raj akin to the one during colonial era New Delhi's reign over the Gulf, the evolving relationship between India and the GCC, particularly the informational and technological dimensions, does imply the potential for synergies that go far beyond the simple trade mechanics of petroleum and unskilled human resources. The colonial era Raj implied political-military control of territory for strategic and economic purposes, particularly sea lines of communication. The modern

relationship is more about symbiosis than one sided control, though the Indian Navy's increasing potential for power projection does evoke shadows of Raj era intent and capability to protect sea lanes and perceived resource interests.

If there is anything close to a new version of a Raj in the future, resorting to a computer software analogy, it is not an upgraded Version 2.0 but rather a paradigm shift in how the players operate and interrelate, such as from DOS stand alone to Windows networked. This new paradigm encompasses relationships that are increasingly interconnected on multiple levels. One could argue in decades past that roles had reversed from the Raj era to the second half of the 20th century, particularly by the oil boom of the seventies, when coffers in once backwater Gulf states were overflowing while India's impoverished socialist economy stagnated. But the transition to a knowledge economy is once again reversing that ratio of influence in a direction more akin to the Raj, albeit in the context of a relationship that is more interdependent than ever. If the numbers and endeavors of India's white collar, technology savvy work force continue to grow in the Gulf, India may fundamentally change its 20th century oil for unskilled labor relationship with the GCC. As the India-GCC relationship transitions over time to one that is based on oil for knowledge, India's relative influence should flourish as the GCC undergoes much needed, incremental structural transformation in its rentier state based economies. The United States will greatly advance its own interests through maximizing its partnership with both parties in that transformation.

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