



An Analysis of India's Trade relation with Saudi Arabia

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Abstracts

Two regional powers, India and Saudi Arabia have cultivated their relationship in the past through commerce and trade and human resource and cultural exchange. As time went on, the two nation's interactions became more complex and diversified, focusing on things like energy, migration, commerce and investment, security, defence, counterterrorism, and capacity building. In recent years, bilateral trade between these two nations has grown immensely. Saudi Arabia is the 4th biggest trading partner of India in the year 2021. The importance of their relation is visible day by day. For a rapid development of both the economies, attempts must be made to strengthen their trade ties. Therefore, the present paper attempts to analyse the major trends of bilateral trade between these two countries during the period from 2010 to 2020. The paper also analyses trade intensity and trade complementarity index to identify the features and challenges of trade between India and Saudi Arabia. The paper uses time series data to evaluate Trade Intensity Index and Trade Complementarity Index. The result shows that the structure of exports of India and Saudi Arabia are significantly different. The findings of the study also reveal that India's trade with Saudi Arabia is more intense in comparison with its other trading partners in the world.

Keywords: Trade Intensity, Trade Complementarity, India Saudi Arabia Trade, Bilateral trade.

1. INTRODUCTION

India and Saudi Arabia have strong and pleasant relations since centuries which can be seen from their socio-economic and cultural bonding. India and Saudi Arabia have a long history of business and trade that ages back many centuries. Since India's enactment of revolutionary economic reforms in 1991, trade among India and Saudi Arabia has increased noticeably during the past ten years. India opened its economy and played a major role in the world trade. Since there has been no lull in communication between the two nations, the bilateral commercial relationship between them has developed gradually over time. A crucial pillar for India's energy security is its relationship with Saudi Arabia, which is another reason for this. In addition, India regards Saudi Arabia as a significant trading partner and looks forward to chances for cooperation as well as a channelled flow of technological innovation. Many Indians have moved to Saudi Arabia, both temporarily and permanently, under the guise of seeking employment. Over 2.8 million Indians living

abroad, or almost 1/4th of all migrants from India, are employed in Saudi Arabia (Gauri, F. N. 2013). They are significantly enhancing the bilateral ties between Saudi Arabia and India. When discussing Saudi Arabia, it is impossible to overlook the fact that many Indians travel there to perform the Haj pilgrimage. In a positive way, it also strengthens ties between the two nations. 135,914 Indians travelled to Mecca (Saudi Arabia) in 2014 to do Haj. Additionally, every year about 300,000 Indians perform the Umrah (Gauri, F. N. 2013). The Haj Quota was increased by 24,975 in 2019, enabling 2, 00,000 Indians to perform Hajj in August 2019 (MEA report 2020).

High level visits from both sides takes place since the formation of their diplomatic relations in 1947. A seventeen days trip was made by Saudi Arabia's King Saud bin Abdulaziz Al Saud during November-December in 1955 and also in September 1956, India's Prime Minister Jawahar Lal Nehru visited Saudi Arabia. In 1982, India's Prime Minister Indira Gandhi visited to Saudi Arabia, which further amalgamated their bilateral relationship. Prime Minister Narendra Modi visited to Riyadh twice, in April 2016 and in October 2019 to enhance the collaboration in economic, political, defence and security realms. Prime Minister Narendra Modi received the highest civilian honour from King Salman during the first visit also announced that Saudi would advance US\$100 billion to India and also six Memorandum of Understandings were signed in different fields which include tourism, housing, investments etc. Strategic Partnership Council (SPC) agreement was signed in the second meeting in 2019 which established a high level council to navigate the relationship of India and Saudi Arabia. During this visit, twelve agreements were signed across several fields which include security, energy, medical product, civil aviation, defence, strategic petroleum reserves, MSME and also training of diplomats.

2. REVIEW OF LITERATURE

Goyal & Vajid (2016) have analysed India's trade pattern and trade intensity with United Arab Emirates for the period from 2006 to 2016. They investigated the major trends of between them and examines the issues related with trade intensity. They employ a time series data to calculate the index of Trade Intensity between India and Saudi Arabia. The study highlights that India's trade with UAE has a good flow and export and import intensities have never gone below unity for the whole time period. The paper also suggested measures to increase the value of trade intensity between India and UAE.

Sayeeda Bano (2010) examines the development of commercial relations and trade potential between India and New Zealand in her paper, "India-New Zealand Trade and Trade Potential: Recent experience And Future Opportunities." The author used the Kojima indices of trade intensities to assess the trade and identified comparative advantages, intra-industry trade, and trade potential indices. The author came to the conclusion that, as compared to both nations' global trade profiles, bilateral commerce between India and New Zealand is at a very low level. The author concluded by offering key areas for maximising untapped trade and investment opportunities between the two nations.

Muhammad Azhar (2002) solely discusses Saudi Arabia, as one member of the Gulf Cooperation Council. He has discussed the trend and pattern of commerce with Saudi Arabia and India in his paper. The main trading commodities of Saudi Arabia are petroleum imports to India and Indian labour exports to Saudi

Arabia. Financial cooperation between these two nations as well as India's rivals in the Saudi market has also been discussed in his study.

Prithvi Ram Muudiam (1994) has extensively explored the numerous elements, such as political, diplomatic, economic, and political ones, that have influenced decisions on foreign policy have been extensively explored by Prithvi Ram Muudiam (1994). In light of India's recent independence, the book explores relations with four significant Middle Eastern countries—Egypt, Iraq, Iran, and Saudi Arabia—while concentrating on India's worry about regional security and its own expanding economy. Mudiam emphasises how Nehru's ideological and intellectual impulses first affected India's foreign policy toward the Middle East, even though they weren't necessarily in the long-term interests of the region.

Das, P., & Pradhan, S. (2014) have studied India's trade relations with the Gulf region for the period from 1990 to 2008. For the time period mentioned, they calculated the trade intensity index for India and the Gulf States. According to the TII results, India's exports and imports with the Gulf States are more significant than those with the rest of the world's trading partners. At the national level, India's export intensity exceeds unity for Saudi Arabia, the United Arab Emirates, Oman, Kuwait, and Iran while it varies over time for Bahrain, Qatar, and Iraq. As imports from Bahrain, Qatar, and Iraq are not very big, India's import intensity is lower for these nations. India has a moderate comparative advantage in all SITC categories from 2000 to 2008, with the exception of SITC 7 (Machines, transport equipment). Using the formula $\text{Trade Potential} = [(\text{min}, \text{IE}, \text{GI}) - \text{ET}]$, the study also calculated trade potential. Here, IE stands for India's global (total) exports, GI for the Gulf's global (total) imports, and ET for India's current bilateral exports to the Gulf. The outcome demonstrates the immense potential for trade between India and Gulf countries. The author also highlighted the critical necessity for a coordinated, Gulf-specific trade strategy encompassing the public, private, and business sectors that can be known as GULF DIECT.

3. OBJECTIVES

Objectives of the research paper are-

- To analyse the extent of India's trade intensity with Saudi Arabia.
- To analyse the degree of complementarity between India and Saudi Arabia.
- To suggest measures to enhance trade relation between India and Saudi Arabia.

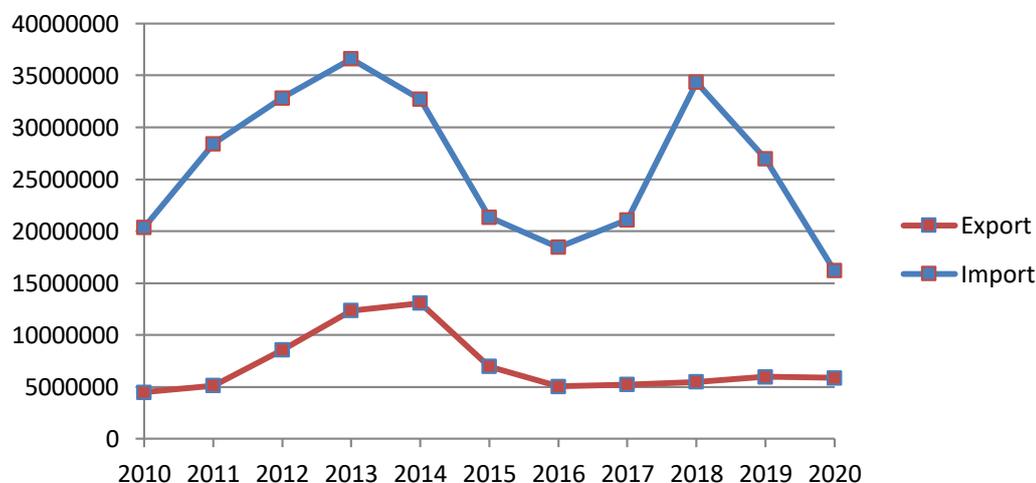
4. INDO-SAUDI BILATERAL TRADE

Saudi Arabia occupied the position of 4th largest trade partner of India after USA, China and UAE. It is also a chief source of energy supply to India which supplies around eighteen per cent of its crude oil demand and approximately 22 per cent of its LPG requirement (MEA Report, 2020). In the year 2018-19, India's total trade with Saudi Arabia has amplified by 23.83% to US\$34.03 per cent (as per DGFT). India's Imports from Saudi Arabia increases to 62.86% in the year 2018 which is increases from UD \$ 21086845.71 thousand in 2017 to UD\$ 34342850.31 thousand in 2018. Major export items of India to Saudi Arabia are petroleum products, engineering goods, rice, food products, textiles, chemicals and ceramic tiles Whereas, major Items of import from Saudi Arabia to India consists of LPG, crude oil, chemicals, fertilizers, plastic and products thereof etc.

Table 4.1: India's Export and Import to Saudi Arabia (USD thousand)

year	Export	Growth%	Import	Growth%
2010	4483703.624		20374084.44	
2011	5133491.144	14.49	28423659.33	39.51
2012	8546653.761	66.49	32826638.76	15.49
2013	12357201.13	44.59	36596585.48	11.48
2014	13063510.74	5.72	32703510.12	-10.64
2015	6970706.761	-46.64	21353105.04	-34.71
2016	5045149.376	-27.62	18460868.53	-13.54
2017	5217534.103	3.42	21086845.71	14.22
2018	5486907.538	5.16	34342850.31	62.86
2019	5974037.246	8.88	27000124.78	-21.38
2020	5856610.00	-1.97	16186760.00	-40.05

Source: ITC trade map

Fig 4.A: India's Export and Import with Saudi Arabia

Source: Author's calculation using data from ITC

Table 4.6: Top ten commodities of trade between India and Saudi Arabia

Top 10 Commodities exported to Saudi Arabia	Top 10 Commodities imported from Saudi Arabia
Cereals	Mineral oil, Mineral fuels and products of their distillation, etc
Vehicles other than railway, tramway	Organic chemicals
Organic chemicals	Fertilisers
Machinery, nuclear reactors, boilers	Plastics
Ceramic products	Aluminium
Electrical, electronic equipment	Inorganic chemicals, precious metal compound, isotope

Mineral oils, fuels and distillation products	Iron and Steel
Articles of Iron or Steel	Ores slag and ash
Articles of apparel, knit or crocheted	Pulp of wood, fibrous cellulosic material, waste
Articles of apparel, not knit or crocheted	Copper and articles thereof

Source: Export Import Data Bank, DGCI&S, Kolkata.

5. Trade Intensity between India and Saudi Arabia

One cannot fully understand the degree of trade between the two countries with the use of trend analysis of growth rates. Kojima's (1964) Trade Intensity Index can be used to calculate the level of trade volume between two nations and to chart the trajectory of trade over time. It is useful for determining the level of bilateral trade activity between two nations and for measuring that activity. The share of a country's commerce with another country divided by the other country's share of world trade is how one calculates the TII. The value of TII index can vary from 0 to 100. If the value is 0, it implies that there does not exist any trade relation between two countries. On the other side, if the value of trade intensity is nearer to 100, it indicates that the country has greater trade volume than might be expected from the country's share in total world trade. Time series data has been employed to calculate the values of export and import intensities. Secondary data has been collected from ITC trade map and DGCIS to obtain the required results. Here, we computed export and import intensities separately for the period from 2010 to 2020 with the help of the following formula.

India's Export Intensity Index (EII) with Saudi Arabia = $(XIJ / XI) / ((MJ / (Mw - MI))$

Where, XIJ = Export of India to the Saudi Arabia

XI = India's total Export

MJ = Total Import of Saudi Arabia

Mw = Total World imports

MI = Total Imports of India.

India's Import intensity Index (III) with Saudi Arabia = $(MIJ / MI) / ((XJ / (Xw - XI))$

Where, MIJ = India's import from Saudi Arabia

MI = Total Import of India

XJ = Total Export of Saudi Arabia

XW = Total World Export

XI = Total Export of India

Export and Import Intensity Index between India and Saudi Arabia are given in Table 6.1 and are shown in the form of graph in figure 6.1a. It is clear that from the table above that the value of India's export intensity index with Saudi Arabia is more than one for the overall periods. This indicates that India's exports with Saudi Arabia are denser as compared to Saudi Arabia with rest of the world. Starting from 4.29 in 2004, resting close to 3 (nearly constant for seven years) for the period from 2001 to 2007 and reached on the peak in 2008 (4.15), the value of export intensity index started declining in 2009. In the year 2012 it again started

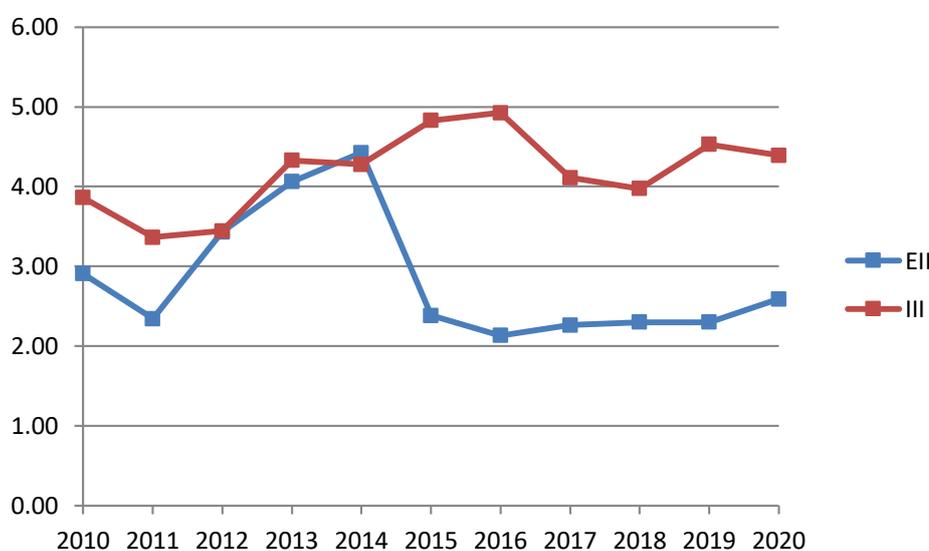
to increase and reached to peak at 4.42 for the overall period. Since 2015, there is again a downfall in export intensity index. Import intensity index is less than one for the years from 2002 to 2005 and is lower than export intensity index. Since 2006, import intensity index has always been greater than export intensity index. This indicates that since 2006, there is a trade imbalance between India and Saudi Arabia which is unfavourable as far as India's trade is concern. There exists a positive potential from India's point of view to increase its overall share in Saudi Arabia's market.

Table 6.1: EII and III between India and Saudi Arabia

Year	Export Intensity Index	Import Intensity Index
2010	2.91	3.86
2011	2.34	3.36
2012	3.43	3.44
2013	4.06	4.33
2014	4.42	4.28
2015	2.38	4.83
2016	2.13	4.92
2017	2.26	4.11
2018	2.30	3.97
2019	2.30	4.53
2020	2.59	4.39

Source: Author's calculation using data from ITC

Fig.6.1A: Export and Import Intensity Index between India and Saudi Arabia



Source: Author's calculation using data from ITC

6. Trade Complementarity Index Between India and Saudi Arabia

The trade complementarity (TCI) index, which measures how well a country's import and export systems fit, might offer helpful information on prospects for intraregional trade. The Trade Complementarity Index

(TCI), in other words, demonstrates how India's export baskets complement Saudi Arabia's import demand. This index is helpful for determining the export potential of one nation relative to the import baskets of other nations. We will also be attempting to determine whether India's export supply matches Saudi Arabia's import demand in this instance. If complementarity is found, we will also be looking for chances for India's exports to Saudi Arabia. If there is a disparity, it suggests that there is no complementarity, and India's export prospects to the Saudi Arabia would be poor. Trade Complementarity Index between countries k and j can be defined as-

$$TCI_{ij} = 100(1 - \frac{\sum (m_{ik} - x_{ij})}{2})$$

Where m_{ik} is the share of good i in all imports of country k and x_{ij} is the share of good I in global exports of country j. the value of the index becomes zero when no good traded between countries and become 100 when the import and export shares exactly match.

Table 6.1 below shows the trade complementarity index between India and Saudi Arabia for the period from 2010 to 2020 using the data obtained from ITC trade map. The figure shows an overall increase in complementarity since 2010. There is a continuous improvement in the value of TCI for the subsequent years except for the period 2011 and 2020. In the year 2011, there is a fall in trade complementarity to 45.90 per cent which was 47.77 per cent in 2010.

Table 6.1: Trade Complementarity between India and Saudi Arabia

Year	TCI
2010	47.66%
2011	45.90%
2012	49.06%
2013	51.40%
2014	52.03%
2015	53.31%
2016	54.46%
2017	57.60%
2018	59.76%
2019	60.33%
2020	59.90%

Source: Author's calculation using data from ITC

7. Conclusion

After analysis of trade relations between India and Saudi Arabia it can be concluded that the trade flow between them have a good flow. India's trade volume with Saudi Arabia has increased remarkably particularly after "Delhi declaration" and ingenuity of India's "look west policy". However, export basket of India is still focused on a few traditional items like gems and jewellery which accounts for 30% of total exports in 2019. In the study period from 2010 to 2020, India's trade intensities with Saudi Arabia, export and import both never went below unity which implied that both the countries have good trade relationship as compared with world trade. As far as trade complementarity is concern, values shows that there exists a good complementarity between them which is improving over the time. The study suggests that

incorporation between India and Saudi Arabia increases significantly during last two decades. It can be concluded that both the countries can benefit from having un-identical trade structure which results in increasing trade potential between them.

8. Suggestions

as it is clear from the above analysis that, both countries can benefit from having a different trade structures therefore it can be suggested that Both nations should identify the potential that already exists and go to work right now on that front in order to increase and sustain the growth of bilateral commerce. The trade baskets between these two countries should be expanded. Thus, the potential for increasing trade and economic cooperation between India and the Saudi Arabia is not being fully appreciated. They can give both countries significant advantages in regional and international trade across a variety of product categories if they are well-coordinated. Also there exists some underdeveloped areas in Indo-Saudi trade which must give attentions such as tourism, human resources, telecom etc.

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