

## INDIA AND THE UAE:

# From Trading Ties to Strategic Partnership

**As India seeks to cement its status as a leading world power and major emerging economy, the UAE's significance as the commercial and logistical gateway to global trade and investments between Asia, Europe, Middle East and Africa could be key. For the well-informed investor, substantial opportunities exist to develop an India-UAE nexus, but associated risks must also be understood and managed effectively.**

This partnership is being promoted at an official level. In January 2017, India and the UAE signed 14 memorandums of understanding (MoUs) during a state visit to India by Abu Dhabi Crown Prince Mohammed bin Zayed Al Nahyan. The MoUs, which cover a range of strategic areas including defence, infrastructure and energy cooperation, are intended to reinforce, deepen and formalise a significant bilateral relationship. India is already the second largest destination for UAE oil exports, while two-way trade between India and the UAE stood at USD59.6bn in 2015, a threefold increase from 2006. Indian Prime Minister Narendra Modi has forecast that it will reach USD100bn by 2020.

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## Strong Historic Ties

Modern-day ties between India and the UAE's seven emirates (Abu Dhabi, Dubai, Ras al-Khaimah, Sharjah, Fujairah, Umm al-Quwayn and Ajman) have roots dating back centuries before the UAE's formal establishment as a nation-state in 1971. Pearls, the emirates' most valuable export prior to the discovery of oil in Abu Dhabi in the 1950s, were historically exported to India, with goods such as textiles and rice coming the other way.

Building on these historic links between the UAE and India, there is now extensive co-operation in terms of trade, commerce, economic, and people-to-people relationships. These are transforming into strategic partnerships for the six countries of the Gulf Co-operation Council (GCC), which are

increasingly turning to India as part of their 'Look East' policies. For India, conversely, the GCC region is critical for 'energy security', in addition to the connections created by traditional trade links and a sizeable diaspora. There are already signs of a new South-South collaboration taking place along the 'Southern Silk Route' – from Indian traders using Dubai as a hub to penetrate markets in Africa especially, to Latin American companies using the GCC region as a springboard to access the Indian subcontinent.

## Specific Industry Opportunities

A number of industries are benefitting from this relationship, with the growth of Dubai's real estate and financial sectors particularly notable. In June 2016, figures released by the Dubai Land Department showed that Indian investors accounted for the highest number of real estate purchases in the emirate in the last six months, constituting a quarter of all foreign investment in that sector. Indian professional expertise also continues to drive Dubai's financial sector, with Indian nationals constituting more than 25% of those employed in the Dubai International Financial Centre (DIFC) free zone. Additionally, the proposed 'GCC-India Free Trade Agreement' will ultimately lead to more cross-border trade, investments and joint ventures, once the FTA negotiations are concluded.

Gold and currency trading is another area where India and the UAE have long been intertwined. The importance of bilateral trade meant the Indian rupee was accepted currency in the emirates well into the twentieth century. Smuggled rupees, exchanged for gold in the emirates, also allowed private traders to circumvent the ban on gold trading imposed by a newly independent India in 1947. Today Dubai's gold souk is still dominated by traders from India, which in 2015 constituted the world's largest consumer market for gold, the UAE's second largest export after oil. Meanwhile, the informal hawala money exchange system that facilitated trade in the last century is gradually diminishing. Already it is starting to give way to formal trade finance agreements negotiated with UAE-based banks, including Indian banks which now constitute around one third of all foreign financial institutions present in the DIFC. Eventually, greater transparency is likely to bring more businesses into the formal financial system, ensuring better risk controls and increased cross-border trade and investments.

## Inherent Structural Issues

For investors, financial institutions, and global exporters seeking new markets, the opportunities in the burgeoning India-UAE relationship are significant. Yet to maximise returns, risks inherent in partnering or financing joint ventures between the UAE and India must be understood and managed.

For example, UAE-based banks providing trade finance to Indian jewellery merchants have been facing the phenomenon of 'round tripping', or exporting and re-importing the same consignments, enabling traders to obtain banking credit multiple times for the same goods. This practice has become less widespread since India re-imposed a 2% import duty on polished diamonds in 2012, but there are reports that it has since moved into the gold sector. The risk is that credit obtained for a particular export consignment will

be diverted to fund other parts of the trader's business over which the bank has no oversight, and which are potentially less financially stable. One recent case involved India's Winsome Group, termed a 'wilful defaulter' by banks in 2013 after companies connected to its diamond trading business with the UAE defaulted on over a billion dollars' worth of loans. A legal case is still ongoing to determine whether the UAE-based defaulting companies were third parties acting beyond Winsome's control, as the group claims.

## Mitigating Risk

Engaging trusted advisors with expertise across both jurisdictions can help identify and navigate the specific pitfalls associated with UAE-India business flows. Pre-investment due diligence and strategic communications go hand in hand when minimising risk and preserving corporate reputation respectively.

A review of client portfolios, involving due diligence into the other associated business activities of Indian trading companies and their principals, can help banks ascertain which prospects are the most solid. On-the-ground discreet enquiries in India and other relevant jurisdictions with well-placed sources are key to establishing professional track record, financial health, reputation and other business interests, given the limitations of corporate record and available public domain checks. Post-investment, portfolio monitoring is important, for instance identifying any stresses in the investment or channelling of funds, and the reasons for these. Such regular review can help investors not only resolve any disputes that have arisen, but also assist with debt recovery through tracing of assets across multiple jurisdictions in the event that borrowers default.

In the strategic communications space, experts with knowledge of both the Indian and UAE/GCC markets can help develop and execute communication strategies for companies facing financial, regulatory and reputational challenges. This ensures that the right message reaches the right audience at the right time, and across multiple geographies. During cross-border capital market and financial transactions, strategic communication consultants can advise on debt and equity issuance, restructurings and merger and acquisition deals. These may range from politically sensitive to high profile deals, and from transaction announcement to public tender offers and company listings.



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## FTI Consulting – Capabilities and Experience

### Case Study (Dubai - Strategic Communications)

Corporate reputation in the UAE – FTI Consulting was appointed to build, manage and protect the corporate reputation of the Dubai Gold & Commodities Exchange (DGCX) during its formative years. Originally a joint venture between the Dubai Multi Commodities Centre (DMCC) and India's MCX Group and Financial Technologies, FTI's strategic communications team worked with various stakeholders to build an organisational profile for the MENA region's first commodity derivatives exchange. Our strategic approach had to consider various dimensions associated with Dubai and commodities trading, particularly gold, given the city's proximity to India, one of the world's largest gold consumer. As DGCX was launching its first gold futures contract to establish a new gold pricing benchmark, we also had to consider issues related to reputational risk, which are particularly associated with gold, commodities, money transfer and certain India-UAE practices. Our strategists worked on various aspects including messaging & organisational positioning, stakeholder engagement, thought leadership, media relations & training. FTI's meticulous and strategic approach led to the successful launch of the region's first derivative exchange along with its flagship contract, 'DGCX Gold Futures' which was widely embraced by gold traders, investors and other stakeholders across the UAE and India. Today, the DGCX is a fully owned subsidiary of the DMCC, and the leading derivatives exchange in the region with a number of other products including Rupee Futures and Options contracts.

### Case Study (EMEA/India – Global Risk & Investigations)

Asset Tracing in Dubai: FTI Consulting was engaged by a client to conduct an asset trace into two Dubai-registered companies belonging to an Indian national. The client had extended a credit facility to the companies in question to cover export of foodstuffs. The aim was to identify assets owned by the companies and the individual, which might be used to satisfy unpaid financial obligations under the facility in case of an event of default.

FTI Consulting conducted public records and discreet enquiries within Dubai to map out the universe of assets either controlled or owned by the subjects in Dubai and the UAE Free Zones, as well as any offshore shell companies or affiliates that might hold assets in other jurisdictions. Enquiries were also aimed at obtaining an understanding of the lifestyle of the Indian national in question and whether he owned any high value assets such as executive jets, as well as to identify the shipping routes of any vessels affiliated to his companies. Through this methodology, we were able to ascertain that any high value assets were likely being held either by proxy (family members) or outside the UAE, and that the only tangible assets in the UAE related to a plot of land and several warehouses that were currently reported by sources to be holding several containers. Additionally, we established that the income and turnover reported by the companies was surprisingly high given the level of their business activities, with the most likely explanation being that income was being flushed from a wider India-based corporate group via Dubai to avoid tax issues in India.



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### About FTI Consulting

FTI Consulting is an independent global business advisory firm dedicated to helping organisations manage change, mitigate risk and resolve disputes: financial, legal, operational, political & regulatory, reputational and transactional. FTI Consulting professionals, located in all major business centres throughout the world, work closely with clients to anticipate, illuminate and overcome complex business challenges and opportunities.

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