

India, Saudi Arabia and the UAE: Cooperation for Global Gain

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Key Takeaways

- India, Saudi Arabia, and the United Arab Emirates are forming a new centre of gravity among Group of Twenty (G20) states, borne from alignment on objectives related to economic growth, geopolitical influence, and climate change.
- The three countries function as a bridge between the U.S. and China, and as an alternative docking point for middle powers seeking to avoid being drawn into great power competition.
- Despite its potential to slow progress on global climate goals, continued use of fossil fuels benefits both India and the Gulf Arab states while presenting an opportunity for closer cooperation on renewable energy systems - for global gain.

India and Gulf Arab states Saudi Arabia and the UAE are major players in the global energy scene, the first as a consumer and the second two as producers. As countries around the globe look to combat the effects of climate change – in large part by implementing the energy transition – India’s relationships with these Gulf states will become increasingly important to the world’s ability to achieve its climate targets. Amidst seismic shifts in the geopolitical order, all three states are increasingly asserting more independent foreign and economic policies. They share a desire to play a greater role in global affairs on their own terms, a mutually beneficial economic relationship, and a common need to establish clean energy alternatives. This creates an opportunity for these countries to work together to balance economic growth objectives and their respective energy futures with the global climate agenda – to the benefit of all countries.

India, Saudi Arabia, and the UAE all rely on fossil fuels for economic stability and development while also facing harsh consequences from warming temperatures. All three are increasingly aware of the need to diversify away from this dependence—India because of unpredictable costs and social and environmental imperatives, and the Gulf states due to the economic consequences of future waning demand for hydrocarbons. However, immediate needs for economic stability and growth will keep oil and gas at the forefront for all three states in the decades ahead, contrasting with global efforts to move away from fossil fuels.

Energy has been the bedrock of a deepening relationship between India and the Gulf Arab states in recent years. India is the world's third largest importer and consumer of oil, with imports comprising 85% of its 5mbpd needs. Before Russia's February 2022 invasion of Ukraine, over 60% of Indian oil imports comprised crudes from the Middle East, and 35% from GCC countries. Saudi Arabia agreed in 2019 to help India establish emergency oil reserves to protect against future price volatility and supply disruptions. The UAE has also contributed to India's strategic petroleum reserve (SPR), building the country's first SPR facility in Mangaluru, on the Arabian Sea. In tandem, both Gulf states are pursuing investments in Indian downstream oil and gas projects – including the mega West Coast Refinery, slated to add 60mmtpa of refining capacity – that will be vital for India to meet its future energy requirements.

In this way, India's respective relationships with Saudi Arabia and the UAE are strategically significant, and cooperation and collaboration have grown beyond energy. India established formal strategic partnerships with Saudi Arabia in 2010 and with the UAE in 2017, and Saudi Arabia and India formed in 2019 a Strategic Partnership Council to steer the Indo-Saudi relationship, with sub-committees specifically focusing on deepening cooperation across politics, security, society and culture as well as the economy and investments. Recent changes to the global balance of power have pushed these countries even closer together. All three are focused on pursuing pragmatic policies that will enable them to achieve economic objectives alongside geopolitical influence and independence, taking advantage of increased polarisation between the U.S. and China, Russia, and Iran. The Gulf's traditionally close ties to Pakistan are no longer a barrier to greater engagement with India, and the Gulf states will continue to advocate reducing tensions between New Delhi and Islamabad, drawing on their strong relations with both countries. The three states' similar outlooks and ambitions make them natural partners, particularly as they each seek to step out from underneath the umbrella of Western policy directives.

This gradual alignment has manifested itself in greater economic cooperation. The UAE is India's third-largest trading partner and Saudi Arabia is its fourth. The UAE and India's Comprehensive Economic Partnership Agreement (CEPA) came into force on May 1, 2022, with bilateral trade increasing 14% in the period from May 2022 to March 2023. This new impetus has also resulted in the resumption of free trade agreement negotiations between India and the broader Gulf Cooperation Council (GCC) countries, focusing on energy and food security.

For Saudi and the UAE, India is a market growing in volume and importance, particularly as governments and companies around the world face pressure to reduce fossil fuel use. Indian Prime Minister Narendra Modi told delegates at India Energy Week in February 2023 that India's oil demand share may rise to 11% of the global market in the coming years, up from 5%. As such, India is one of just a few countries globally planning for fossil fuels to comprise a larger percentage of their energy mix in the future – despite calls for the opposite.

Eager to monetise their hydrocarbon resources before global demand tails off, Saudi Arabia and the UAE each recently announced plans to boost oil production. Saudi Aramco stated in March 2020 that it would increase output capacity to 13mbpd by 2027, and in November 2022, the Abu Dhabi National Oil Company (ADNOC) brought forward to 2027 its plans to reach its 5mbpd production capacity. Both Gulf states will look to shore up market share in India, given its demand projections.

India's energy needs are intrinsically linked to its economic transformation. As the world's fastest growing economy, India is estimated by the IMF to become the third largest by 2027 in part due to its plans to become the "factory of the world" through its "Make in India" programme. As countries and companies shift away from dependence on China – for political and business confidence reasons – and China itself moves toward consumption-led growth, India is poised to become a global manufacturing centre.

India's ambitious economic goals will require significant investment in infrastructure development, including energy infrastructure to distribute the higher volumes of energy required to power India's growing economy. India is projected to experience the largest increase in energy demand of any country over the next two decades as the country seeks to meet the needs of its growing 1.4 billion population and insert itself into the global supply chain.

But India's growing energy demand comes at a cost. Approximately 80% of current demand is being met by coal, oil, and solid biomass. As a result, India has the highest growth rate in carbon emissions and accounts for 7.5% of the world's emissions. It is also home to 14 of the 20 most polluted cities in the world. With temperatures across Asia rising twice as fast as the global average, India is highly vulnerable to the effects of climate change: UNICEF estimates that 17 out of 20 people in India are exposed to extreme weather conditions and disasters such as floods, droughts, and cyclones.

As this year's G20 president, India has a platform from which to advocate policies – economic, energy-related, and political – that serve the interests of New Delhi, Riyadh, and Abu Dhabi. The South Asian giant is prioritising the positions of developing and under-developed countries, particularly with regard to energy security, energy justice, and ensuring a sustainable energy transition.

Oil price fluctuations in 2022 have forced India to create a strategy to protect itself from global price shifts, and ensuring energy is accessible and affordable is India's primary energy agenda focus. This means expanding renewable energy capacity and distribution infrastructure while continuing fossil fuel use for the foreseeable future, despite the environmental consequences and impact on India's contribution to global emissions. India currently provides fossil fuel subsidies valued nine times higher than those for renewable energy. It plans to focus on developing its domestic hydrocarbons production, largely due to a forecast 500% increase in gas demand given Indian targets for gas to fulfil 15% of the energy mix by 2030, up from 6% now. India also intends to expand its domestic coal capacity, with projected growth of 17% by 2031-2032.

India has announced a net zero target year of 2070, but progress has been slow. There is no roadmap detailing how India intends to reach its goal and its National Determined Contribution (NDC) targets, submitted in August 2022 in accordance with the Paris Climate Agreement, only reflect achievable results under existing climate action. Despite having one of the fastest growing renewable energy capacities in the world, India must make further emissions cuts by 2030 to meet its obligations under the 1.5-degree pathway. The International Energy Agency (IEA) has estimated that to reach net zero by 2070, an average of \$160 billion per year is needed across India's energy economy between now and 2030.

Benefitting from recent oil windfalls, Gulf states could invest in India's new energy infrastructure for the post-oil era. By doing so, Gulf states can ensure new revenue streams while remaining relevant to one of the world's largest economies and helping it meet its climate objectives.

The UAE is currently leading the investment charge, exploring new partnerships to take advantage of India's plans to add 500GW of clean energy over the next seven years. UAE-based entities holding stakes in Indian renewable energy companies include the renewable energy company Masdar, the Abu Dhabi Investment Authority (ADIA), the Mubadala Investment Company, and Abu Dhabi's International Holding Co.. The UAE and India are also reportedly close to agreeing a renewable energy interconnection project linking the two countries' grids under One Sun, One World, One Grid (OSOWOG), an initiative launched by India, France, and the United Kingdom in 2021.

For its part, Saudi Arabia is considering the commercial viability of connecting the UAE emirate of Fujairah with the Indian coastal state of Gujarat via deep sea cables to create an electricity grid between India and the Gulf countries, at a cost of \$15 billion to \$18 billion. Saudi state investment has been slower than investment from neighbouring UAE. However, the Kingdom's sovereign wealth fund, PIF, is developing an India strategy specifically looking at India's renewable energy infrastructure investment potential, in line with Riyadh's Vision 2030 priority areas.

India's transformation presents an opportunity: the Gulf states can diversify their revenue streams in line with their respective economic plans by investing in the fastest growing economy in the world, and benefit from knowledge sharing and technological development as all three countries take advantage of their natural potential for large-scale renewable energy projects. In return, India can harness its clean energy potential with Gulf financial backing, positively impacting global climate goals. As IEA Executive Director Dr. Fatih Birol and Amitabh Kant, CEO of NITI Aayog (National Institution for Transforming India), wrote in a commentary for The Times of India, "India's climate adaptation and mitigation ambitions are not just transformational for India but for the entire planet". The Gulf can – and should – play a role in that process.

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