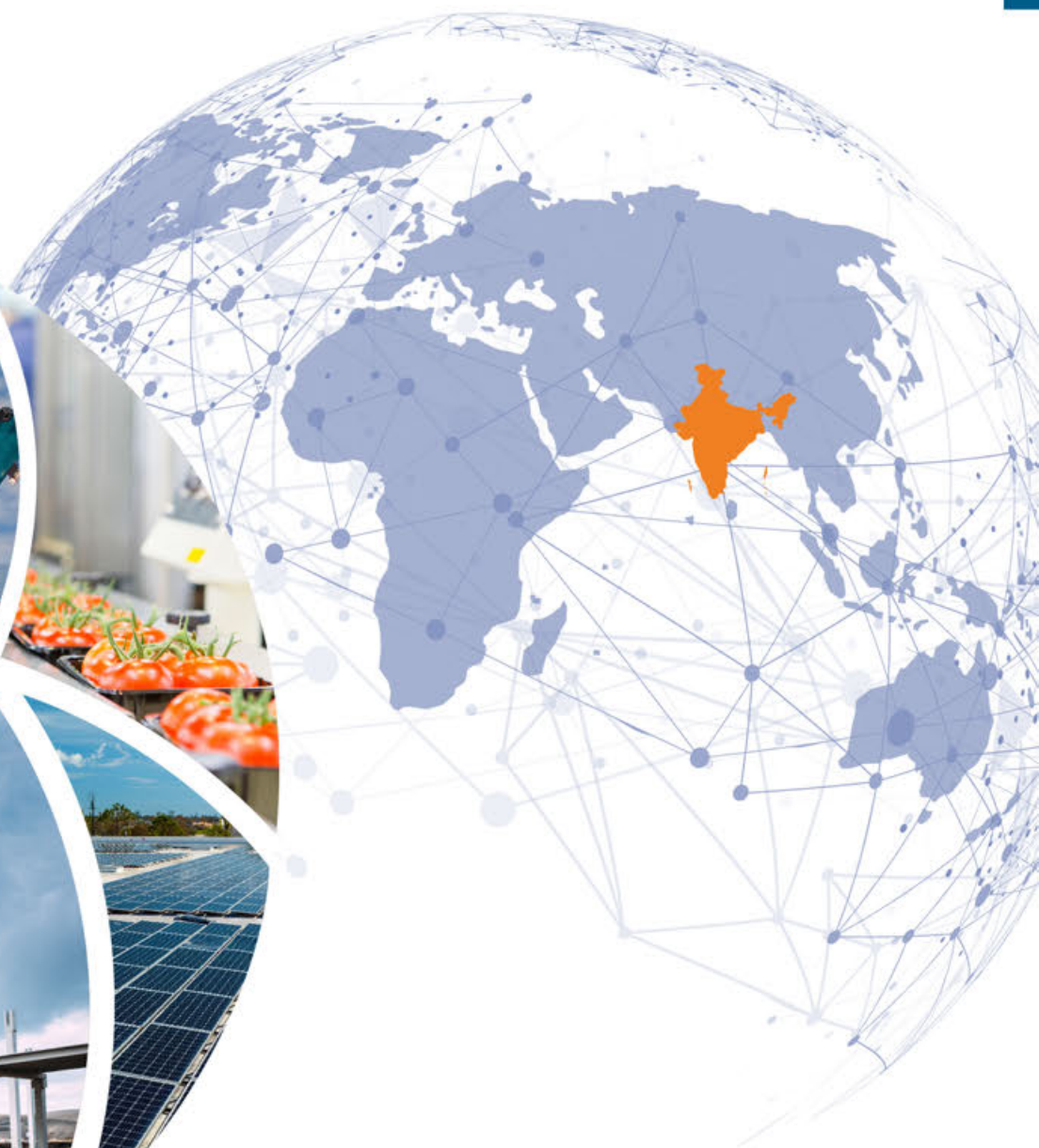


Fostering Collaboration: A Roadmap for Enhancing India-Saudi Arabia Economic Relations



Working Paper No: 130



EXPORT-IMPORT BANK OF INDIA

WORKING PAPER NO. 130

**Fostering Collaboration:
A Roadmap for Enhancing India-Saudi Arabia
Economic Relations**

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Executive Summary

Macroeconomic Background of Saudi Arabia

Saudi Arabia is the most populous country and the largest country in terms of economic size within the Gulf Cooperation Council (GCC) union, a six-nation regional economic bloc, with a sizable young population and dynamic investment flows. Saudi Arabia is also among the six founding members of the League of Arab States founded in 1945 which demonstrates its commitment to pan-Arab cooperation.

According to the IMF, the oil-rich nation accounted for a nominal Gross Domestic Product (GDP) of US\$ 1108.2 billion and a real GDP growth of 8.7% in 2022, highest among the major G20 economies. Dominating the global oil market with its Organisation of Petroleum Exporting Countries (OPEC) leadership role, Saudi Arabia significantly influences global oil prices. While the oil sector witnessed a substantial 15.3% year-on-year growth in 2022, the non-oil sector saw steady growth of 4.8% in 2022 fueled by private consumption and investments in key sectors like tourism, construction, and transportation. Industry, driven by mining, manufacturing, and utilities, forms the bedrock of the Saudi economy, contributing over 56.2% of the gross value added (GVA) in 2022. Services and agriculture make up the remaining portions (41.3% and 2.5% respectively). In 2023, the estimated real GDP growth of Saudi Arabia moderated to 0.8% and the nominal GDP stood at US\$ 1069.4 billion, due to lower crude oil prices and decline in oil production activities.

Merchandise Trade of Saudi Arabia

Saudi Arabia has been rapidly increasing its influence in the global trade of merchandise and services. Despite its oil-reliant economy, Saudi Arabia has made significant strides in diversifying its trade activities. As of 2022, it ranked as the 20th largest exporter and 32nd largest import market globally, with total merchandise trade exceeding US\$ 600 billion. This represents a steady growth from 2013 to 2022, with exports increasing at an average annual growth rate (AAGR) of 4.9% and imports at an AAGR of 3.1%. Notably, trade in goods and services as a percentage of GDP stood at 63.5% for Saudi Arabia, implying its importance in Saudi Arabia's economy.

While oil remains the major export (nearly 80% in 2022), its share has been gradually decreasing. This diversification is reflected in the growing presence of other commodities in the export basket, such as plastics, chemicals, and fertilizers. In contrast, Saudi Arabia's import basket exhibits greater variety due to the demand for consumer and industrial goods. Machinery and mechanical equipment, vehicles other than railways, and electrical machinery and equipment top the list of imported products, reflecting the country's need for these resources to support its development.

Saudi Arabia is actively forging partnerships with new countries. This extends beyond established oil consumers to include a dynamic mix of Asian economies and regional neighbours. China, India, and Japan have emerged as the top export destinations, while China, the United States, and the United Arab Emirates are the primary sources of imports in 2022.

Services Trade in Saudi Arabia

Through its Vision 2030 economic diversification plan, Saudi Arabia aims to reduce dependence on oil by promoting new sectors like tourism, technology, and renewable energy. Services exports have seen significant growth (24.5% annual growth rate between 2013-2022), reaching US\$ 31.9 billion in 2022, compared to a more moderate 3% growth in imports which stood at US\$ 82.8 billion in 2022. This has narrowed the services deficit from US\$ 64.8 billion in 2013 to US\$ 50.9 billion in 2022.

Travel dominates service exports, contributing nearly 75% followed by transport services at 14.8%. Telecommunication and information services contribute to 5.5% of total services exports, followed by financial services (2.7%) and other business services (0.8%) in 2022. Import data reveals a diversified profile. “Other commercial activities” (37.5% of total commercial services imports) is a notable category, comprising other business services (18.1%), construction-related services (9.9%), and insurance and pension services (3.8%).

The United States was the top export destination (9.5% of the total exports), followed by China and the UAE in 2021 (as per latest data available). The US was also a major import source, alongside the UK and UAE. India ranks as the seventh-largest export destination and fifth-largest import source for services.

India- Saudi Arabia Merchandise Trade

India and Saudi Arabia enjoy a strong historical relationship underpinned by economic and cultural ties. In 2022, India emerged as the 2nd largest export destination and fourth-largest import source for Saudi Arabia, while Saudi Arabia was India’s ninth-largest export destination and fourth-largest import source.

Total trade between the two nations has increased from US\$ 49 billion in 2013 to US\$ 56.3 billion in 2022. Mineral fuels and oils dominate the bilateral trade, with India importing crude oil from Saudi Arabia and exporting refined petroleum products to Saudi Arabia in return. India’s exports witnessed a 5.4% AAGR between 2013 and 2022, while imports grew at a faster pace (8.5% AAGR). This has resulted in a widening trade deficit for India, increasing from US\$ 24.2 billion in 2013 to US\$ 36 billion in 2022.

Despite the dominance of refined petroleum products, India’s export basket exhibits some diversification. Refined petroleum products represent around one fifth of total exports. Other key export categories in 2022 included organic chemicals (11.8% of the total exports), cereals (9.9%), vehicles (9%), machinery (5.2%), and electrical equipment (4.9%).

On the import side, mineral oils and fuels account for 82% of India’s purchases from Saudi Arabia. However, other goods like fertilizers (5.3%), organic chemicals (3.7%), plastics (2.7%), and inorganic chemicals (1.9%) contribute to the import basket as well.

India- Saudi Arabia Services Trade

India and Saudi Arabia’s service trade remains relatively undeveloped, while total services trade has grown steadily from US\$ 2.7 billion in 2012 to US\$ 3.8 billion in 2021. Interestingly, India enjoys a consistent surplus

in services trade with Saudi Arabia throughout the last decade. Exports reached US\$ 3.3 billion in 2021 compared to meager imports of US\$ 481 million.

Saudi Arabia was India's 14th largest export destination for services in 2021 accounting for 2.1% of India's total services exports globally. India's service exports to Saudi Arabia are dominated by telecommunication, computer, and information services (20.8% share in 2021). Transportation, construction, and travel services follow, indicating a focus on infrastructure and technical expertise.

On the import side, India's services imports from Saudi Arabia have been modest and stood at US\$ 481 million in 2021 growing by an AAGR of 5.1% as compared to US\$ 349 million in 2013. Transportation remains the major sector (accounting for 35.8%), reflecting the need for logistics support. Travel services and sectors like construction and IT also hold potential for further collaboration.

Foreign Trade and Investment Trend in Saudi Arabia

Saudi Arabia's ambitious Vision 2030 economic diversification plan hinges on attracting significant foreign investment. The strategy aims to achieve multiple goals: increasing Foreign Direct Investment (FDI) inflow to 5.7% of GDP, raising the private sector's contribution to GDP from 40% to 65%, and propelling the country among the world's top 15 largest economies by 2030.

As per United Nations Conference on Trade and Development (UNCTAD) statistics, despite a decline from US\$ 19.3 billion in 2021, Saudi Arabia received US\$ 7.9 billion in FDI inflow in 2022. The country is also actively emerging as a global investor itself, ranking 17th globally in terms of FDI outflows (US\$ 18.8 billion in 2022), up from 18th position in 2021.

According to Financial Times' fDi Markets database, capital expenditure inflows have grown steadily, at a compound annual growth rate (CAGR) of 14.5%, reaching US\$ 28.9 billion in 2023 from 390 projects, compared to US\$ 6.5 billion from 130 projects in 2013. The United States leads in total investment (18.5% of the total inflow), followed by China (15.6%), UAE, and France (both at 13.4%) from January 2013 to December 2023. The chemicals sector attracted the largest share of envisaged investments (18.5% total investments received by Saudi Arabia), followed by coal, oil, and gas (13.4%), real estate (12.4%), metals (8.8%), and renewable energy (6.8%).

Meanwhile, Saudi Arabia's outward FDI exhibits fluctuations. From January 2013 to December 2023, the total cumulative outflows reached US\$ 130.1 billion. Egypt was the top recipient (US\$ 25.5 billion, accounting for 19.5% share of total outflow), followed by China (11%), South Korea (9.8%), and the US (8.9%). Interestingly, the coal, oil, and gas sector received the most investment (US\$ 54.7 billion, accounting for 42.1% share), followed by renewable energy (US\$ 33.7 billion) and real estate (US\$ 14.7 billion).

India's Bilateral Investment Relations with Saudi Arabia

Over the past ten years (January 2013 - December 2023), India has invested a significant amount in Saudi Arabia, ranking as the 6th largest investor in Saudi Arabia, with a total of US\$ 5.4 billion (3.1% share in India's envisaged investments), spread across 62 projects. The majority of these investments have been in metals (74.7% of the total inflows), followed by real estate (12.1%), software & IT (4.5%), and hospitality (2.6%).

During this same period, Saudi Arabia has invested US\$ 1.1 billion in India, as a result of which India ranked as the 19th largest recipient of FDI from Saudi Arabia. These Saudi investments were spread across just

20 projects, with a focus on coal, oil & gas (39.5%), renewable energy (20.1%), transportation & warehousing (13.8%), plastics (8.9%), and chemicals (5.7%).

Potential for Enhancing India's Trade with Saudi Arabia

To identify the products based on their export competitiveness in Saudi Arabia, a four-quadrant analysis has been undertaken based on the HS Code classifications at 6-digit level by calculating their Normalised Revealed Comparative Advantage (NRCA) and mapping them against AAGR of global imports of Saudi Arabia for all products. The quadrants are drawn by comparing the overall AAGR of global imports of Saudi Arabia for all products during 2018-2022 (which was 9%), to the NRCA of India's exports to Saudi Arabia during the same period. This exercise aims to identify products whose imports in the Saudi Arabia over the period 2018-2022 have performed better than the overall average of the Saudi Arabia for all products during this period, implying that the share of such products in Saudi Arabia's import basket has witnessed an increase, a reflection of their rising demand and dynamism. At 6-digit HS Code, with minimum exports of US\$ 0.5 million from India to Saudi Arabia, 940 products have been identified with the total exports from India to Saudi Arabia amounting to US\$ 10 billion (98.1% of India's exports to Saudi Arabia in 2022), while the total world imports by Saudi Arabia for the same products stood at US\$ 105.7 billion in 2022 (55.7% of Saudi Arabia's global imports in 2022).

Out of the 940 items at the HS 6-digit level, 413 items fell into the category of the product champions. The combined exports of these items from India to Saudi Arabia were US\$ 7.6 billion in 2022, representing approximately 74.7% of India's exports to Saudi Arabia during the year. It is important to strengthen the existing products in the category of Product Champions to harness the full potential for the products which are already showing a robust growth in Saudi Arabia, where India's exports also hold a comparative advantage.

The Underachievers segment has 220 items, with India's exports worth US\$ 959.3 million to Saudi Arabia. These products constitute a share of 9.4% in India's total exports to Saudi Arabia. These are the product items in which import demand in Saudi Arabia are rising, but India does not have the required competitiveness in the export of these items. Concerted efforts could be made to develop capacities in products in the Underachievers category, which will help in meeting the demands of Saudi Arabia in a more competitive manner.

Potential Areas for Enhancing Investment Cooperation

Given the symbiotic relationship between India and Saudi Arabia, there exist immense opportunities for collaboration and cooperation in several areas of mutual interest. Energy cooperation has remained a major pillar of the India-Saudi Arabia relations, with Saudi Arabia being a major source for crude oil imports as well as FDI into the energy sector. Saudi Arabia's Public Investment Fund (PIF) has invested across various sectors in India, including telecommunication, retail, food processing and healthcare technology, as well as in Indian start-ups. Besides being one of the major recipients of global FDI inflows, India has also increasingly emerged as an important global investor in overseas markets. The study delves deeper into the various areas of cooperation for India and Saudi Arabia to enhance their bilateral investment potential.

Agriculture and Allied Sectors

As a major food supplier to Saudi Arabia (second only to Brazil in 2022), India could collaborate with Saudi Arabia to help address Saudi Arabia's food security challenges, which also remains an important objective in Saudi Arabia's Vision 2030. Saudi Arabia's arid climate and water scarcity challenges could be addressed by leveraging India's expertise in cutting-edge technologies like vertical farming, controlled-environment agriculture, and smart agriculture with integration of technologies like internet of things (IoT).

Infrastructure and Connectivity

India's booming construction industry remains a key driver of its economic growth. Government of India's initiatives like Smart Cities and the National Infrastructure Pipeline are modernizing infrastructure across sectors. India's focus on affordable green infrastructure aligns with Saudi Arabia's sustainability goals, creating an opportunity for collaboration that unlocks economic growth and strengthens their strategic partnership. India's massive demand for electricity has driven a huge expansion in power generation and transmission. Infrastructure projects, including areas like power, construction, transport and connectivity, offer a promising investment opportunity for Saudi Arabia.

There also exist immense opportunities in Saudi Arabia for Indian project exporters, who have shown prowess in executing infrastructure projects encompassing sectors like energy, transport, water and sanitation, both domestically and internationally.

Digital Infrastructure

Over the past few years, India has built a strong digital economy, driven by robust Digital Public Infrastructures (DPIs), which have been contributing significantly to economic development. Several countries are now accepting financial transactions through India's homegrown digital payments technology. Saudi Arabia could also explore similar opportunities for engaging with India and adopting its digital payment mechanisms which could prove to be mutually beneficial.

Information Technology and Business Process Management (IT-BPM)

By leveraging Indian IT exports, Saudi Arabia can gain access to a highly skilled and cost-competitive workforce for tasks like software development, IT infrastructure management, and data analytics, among others. This could empower Saudi Arabian businesses to become more efficient and competitive in the global market. Additionally, Indian IT companies could offer expertise in areas like e-commerce solutions, digital transformation, and cybersecurity, all crucial aspects for building a modern and knowledge-based economy.

Pharmaceuticals and Medical Devices

Saudi Arabia has a strategic opportunity to leverage India's booming pharmaceutical and medical devices industry. By investing in the Indian pharmaceutical sector, Saudi Arabia could secure a reliable source of affordable, high-quality generic drugs to meet its growing domestic healthcare needs. Furthermore, such investment aligns with Saudi Arabia's goals of developing its own pharmaceutical sector. Collaboration with established Indian firms could provide access to expertise and technology, accelerating Saudi Arabia's ambitions of becoming a regional leader in biotechnology. This partnership would be mutually beneficial, with India gaining access to a lucrative new market and Saudi Arabia achieving greater self-sufficiency in pharmaceuticals.

Renewable Energy

Saudi Arabia's Vision 2030 envisages to significantly increase its renewable energy goals, while focusing on diverse renewable sources like onshore and offshore wind, solar power (both photovoltaic and thermal), and biofuels. Through investments and collaborating with India, a nation with established experience in renewable energy, Saudi Arabia could leverage this expertise to accelerate its domestic production. This partnership could be mutually beneficial, with India potentially exporting solar equipment and turbine parts to the growing Saudi Arabian market.

Logistics and Warehousing

The India-Middle East-Europe Corridor (IMEC) initiative, announced during the G20 Summit, 2023, among the leaders from the European Union, France, Germany, Italy, India, Saudi Arabia, UAE, and the US, presents a unique opportunity for Saudi Arabia and India to develop a mutually beneficial trade relationship. The IMEC will comprise of two separate corridors, the east corridor connecting India to the Gulf and northern corridor connecting Gulf to Europe. This new corridor aims to be a dependable and affordable way to move goods between countries, combining ship and rail transport to complement existing sea routes.

While the corridor leverages Saudi Arabia's existing logistics infrastructure, investing directly in India's growing logistics sector offers the country a strategic advantage. Saudi Arabia's investment in India's logistics sector could act as a catalyst and strengthen the entire IMEC framework, benefiting both economies by streamlining trade, reducing costs, and unlocking new growth opportunities.

Tourism and Hospitality

India has emerged as a popular destination for medical tourism due to its advanced healthcare facilities, skilled healthcare professionals, and lower costs of medical treatments compared to developed countries. India is increasingly becoming the preferred medical treatment destination for people from the Middle East, Africa, and some Western countries such as the US and UK for various medical services, including cardiac surgery, organ transplantation, dental care, and traditional medicine.

Saudi Arabia offers a compelling case for collaboration with India's expanding tourism industry in areas ranging from recreational tourism, religious and medical tourism, to the hospitality sector. Saudi Arabia's Vision 2030 outlines investments in pilgrimage facilities and services to improve the experience for visitors. This includes expanding digital services to streamline procedures and potentially integrate them with religious tourism offerings. By leveraging Saudi Arabia's strong investment appetite and India's high-quality healthcare services, a powerful synergy could be achieved between the nations.

Defence Equipment / Technology Development

India is trying to create opportunities in the defence sector not just for co-development and co-production but to also meet requirements for all friendly foreign nations. Defence cooperation has helped in demonstrating India's commitment to regional stability as well as showcasing India's defence/defence-industrial capabilities. In recent years Saudi Arabia has emerged as a destination for India's defence exports. Maritime cooperation has emerged as one of the area of cooperation in the domain of defence and capacity building between the two countries. As a part of the Joint Committee on Defence Cooperation, India and Saudi Arabia have been considering possibilities of joint development and production of defence equipment. Saudi Arabia aims

to indigenously produce 50% of its military equipment spending by 2030. These could be done through direct investments and strategic partnership between Indian and Saudi companies which will help knowledge exchange and technology transfer.

Way Forward and Recommendations

Saudi Arabia and India both emerged as fastest growing economies among the G20 in 2022 and Saudi Arabia's pursuit for economic diversification beyond hydrocarbons bodes well with India's cost effective and innovative technologies. The symbiotic bilateral trade relations is evident from the bilateral trade pattern. India is among the major suppliers of electric equipment, refined oil, precious stones and metals, cereals, plastic articles, iron and steel, among others for Saudi Arabia. India is also an important market for Saudi products like crude oil, organic chemicals, fertilizers, inorganic chemicals, and compounds, among others. As new trade and investment partnerships are forming across the world, India and Saudi Arabia could forge mutually beneficial collaborations in a number of diverse areas.

India needs to expand its production and trade in products in which it has comparative advantage with Saudi Arabia. This would help in expansion of trade and improve India's merchandise trade balance (deficit of US\$ 36 billion in 2022) with Saudi Arabia, based on potential items of exports as identified in the study. As a growing economy, Saudi Arabia also remains a key market for India's engineering goods exports. There also remains significant scope for expanding India's services exports in areas including IT, telecommunications, business services, construction services, financial services, transportation services, and travel-related services.

Saudi Arabia could also explore a Local Currency Settlement (LCS) mechanism with India, on similar lines of the arrangement between India and UAE, which would help in reducing transaction costs, accelerate settlement timings and enhance predictability of trade. The surplus currency could be utilised in various investment opportunities in mutually agreed areas.

Mutual recognition agreements (MRAs) recognise different regulatory regimes of partners on the presumption that they achieve the same end objectives. Mutual recognition of professional qualifications and skills qualifications could facilitate professionals and skilled workers to deliver enhanced services.

According to its Vision 2030, Saudi Arabia seeks to effectively establish linkages with other countries in the region, through enhanced logistics services and new cross-border infrastructure projects, including land transport projects with Africa through Egypt cementing its position as a major trade hub. As development partners of Africa and other friendly developing economies / regions, India and Saudi Arabia could partner in co-financing projects. As a part of trilateral cooperation, India and Saudi Arabia could collaborate in co-financing development projects in partner countries including in Africa especially for infrastructure projects, which would require significant resources as well as technical expertise.

Market access of Indian companies in Saudi Arabia could be further promoted through joint ventures and technical collaboration especially in sectors like healthcare and medical devices, pharmaceuticals, machinery and electrical equipment, processed food, agriculture products, renewable energy, tourism, defence, and services (financial services, information technology, engineering and construction), which could contribute to shared economic development.



Macroeconomic Overview of Saudi Arabia

The Kingdom of Saudi Arabia is a high income, oil based Middle Eastern economy with a nominal Gross Domestic Product (GDP) of US\$ 1,108.2 billion in 2022 and US\$ 1,069.4 billion in 2023 as per International Monetary Fund (IMF) estimates¹. Data from the IMF indicates that the Saudi Arabian economy achieved the highest growth rate within the G20 reaching 8.7% in 2022. This robust performance can be attributed to a twofold impetus: a resurgence in the oil sector and a significant 4.8% expansion in non-oil GDP². In 2023, the real GDP of Saudi Arabia moderated to 0.8% on account of lower prices of crude oil and decline in oil production activities. The non-oil sector growth was fueled by increased private consumption and substantial private investments outside the oil industry, including large-scale infrastructure projects in key sectors like wholesale and retail trade, tourism, construction, and transportation. In terms of the gross value added (GVA) by sectors in 2022, industrial activity accounted for the largest share of 56.2% (majority of which is accounted for by mining, manufacturing, and utilities at 51.4%) followed by services (41.3%) and agriculture and allied activities (2.5%)³. Apart from petroleum, Saudi Arabia also has other natural resources including natural gas, iron ore, gold, and copper.

Saudi Arabia possesses a dominant position within the global oil market. Holding an estimated 17% of the world's proven oil reserves,⁴ hydrocarbon production contributes a significant 44% to the country's overall GDP (while the remaining 55.9% stems from non-oil related activities) and 79.5% of the overall exports in 2022⁵. This combination, coupled with Saudi Arabia's low production costs, establishes them as the world's leading swing oil producer. Their substantial spare capacity allows for swift adjustments in output levels, enabling them to influence global oil price trends. Additionally, Saudi Arabia holds a leadership role within the Organization of the Petroleum Exporting Countries (OPEC) and its allies, further solidifying their ability to shape these trends. The nation's oil GDP experienced significant year-on-year growth (Y-o-Y) of 15.3% in 2022. This exceptional performance, however, can be attributed to a lower base effect stemming from economic disruption caused by pandemic. In contrast, 2023 witnessed a contraction of 2.5% in oil GDP, likely due to a combination of geopolitical uncertainties and a decline in crude oil prices.

Saudi Arabia has in recent years been reducing its reliance on oil in terms of output, revenue and exports following the implementation of Vision 2030 and other programs. As mentioned in the Article IV of the

¹ IMF World Economic Outlook Database, October 2023

² 2023 Article IV Consultation, IMF Country Report

³ National Income Statistics, United Nations.

⁴ International Trade Administration, USA

⁵ 2023 Article IV Consultation, IMF Country Report

IMF report, progress has been most notably reflected in non-oil growth, which has accelerated since 2021, averaging 4.8% in 2022. The contribution of non-oil activities to the country's GDP was a substantial 66.6%, half a decade ago and it is expected to further rise to 71.1% in the next five years. Saudi Arabia's religious tourism remains a major contributor and accounts for 36% of inbound tourism to Saudi Arabia in terms of the purpose of the visit and more than 40% in terms of tourist expenditure. Despite currently contributing only 4.5% to GDP, tourism shows immense potential for Saudi Arabia. In 2023, among the G20 nations, Saudi Arabia ranked the top in terms of remarkable growth in tourist arrivals. Notably, it surpassed its initial 2030 target of 100 million tourists, welcoming 79 million domestic tourists and 27.4 million international visitors in 2023⁶. This surge is attributed to factors like streamlined visa processes, a rise in religious tourism, extended stay permits, and the development of leisure destinations alongside festivals and sporting events in major cities. In 2022, India was the 6th largest country of origin for inbound tourism into Saudi Arabia at 1.1 million.

According to the General Authority for Statistics of Saudi Arabia, the 2022 population census, revealed a national population of 32.2 million. Notably, Saudi nationals comprise 58.4% of the population, with expatriates constituting the remaining 41.6%. While resident workers contribute to the private sector, expatriate labor is primarily concentrated within the construction and agricultural sectors. Furthermore, the census data underscores the country's youthful demographic and historically low unemployment rates. With a median age of 29 years and a significant 63% of the population falling under 30 years, these findings suggest a potential diversification in consumer demand alongside a rapid increase in discretionary income. Saudi Arabia was the 3rd largest source of remittances for India accounting for a share of 14.6% (US\$ 13.1 billion) of the total remittance received by India in 2021 after UAE and USA⁷.

Despite robust economic activity, Saudi Arabia has successfully maintained low inflation in an otherwise volatile global environment. This achievement is attributed to a twofold strategy: government subsidies on essential goods like fuel and food, and the country's currency peg to the U.S. dollar. This approach has resulted in a consistent inflation rate, averaging 2.5% in both 2022 and 2023. Furthermore, projections suggest an even slight decline to 2.2% in 2024.

Following a significant drop in merchandise trade during 2020 due to pandemic-related restrictions, the trade sector has undergone a remarkable recovery. Saudi Arabia's trade data from 2021 to 2022 reveals a noteworthy growth trend in exports. On average, exports exhibited an impressive annual increase of 48.8% during this two-year period. Imports also witnessed a rise, averaging an annual growth of 20.3% over the same timeframe. However, the current account balance for 2023 reflects a more moderate figure of US\$ 63.8 billion (representing 5.9% of GDP) compared to the exceptional US\$ 150.8 billion (13.6% of GDP) recorded in 2022. This difference can likely be attributed to corrective adjustments following the previous year's high surplus due to record oil and non-oil exports and strong tourism inflows. **(Table 1.1)**

⁶ UN Tourism Database

⁷ Statista.com

Table 1.1 Macroeconomic Snapshot of Saudi Arabia - Select Economic Indicators

Economic Indicators	2019	2020	2021	2022	2023 ^e	2024 ^f	2025 ^f
GDP, current prices (US\$ billion)	838.6	734.3	868.6	1,108.2	1,069.4	1,109.5	1,150.5
Real GDP Growth (% change)	0.8	-4.3	3.9	8.7	0.8	4.0	4.2
GDP per capita, current prices (US\$)	27,892.9	23,271.4	28,215.2	34,441.1	32,586.2	33,144.3	33,695.1
Inflation (avg, % change)	-2.1	3.4	3.1	2.5	2.5	2.2	2.0
Population (million)	30.1	31.6	30.8	32.2	32.8	33.5	34.1
Current account balance (US\$ billion)	38.2	-22.8	44.3	150.8	63.6	59.9	50.8
Current account balance (% of GDP)	4.6	-3.1	5.1	13.6	5.9	5.4	4.4
Merchandise Exports (US\$ billion)	261.5	185.7	276.2	411.2	-	-	-
Merchandise Imports (US\$ billion)	144.3	131.3	152.8	189.9	-	-	-
Total international reserves (US\$ billion)	499.6	453.7	455.4	459.9	436.9	439.1	441.3
Exchange rate (avg; SAR: US\$)	3.75	3.75	3.75	3.75	3.75	3.75	3.75

Note: ^e- Estimates; ^f- Forecasts

Source: IMF WEO October 2023, EIU, ITC Trade Map and India Exim Bank Research

Saudi Arabia's Trade Ties with the GCC

Saudi Arabia is the most populous country and the largest country in terms of economic size within the Gulf Cooperation Council (GCC) union, a six-nation regional economic bloc, with a sizable young demographic and dynamic investment outlay. The GCC was established by an agreement concluded on May 25, 1981 in Riyadh, Saudi Arabia among Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and UAE in view of their special relations, geographic proximity, similar political systems based on religious beliefs, joint destiny, and common objectives.

Table 1.2 offers a comparative overview of the economic size of the GCC member states. In the union, Saudi Arabia stands out as the largest economy in terms of total GDP, though it ranks third in GDP per capita. According to statistics, Saudi Arabia is the second-largest merchandise exporter within the GCC, with a total value of US\$ 411.2 billion. The economy also holds the second position for merchandise imports valued at US\$ 189.9 billion, following behind the United Arab Emirates (UAE).

Table 1.2: Macroeconomic Indicators of GCC Nations in 2023

Indicators	Bahrain	Kuwait	Oman	Qatar	Saudi Arabia	UAE
GDP, current prices (US\$ billion)	45.0	159.7	108.3	235.5	1,069.4	509.2
Real GDP Growth (% change)	2.7	-0.6	1.2	2.4	0.8	3.4
GDP per capita, current prices (US\$)	28,464.2	32,215.0	21,265.6	81,968.3	32,586.2	50,602.3
Inflation (avg, % change)	1.0	3.4	1.1	2.8	2.5	3.1
Population (million)	1.6	5.0	5.1	2.9	32.8	10.1
Current account balance (US\$ billion)	3.0	48.4	5.5	41.5	63.6	41.6
Current account balance (% of GDP)	6.6	30.3	5.1	17.6	5.9	8.2
Merchandise Exports (US\$ billion, 2022)	22.3	99.8	66.1	131.0	411.2	515.6
Merchandise Imports (US\$ billion, 2022)	15.5	35.9	38.6	33.5	189.9	420.5

Source: IMF WEO October 2023, ITC Trade Map and India Exim Bank Research

An analysis of trade statistics reveals a significant increase in Saudi Arabian merchandise exports to the GCC region. In 2022, these exports reached US\$ 36.1 billion, representing a remarkable 40% year-on-year (Y-o-Y) growth. Notably, Saudi exports constituted 4.9% of the GCC's total imports from the world for the same period. Delving deeper into the export composition of Saudi Arabia to GCC, mineral fuels, and oils (HS-27 classification) dominated, accounting for 52.8% of the total export basket. Ships, boats, and floating structures (HS-89) followed at 8.8%, and electrical machinery and equipment (HS-85) comprised 5.6% in 2022. In 2022, Saudi Arabia's imports from the GCC reached US\$ 20.7 billion. Interestingly, despite being a major oil exporter itself, mineral fuels and oils constituted 24.2% of its total imports from the GCC. This suggests intra-regional trade in refined petroleum products or specific types of fuels not produced domestically by Saudi Arabia. Following closely behind were pearls, precious stones, and other metals (HS-71; 14.5%) and iron and steel (HS-72; 13.8%). These findings highlight the continued importance of the hydrocarbon sector in Saudi Arabia's trade with the GCC, while also suggesting a growing diversification into manufactured goods⁸.

The Gulf Cooperation Council – Singapore Free Trade Agreement (GSFTA)

The GSFTA, signed in December 2008 and entered into force since September 1, 2013, stands as a landmark agreement fostering closer economic ties between the GCC and Singapore. Notably, it represents the GCC's first FTA and Singapore's second such agreement in the Middle East (first with Jordan). Singapore granted zero-tariff treatment on all GCC imports with immediate effect whereas approximately 95% of tariff lines by GCC qualified for duty-free concessions followed by additional 2.7% of tariff lines concession after 2018. At present, 99% of tariffs on Singaporean exports bound for GCC markets have been eliminated⁹. The GCC has recognized Singapore's Halal Certification Standards enabling meat exports from Singapore. Additionally, Singaporean service providers gained improved market access across various sectors, including construction services, computer and related services, environmental services, and professional services, such as legal, architectural, engineering, urban planning, among others¹⁰.

Examining the trade dynamics between Saudi Arabia and Singapore specifically, Singapore was ranked as Saudi Arabia's ninth-largest export market in 2022. Saudi Arabia's exports to Singapore primarily consisted of mineral fuels and oils (accounting for 62.3% of total bilateral exports), followed by plastics and articles (22%), and organic chemicals (13.9%). Saudi Arabia also imported goods worth US\$ 2.1 billion from Singapore in the same year. Ships, boats, and floating structures dominated these imports, comprising 55.1% of the total bilateral imports, with machinery and machinery appliances (12.4%) and even mineral fuels and oils (6.5%) playing a significant role.

GCC-EFTA Free Trade Agreement

The European Free Trade Association (EFTA), established in 1960, fosters economic integration and free trade among its four member states: Iceland, Liechtenstein, Norway, and Switzerland. On June 22, 2009, EFTA signed FTA with the GCC, which came into effect on July 1, 2014. This agreement encompasses trade in various sectors, including industrial goods, processed agricultural products, fish and other marine products, trade in services, government procurement, competition. Following the implementation of the FTA, the GCC witnessed a significant increase in its exports to EFTA nations. Data suggests an average annual growth of

⁸ Data sourced from ITC Trade Map

⁹ 3rd GCC-Singapore FTA (GSFTA) Joint Committee Meeting, August 2023

¹⁰ Ministry of Trade and Industry, Government of Singapore Press Release, September 1, 2013.

23.9% in GCC exports compared to a mere 2% growth in imports from EFTA countries for the period since enforcement till 2022. As of 2022, GCC's exports to EFTA stood at US\$ 11.4 billion, while imports were recorded at US\$ 14.3 billion¹¹.

Trade relations between Saudi Arabia and the EFTA nations exhibit a significant imbalance. In 2022, Saudi Arabian exports to EFTA stood at US\$ 843.9 million, while imports reached US\$ 5,090.6 million. This suggests a substantial trade deficit of US\$ 4,246.7 million for Saudi Arabia. Saudi Arabia's primary exports to EFTA in 2022 are pearls, precious stones, and precious metals, accounting for roughly 61.6% of the total exports. Aluminum and articles (21.2%) and ores, slag, and ash (6.5%) follow in importance. Interestingly, pearls, precious stones, and precious metals also dominate Saudi Arabian imports from EFTA, constituting approximately 54.9% of the total imports in 2022. Clocks, watches, and their parts (7.9%) and pharmaceutical products (7.4%) round out the top three import categories.

Saudi Arabia and the League of Arab States (LAS)

Saudi Arabia was one of the six founding members of the LAS in 1945, demonstrating its commitment to pan-Arab cooperation. The League is an intergovernmental organization encompassing all 22 Arab states in the Middle East and North Africa. It acts as a bridge between member states, fostering closer ties, aligning policies, and promoting collaboration in various sectors (political, security, economic, and legal). This is achieved while ensuring the autonomy and self-governance of each member state. Saudi Arabia plays a pivotal role in the Arab League along with Egypt.

¹¹ ITC TradeMap



Saudi Arabia's International Trade Landscape

Saudi Arabia has been rapidly increasing its influence in the global trade of merchandise and services. When the modern Kingdom of Saudi Arabia was established in 1932, the Arabian Peninsula was an agricultural society that was dependent on farming and commerce – especially date exports and trade generated by pilgrims coming to Makkah and Madinah. It lacked the infrastructure needed to support the economic growth. The discovery of oil in commercial quantities in 1938 changed that scenario. Soon after World War II, steady oil exports provided the funds to build basic infrastructure of roads, airports, seaports, schools, and hospitals.

Saudi Arabia is the world's largest producer and exporter of oil. While Saudi Arabia's economic base continues to be dominated by oil, the country has taken steps to diversify the economy. In 2022, it was the 20th largest exporter and the 32nd largest import market of merchandise in the world¹². According to the WTO, Saudi Arabia is ranked 39th in terms of exports of commercial services and 23rd in its imports of commercial services for the year 2022.

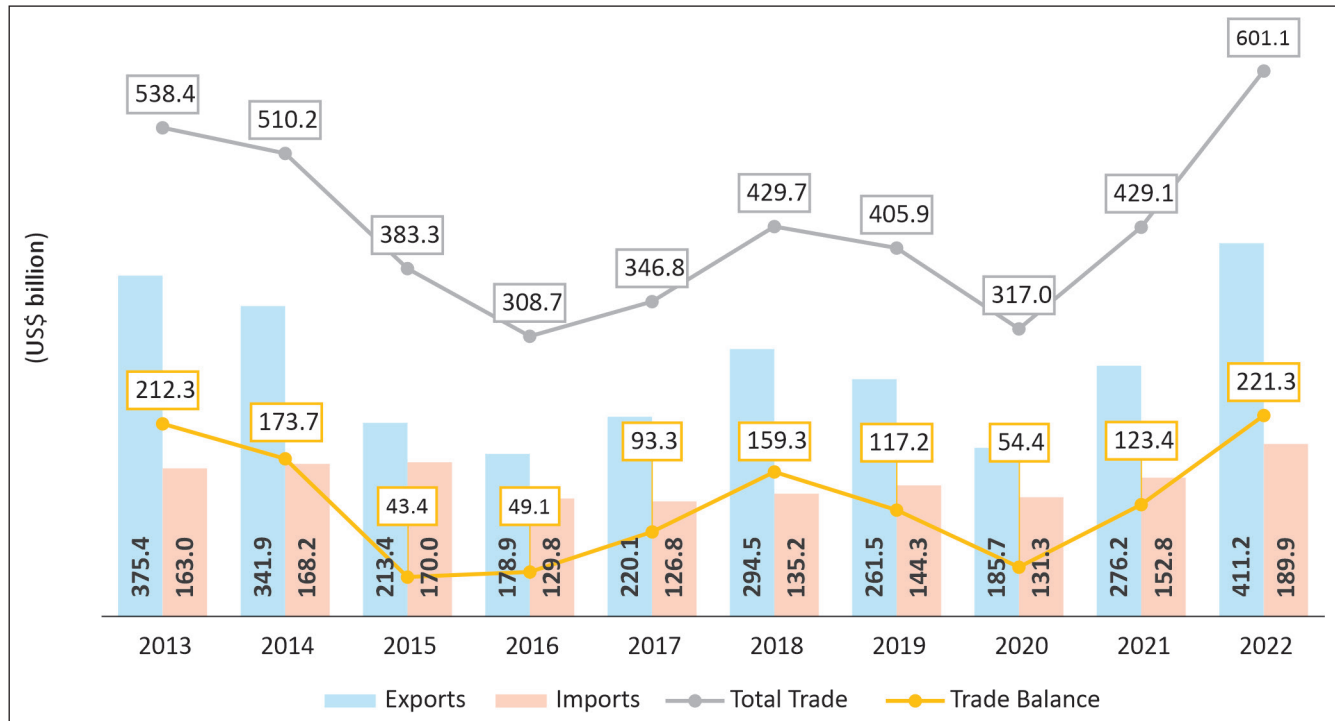
Saudi Arabia's total merchandise trade has increased from US\$ 538.4 billion in 2013 to US\$ 601.1 billion in 2022 (**Chart 2.1**). Merchandise exports increased by an annual average growth rate (AAGR) of 4.9% from US\$ 375.4 billion in 2013 to US\$ 411.2 billion in 2022. Merchandise imports also increased at an AAGR of 3.1% from US\$ 163 billion in 2013 to US\$ 189.9 billion in 2022. Due to the economy's heavy reliance on crude oil and its products, Saudi Arabia has been able to maintain a trade surplus ranging from US\$ 43 billion to US\$ 221.3 billion during the decade. The value of exports as well as total trade of Saudi Arabia dipped twice in the last decade, that is from the year 2014 to 2016 and again in 2020.

In a two-year period from mid-2014 to early 2016, the world experienced a dramatic drop in oil prices, marking one of the biggest declines since World War II. A confluence of factors caused this crash, including a surge in American shale oil production, reduced geopolitical tensions in oil-producing regions, adjustments of policies by the Organization of Petroleum Exporting Countries (OPEC), and a weakening global economy. This price correction brought oil in line with other commodities and ended an era of historically high prices that began in 2003¹³. Mineral fuels, oils and products which accounted for more than 80% of Saudi Arabia's exports profile between 2014-16 registered a year-on-year (Y-o-Y) degrowth of 42.4% and 17.7% in 2015 and 2016, respectively.

¹² Data sourced from ITC Trade Map

¹³ With the Benefit of Hindsight: The Impact of the 2014-16 Oil Price Collapse, Global Economic Prospects, World Bank, January 2018.

Chart 2.1. International Merchandise Trade of Saudi Arabia (US\$ billion)



Source: ITC Trade Map and India Exim Bank Research

The second plunge occurred as a result of sluggish demand since March 2020. The emergence of COVID-19 in late 2019 and subsequent travel restrictions led to a significant decline in global mobility of goods and people. This severely impacted transportation sectors such as rail, freight, and air cargo, with a concomitant decrease in demand for refined fuels like gasoline, diesel, and jet fuel. Notably, the inelasticity of oil demand – meaning consumption remains relatively stable despite price fluctuations – created a scenario where even minor increase in crude oil supply could trigger dramatic price drops.

Coinciding with this period of market turmoil was a geopolitical conflict within the oil industry – the Russia-Saudi oil price war. In an attempt to stabilize crude oil prices in early March 2020, Saudi Arabia, alongside its OPEC allies, proposed production cuts. However, this proposal was challenged by Russia, a major oil producer outside OPEC, who threatened to increase production and supply. In retaliation, Saudi Arabia ramped up its own production, triggering a price war as Russia followed suit. This confluence of the COVID-19 pandemic and the oil price war demonstrably reduced Saudi Arabia's exports of mineral fuels to the global market. Nevertheless, with the gradual reopening of international trade and the enduring demand for crude oil, the economy experienced a rapid rebound in total trade volume during 2021 and 2022, reflecting a V-shaped recovery pattern.

Merchandise Exports of Saudi Arabia

Saudi Arabia's economy is heavily reliant on trade, with a significant share, over 63.5%, of its GDP stemming from total trade activities in commodities and services in 2022. Merchandise trade makes up the bulk of this, accounting for 54.2% of the GDP¹⁴. However, the merchandise export basket of the economy is undergoing

¹⁴ Data on trade (% of GDP) sourced from the World Bank

a gradual shift. While mineral oil exports continue to account for a major share, its dominance has been relatively declining in recent years. In 2022, oil exports accounted to nearly 80% of the total exports, compared to 85.7% a decade ago. This trend reflects Saudi Arabia's ambitious Vision 2030 plan, which aims to diversify the economy and reduce its dependence on oil for export revenue generation. Saudi Arabia aims to increase the share of non-oil exports in non-oil GDP to 50% by 2030. Other top exported commodities of Saudi Arabia in 2022 include, plastics and articles (5.6%), organic chemicals (3.9%), fertilisers (1.8%), ships, boats, and floating structures (0.9%), among others. **(Table 2.1.)**

Table 2.1: Major Merchandise Export Commodities of Saudi Arabia (US\$ Billion)

HS Code	Products	2013	2018	2020	2021	2022	Share in 2022 (%)	Major export destination in 2022 (% share in exports)
	All Products	375.4	294.5	185.7	276.2	411.2	100.0	
27	Mineral fuels and oils	321.9	231.6	132.0	202.2	327.0	79.5	China (17.3%), Japan (12.2%), South Korea (11%), India (10.3%) , USA (6.1%)
39	Plastics and articles	17.0	20.9	16.3	23.8	23.1	5.6	China (13.4%), Turkiye (10.1%), Singapore (9.5%), Egypt (7.2%), UAE (6.8%)
29	Organic Chemicals	13.2	14.3	9.7	14.4	16.2	3.9	China (31%), India (10.2%) , Belgium (9.9%), Singapore (8.5%), UAE (5%)
31	Fertilisers	1.0	1.3	1.2	3.6	7.3	1.8	India (30.8%) , USA (13.3%), Brazil (11.3%), Australia (11.2%), Bangladesh (8.8%)
89	Ships, boats and floating structures	2.2	2.6	3.6	3.8	3.7	0.9	UAE (61.4%), Bahrain (17.8%), Jordan (13.4%), Qatar (5.1%), Egypt (0.7%)
28	Inorganic chemicals and compounds	1.7	2.3	2.3	2.0	3.2	0.8	India (27.4%) , South Korea (15.6%), Morocco (15.4%), Taiwan (7.7%), Jordan (5.4%)
76	Aluminium and articles thereof	1.0	2.3	2.1	2.5	3.0	0.7	India (17.7%) , Japan (9.1%), USA (8%), Egypt (6.4%), Switzerland (6.1%)
85	Electrical machinery and equipments	1.6	1.2	1.3	1.9	2.7	0.6	UAE (71.3%), Kuwait (4.7%), Iraq (3.8%), Bahrain (3%), Sudan (1.9%)
84	Machinery and mechanical appliances	1.5	1.9	1.6	2.1	2.4	0.6	UAE (19.2%), UK (13.4%), USA (12.5%), Germany (8%), Hong Kong (5%)
74	Copper and articles thereof	0.5	0.6	0.5	1.0	2.1	0.5	India (18.9%) , South Korea (17.5%), China (14.7%), UAE (13.9%), Japan (6.8%)
38	Miscellaneous chemical products	0.8	0.7	0.7	1.0	1.8	0.4	Germany (34.1%), India (20.4%) , USA (6.8%), UAE (6.6%), Pakistan (6.5%)

HS Code	Products	2013	2018	2020	2021	2022	Share in 2022 (%)	Major export destination in 2022 (% share in exports)
71	Pearls, precious or semi-precious stones	0.8	0.9	2.3	2.0	1.5	0.4	UAE (37.4%), Switzerland (34.1%), India (9.9%) , France (3.8%), Thailand (2.6%)
87	Vehicles other than railway	1.3	1.3	0.9	1.6	1.5	0.4	UAE (46.7%), Jordan (6.4%), Sudan (4.6%), France (4.2%), China (3.9%)
4	Dairy produce	1.1	1.1	1.1	1.1	1.1	0.3	UAE (28.6%), Kuwait (19.3%), Oman (10.4%), Jordan (9.8%), Bahrain (9.2%)
73	Articles or iron and steel	0.9	0.9	0.8	0.7	1.0	0.3	USA (28.1%), UAE (20.2%), Oman (10.1%), Kuwait (9.1%), Germany (5.9%)

Source: ITC Trade Map and India Exim Bank Research

Merchandise Imports of Saudi Arabia

Table 2.2 below highlights trends in the major import products of Saudi Arabia. Saudi Arabia's import basket remains more diversified due to the demand for consumer as well as industrial goods compared to its export basket owing to its geography. In 2022, machinery and mechanical appliances were Saudi Arabia's most imported products, accounting for 11.2% of all imported commodities. Other top imported commodities in 2022 include vehicles other than railways (10.1%), electrical machinery and equipment (8.2%), mineral fuels and oil (7.5%), pearls, precious stones, and metals (3.9%), and pharmaceutical products (3.9%), among others.

Table 2.2: Major Merchandise Import Commodities of Saudi Arabia (US\$ Billion)

HS Code	Products	2013	2018	2020	2021	2022	Share in 2022 (%)	Major import sources in 2022 (% share in imports)
	All Products	163.0	135.2	131.3	152.8	189.9	100.0	
84	Machinery and mechanical appliances	26.0	15.5	15.4	16.7	21.3	11.2	China (30.5%), USA (18.3%), Germany (7.3%), Italy (6.4%), Japan (4%)
87	Vehicles other than railways	23.4	11.9	14.1	15.3	19.2	10.1	Japan (22.1%), China (20%), USA (11.4%), South Korea (8.9%), Germany (7%)
85	Electrical machinery and equipments	17.6	13.7	12.7	13.9	15.6	8.2	China (53.5%), USA (6.2%), Vietnam (5%), India (4.7%) , South Korea (3.5%)
27	Mineral fuels and oils	2.2	4.0	4.4	7.4	14.3	7.5	Egypt (27.6%), Oman (14.2%), UAE (13.2%), India (9.5%) , Greece (7.6%)
71	Pearls, precious stones and metals	5.1	4.1	1.9	5.5	7.5	3.9	UAE (40.2%), Switzerland (37.5%), South Africa (8.3%), France (3.2%), India (2.7%)

HS Code	Products	2013	2018	2020	2021	2022	Share in 2022 (%)	Major import sources in 2022 (% share in imports)
30	Pharmaceutical products	5.1	5.5	5.6	6.9	7.3	3.9	Germany (14.8%), USA (13.2%), Ireland (7.2%), France (7%), Denmark (6.3%)
72	Iron and steel	6.0	3.2	4.5	5.5	6.9	3.6	China (24.4%), Oman (21.5%), Bahrain (14.2%), Sweden (7.4%), UAE (4.8%)
10	Cereals	6.0	3.2	2.9	4.2	6.2	3.2	India (16.9%) , Russia (16.7%), Argentina (14.8%), Australia (14.5%), Brazil (11.4%)
39	Plastics and articles	3.4	3.1	3.3	3.8	4.8	2.5	China (29%), UAE (12%), USA (9.7%), Germany (6.9%), India (5%)
89	Ships, boats and floating structures	1.9	4.3	2.2	2.0	4.7	2.5	China (35.6%), Singapore (24.8%), Indonesia (7.2%), UAE (6.6%), USA (6.6%)
90	Optical, photographic, cinematographic, medical instruments	3.7	3.6	3.7	3.7	4.3	2.3	USA (25.4%), China (13.4%), Germany (11.8%), Mexico (5.3%), Italy (4.4%)
73	Articles or iron and steel	7.5	3.9	3.4	3.4	4.1	2.2	China (28.8%), UAE (10.4%), India (7.5%) , Italy (6.9%), Bahrain (5.2%)
29	Organic chemicals	2.2	2.1	1.8	2.3	3.0	1.6	India (26.8%) , China (20%), South Korea (8.6%), USA (7.3%), Belgium (6.6%)
74	Copper and articles	3.3	1.8	1.8	2.4	2.8	1.5	DR Congo (29.1%), UAE (23.2%), Russia (11.5%), Egypt (10.1%), Zambia (5.6%)
94	Furniture	2.4	2.1	2.3	2.7	2.7	1.4	China (48.7%), Italy (6.9%), UAE (5.4%), Germany (4%), USA (3.3%)

Source: ITC Trade Map and India Exim Bank Research

Saudi Arabia's Leading Merchandise Trade Partners

Despite its vast oil reserves, Saudi Arabia endeavours to diversify its international trade and is actively forging strong relations with new partner countries. This strategic shift is reflected in its key merchandise trade partners, which extend beyond traditional oil consumers to include a dynamic mix of Asian economies and regional neighbours. In 2022, 16.2% of Saudi Arabia's total exports headed to China, which amounted to US\$ 66.6 billion. Meanwhile, India's role as an export destination to Saudi Arabia has grown significantly. India was the fourth largest export destination in 2013 accounting for just 0.7% of Saudi Arabia's global exports. By 2022, India has become Saudi Arabia's second-largest export market, accounting for US\$ 41.9 billion, which translates to 10.2% of the economy's total exports. The other prominent export destinations include Japan, South Korea, USA, UAE, and Egypt, with 75% of Saudi Arabia's exports are directed to 15 key destinations in 2022 (**Table 2.3**).

Table 2.3: Major Merchandise Export Destinations of Saudi Arabia (US\$ billion)

Country	2013	2018	2020	2021	2022	Share in 2022 (%)
Total Exports	375.4	294.5	185.7	276.2	411.2	100.0
China	7.4	9.7	8.2	50.9	66.6	16.2
India	2.7	3.6	3.1	26.7	41.9	10.2
Japan	0.7	1.0	0.7	27.4	40.8	9.9
South Korea	1.4	1.2	0.8	23.3	37.9	9.2
USA	1.5	1.8	1.8	14.3	23.2	5.7
UAE	6.4	8.1	8.9	15.1	17.8	4.3
Egypt	1.8	2.0	1.8	10.3	13.8	3.4
Taiwan	0.0	0.0	0.4	7.0	10.4	2.5
Singapore	3.4	4.0	2.9	7.0	10.0	2.4
Bahrain	1.5	1.8	1.9	7.0	9.9	2.4
Malaysia	0.9	1.6	1.2	2.5	8.4	2.0
Poland	0.4	0.4	0.2	2.7	8.4	2.0
France	0.2	0.3	0.2	3.9	7.6	1.8
Thailand	0.6	0.7	0.7	4.8	7.0	1.7
Belgium	1.8	2.5	1.3	4.9	6.9	1.7

Source: ITC Trade Map and India Exim Bank Research

China has emerged as Saudi Arabia's top import source as well, supplying over a fifth of the country's global merchandise imports in 2022, increasing from a share of 12.8% in 2013. USA, UAE, India, and Germany are found to be Saudi Arabia's other most important import sources. Notably, Saudi Arabia's imports from India have almost doubled since 2013, reaching US\$ 10.5 billion in 2022. India has emerged as the 4th largest import source in 2022 as compared to the 7th largest in 2013, accounting for a 3.5% share in Saudi Arabia's global imports. This highlights Saudi Arabia's strategic shift towards diversified import sources, extending beyond traditional partners (**Table 2.4**).

Table 2.4: Major Merchandise Import Sources of Saudi Arabia (US\$ billion)

Country	2013	2018	2020	2021	2022	Share in 2022 (%)
Total Imports	163.0	135.2	131.3	152.8	189.9	100.0
China	20.8	22.2	26.5	30.2	39.8	21.0
USA	21.5	18.0	14.1	16.2	17.4	9.2
UAE	8.5	12.1	9.0	12.5	12.0	6.3
India	5.7	5.7	6.4	8.1	10.5	5.5
Germany	11.8	7.3	6.8	7.5	8.0	4.2

Country	2013	2018	2020	2021	2022	Share in 2022 (%)
Japan	9.3	5.5	5.7	6.1	6.7	3.5
Egypt	2.1	1.5	2.6	4.2	6.6	3.5
South Korea	9.5	4.3	3.8	3.4	5.3	2.8
Italy	5.3	4.2	4.1	4.6	5.2	2.7
Switzerland	5.1	1.9	1.5	2.2	4.7	2.5
France	4.6	4.6	4.1	4.3	4.5	2.3
Oman	1.6	1.8	1.7	1.8	4.2	2.2
UK	4.1	3.1	3.0	3.7	4.2	2.2
Brazil	3.3	2.3	2.2	2.5	3.6	1.9
Bahrain	1.7	1.6	1.8	2.6	3.2	1.7

Source: ITC Trade Map and India Exim Bank Research

Services Trade of Saudi Arabia

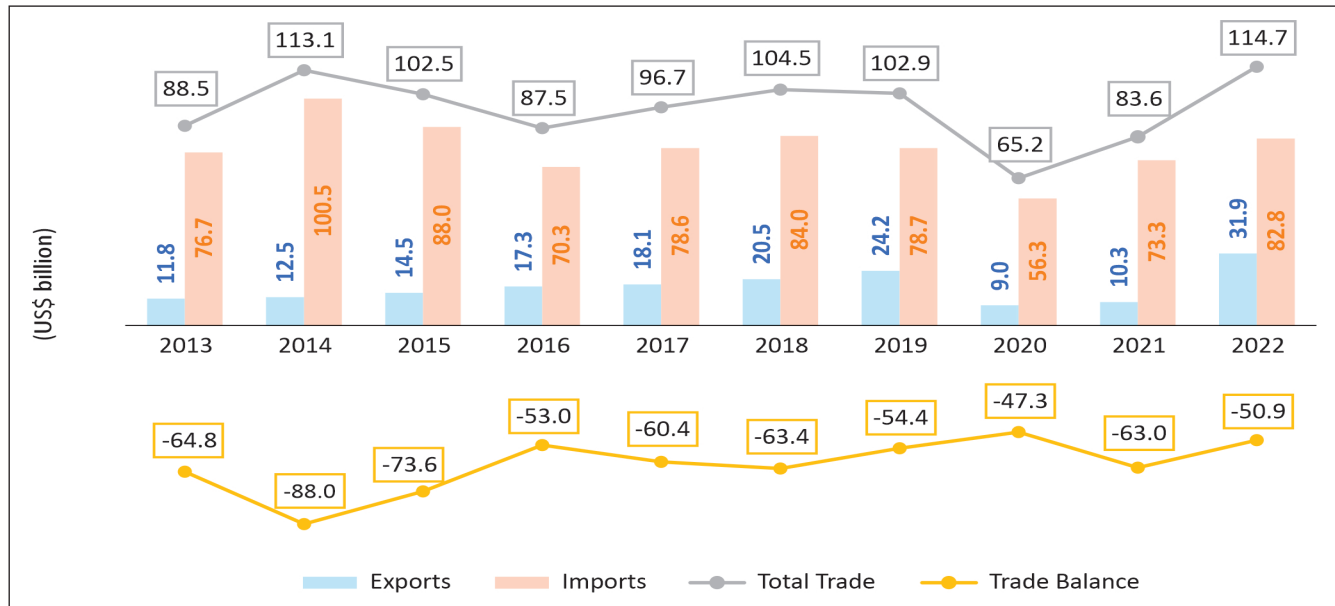
Saudi Arabia has undertaken a strategy to reduce its dependence on oil export revenue, and, as a result, the economy is gradually moving towards establishing itself as an industrial, manufacturing, tourism, and financial services hub for the Middle East region. Launched in 2016, Saudi Arabia's Vision 2030 is a transformative plan aiming to modernize the economy and society. It seeks to lessen dependence on oil by fostering new industries like tourism, technology, and renewable energy. Recognizing the critical role of robust services sector in achieving economic diversification, Saudi Arabia's Vision 2030 outlines ambitious targets. Notably, the plan seeks to increase the share of non-oil exports within the non-oil GDP from 16% in 2016 to 50% by 2030¹⁵. Furthermore, the vision places particular emphasis on the tourism sector, aiming for it to contribute 10% to the GDP by the same year¹⁶. Additionally, capitalizing on its unique strategic location at the crossroads of Asia, Europe, and Africa, Saudi Arabia aspires to become a global hub for logistics, trade, and financial services, serving as a vital gateway for these three continents. This diversification is expected to create a more stable and job-rich economy.

According to the World Development Indicators statistics, the trade in services accounts for 10.6% of the country's GDP in 2022. The services exports by Saudi Arabia registered a robust AAGR of 24.5% between 2013 to 2022, increasing from US\$ 11.8 billion to US\$ 31.9 billion. Services imports on the other hand registered a relatively modest AAGR of 3% during the same period increasing from US\$ 76.7 billion to US\$ 82.8 billion. This rapid growth of exports vis-à-vis imports has narrowed the services deficit from US\$ 64.8 billion in 2013 to US\$ 50.9 billion in 2022. **(Chart 2.2)**. In 2022, services exports from Saudi Arabia registered an all-time high of US\$ 31.9 billion recording a Y-o-Y growth of 210% driven by a huge growth in the travel services.

¹⁵ Saudi Arabia' Vision 2030 document

¹⁶ Sourced from Economic Intelligence Unit

Chart 2.2: International Services Trade of Saudi Arabia (US\$ billion)



Source: WTO and India EXIM Bank Research

Travel and tourism, especially religious pilgrimages and growing leisure options contribute nearly 75% of the total services activities' exports for the economy (**Table 2.5**). According to the United Nations Tourism statistics, there was 390% increase in demand for tourism activity licenses in 2023 and the contribution of tourism to the non-oil Gross Value Added (GVA) is estimated to exceed 7% in the same year. According to the table below, under other commercial services which is only 9.6% of the total services exports, telecommunication and information services contribute to 5.5% of the export value of this sector, followed by financial services (2.7%), and other business services (0.8%) in 2022. Other business services include research and development services; professional and management consulting services and technical, trade-related, and other business services.

Table 2.5: Services Exports of Saudi Arabia (US\$ million)

Product/Sector	2013	2018	2020	2021	2022	% Share in 2022
Saudi Arabia's Total Services Exports	11,845	20,529	8,984	10,303	31,893	100.0
Government goods and services	536	678	611	602	624	2.0
Commercial services	11,308	19,852	8,373	9,702	31,269	98.0
Transport	2,665	4,508	2,022	2,668	4,734	14.8
Travel	7,651	13,790	4,036	3,817	23,475	73.6
Other commercial services	992	1,554	2,315	3,216	3,060	9.6
Construction	0	0	0	0	0	0.0
Insurance and pension services	446	74	94	111	179	0.6
Financial services	159	298	740	1,435	875	2.7
Telecommunications, computer, and information services	298	1,159	1,370	1,464	1,752	5.5
Other business services	89	23	111	206	253	0.8

Source: WTO and India Exim Bank Research

Saudi Arabia's services imports in 2022 reveals a well-balanced and diversified profile across various sectors. Notably, "other commercial activities," a broad category, account for 37.5% of the total commercial services imports. Delving deeper, this segment is comprised primarily of other business services (18.1%), followed by construction-related services (9.9%) and insurance and pension services (3.8%). **(Table 2.6)**

Table 2.6: Services Imports of Saudi Arabia (US\$ million)

Product/Sector	2013	2018	2020	2021	2022	% Share in 2022
Saudi Arabia's Total Services Imports	76,652	83,952	56,264	73,281	82,801	100.0
Government goods and services	24,907	28,869	17,727	11,235	12,722	15.4
Commercial services	51,745	55,083	38,537	62,046	70,078	84.6
Transport	19,248	15,714	14,879	16,804	23,094	27.9
Travel	17,660	16,651	8,843	12,176	1,5914	19.2
Other commercial services	14,836	22,718	14,815	33,065	31,071	37.5
Construction	3,619	6,407	6,452	6,612	8,195	9.9
Insurance and pension services	2,490	1,645	1,594	1,810	3,154	3.8
Financial services	817	2,534	849	3,167	2,223	2.7
Telecommunications, computer, and information services	2,375	1,714	1,373	1,197	2,489	3.0
Other business services	5,535	10,417	4,547	20,278	15,009	18.1

Source: WTO and India Exim Bank Research

Services exports data from World Trade Organization (WTO) for 2021¹⁷ reveals that the United States is the major export destination, accounting for 9.5% of Saudi Arabia's services exports **(Table 2.7)**. China, the UAE, Germany, and the UK follow closely behind. Notably, India has exhibited a significant upward trajectory, rising from the 9th position in 2013 (with services exports from Saudi Arabia of value US\$ 349 million) to the 7th position in 2021 (with a value of US\$ 481 million).

Table 2.7: Major Services Export Destinations of Saudi Arabia (US\$ million)

Country	2013	2018	2020	2021	Share in 2021 (%)
World	13,311	18,878	11,606	13,288	100.0
USA	1,159	1,871	1,193	1,266	9.5
China	821	1,388	888	1,031	7.8
UAE	847	1,196	744	907	6.8
Germany	671	947	570	683	5.1
UK	874	896	814	648	4.9
France	413	551	343	560	4.2
India	349	554	399	481	3.6
Malaysia	263	705	244	436	3.3

¹⁷ As per the latest data available from WTO

Country	2013	2018	2020	2021	Share in 2021 (%)
Qatar	377	496	397	415	3.1
Ireland	160	550	432	409	3.1
Canada	290	424	268	398	3.0
Switzerland	286	421	323	380	2.9
Singapore	234	369	280	364	2.7
Pakistan	255	322	248	313	2.4
Italy	289	285	150	227	1.7

Source: WTO-OECD Balanced Trade in Services (BaTIS) and India Exim Bank Research

Table 2.8 underscores the United States’ position as an important source of service imports for Saudi Arabia. The UK, UAE, and China follow in significance. India’s role as a service provider to Saudi Arabia is noteworthy, currently occupying the 5th position with a substantial value of US\$ 3.3 billion and accounting for a share of 5.1% in 2021.

Table 2.8: Major Services Import Sources of Saudi Arabia (US\$ million)

Country	2013	2018	2020	2021	Share in 2021 (%)
World	56,000	68,566	5,3807	64,336	100.0
USA	9,253	9,757	9,785	10,559	16.4
UK	4,014	5,725	6,068	6,041	9.4
UAE	2,823	4,188	3,520	4,632	7.2
China	2,563	3,161	2,574	3,519	5.5
India	2,354	3,045	2,719	3,273	5.1
Netherlands	1,734	4,852	2,757	3,168	4.9
Germany	1,854	2,606	1,704	2,348	3.6
Ireland	896	1,274	1,639	1,740	2.7
France	1,681	1,906	1,125	1,702	2.6
Israel	866	1,149	1,065	1,461	2.3
Spain	1,484	1,612	1,047	1,383	2.1
Switzerland	1,212	1,313	1,010	1,312	2.0
Singapore	931	914	832	1,149	1.8
Italy	959	1,077	762	908	1.4
Egypt	838	967	662	893	1.4

Source: WTO-OECD Balanced Trade in Services (BaTIS) and India Exim Bank Research



India's Bilateral Trade Relations with Saudi Arabia

India and Saudi Arabia have a longstanding historic relation supported by economic and socio-cultural ties. Diplomatic relations between the two countries were established in 1947 and have deepened since then. The economic and commercial ties between India and Saudi Arabia have flourished in recent years, fuelled by a surge in trade and investment. Saudi Arabia's rich natural resources, economic environment, strategic location, and strong regional bond perfectly complements India's strength in offering affordable, cutting-edge technologies. Furthermore, India's vast pool of skilled workers, robust digital infrastructure, and potential for market expansion solidify this mutually beneficial partnership.

Saudi Arabia is among the three countries (other two are UAE and Oman) of the GCC to have a strategic partnership with India. Saudi Arabia plays a critical role in the success of India-Middle East-Europe Corridor (IMEC). This corridor is an ambitious trade and investment initiative of India, and it is comprised of an eastern corridor connecting India to the UAE, Saudi Arabia, Jordan, and Israel, and a northern corridor linking those Middle Eastern countries to Europe. The India-Middle East-Europe Corridor aims to boost trade between Asia and Europe by building new railways, energy pipelines, and data cables alongside existing shipping lanes and roads. This mega-corridor, involving seven countries and the European Union, represents nearly half the world's population and economy, will leverage the seaports, roads, and logistics hubs of the UAE and Saudi Arabia, solidifying their positions as key players in global trade and providing avenues for economic diversification.

Another significant development in the bilateral relations is the creation of the India-Saudi Arabia Strategic Partnership Council (SPC) in 2019. The Council has two sub-committees – a) Committee on Political, Security, Social and Cultural Cooperation; and b) Committee on Economy and Investments. The Economic and Investment pillar constitutes of 4 Joint Working Groups covering the following heads: Industry and Infrastructure; Agriculture and food security; IT and Technology; and Energy. The two nations are jointly working in areas like defense, energy, security, education, technology, transportation, healthcare, tourism, culture, space, and semiconductors. Therefore, the bilateral trade and investment relationship between the two countries is highly symbiotic.

In order to realize the full potential of their commercial relations in multitude and magnitude India and Saudi Arabia are now emphasizing on diversification of bilateral trade ties beyond the conventional field of oil and explore opportunities in novel areas such as housing, tourism, renewable energy, health, entertainment etc.

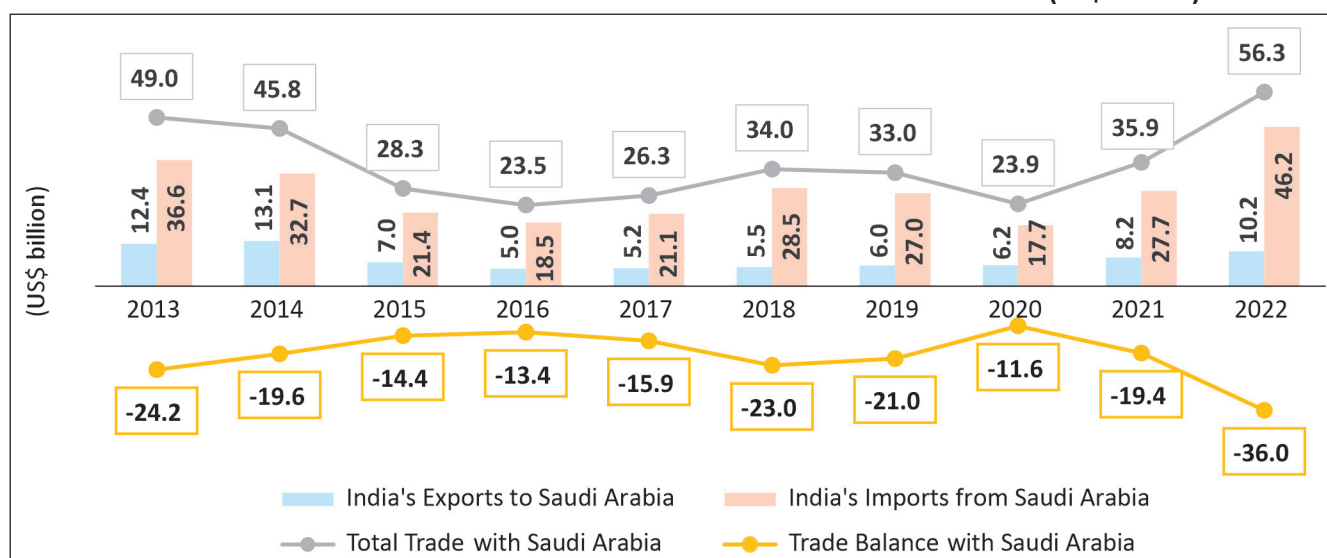
Bilateral Merchandise Trade Relations of India and Saudi Arabia

India and Saudi Arabia have fostered a robust trade relationship, ranking as each other's key partners on the global stage. India was the second largest export destination as well as fourth largest import source after China, USA, and UAE for Saudi Arabia during 2022. Likewise, Saudi Arabia was India's 9th largest export destination in 2022 and 4th largest import source during the year.

Saudi Arabia accounted for 2.2% of India's exports in 2022. However, Saudi Arabia's share has declined from 3.7% in 2013 as a result of India's diversification of trading partners over the years. Similar pattern is also observed in Saudi Arabia's share in India's imports at 6.3% in 2022 as compared to 7.9% in 2013.

Total trade between India and Saudi Arabia has been rather cyclical over the past decade ranging from US\$ 49 billion in 2013 to US\$ 56.3 billion in 2022 (**Chart 3.1**). The bilateral trade predominantly comprised of mineral fuels and oils as India exports refined petroleum to Saudi Arabia, while it imports crude oil from Saudi Arabia. India's exports to Saudi Arabia have grown at a slower pace than India's imports from Saudi Arabia. India's exports to Saudi Arabia grew at an annual average growth rate (AAGR) of 5.4% between 2013 to 2022, whereas imports grew at an AAGR of 8.5% during the same period. In 2013, India's exports to Saudi Arabia stood at US\$ 12.4 billion which has consistently declined between 2014 to 2017. Since 2018, India's exports have gained momentum reaching US\$ 10.2 billion in 2022 growing at an AAGR of 14.8%. On the other hand, India's imports were positioned at US\$ 36.6 billion a decade ago and it rose to US\$ 46.2 billion in 2022. India's imports from Saudi Arabia have been mainly driven by its growing demand for crude oil and the international oil prices, therefore remain a major determinant of the trade trend between the two countries. India has consistently maintained a trade deficit with Saudi Arabia which has widened from US\$ 24.2 billion in 2013 to US\$ 36 billion in 2022.

Chart 3.1 Bilateral Merchandise Trade between India and Saudi Arabia (US\$ billion)



Source: ITC Trade Map and India Exim Bank Research

India's Merchandise Exports to Saudi Arabia

Saudi Arabia was the second largest export destination for India among the GCC countries after the UAE, with India exporting over US\$ 10.2 billion worth of goods to Saudi Arabia in 2022 (**Table 3.1**). The export basket

remains relatively diversified, ranging from refined petroleum products, comprising one fifth of the total export to Saudi Arabia to articles of apparels and agricultural products. The other major exported product categories in 2022 included, organic chemicals (11.8% of the total exports), cereals (9.9%), vehicles other than railways (9%), machinery and mechanical appliances (5.2%) and electrical machinery and equipment (4.9%), among others.

Table 3.1 India's Major Export Commodities to Saudi Arabia (US\$ billion)

HS Code	Products	2013	2018	2020	2021	2022	Share in India's Exports in 2022 (%)	Share of India in Saudi Arabia's Global Imports in 2022 (%)
	All Products	12.4	5.5	6.2	8.2	10.2	100.0	5.4
27	Mineral fuels and oils	6.9	0.5	0.6	2.3	2.0	19.7	14.1
29	Organic chemicals	0.3	0.6	0.6	0.9	1.2	11.8	39.9
10	Cereals	1.2	1.0	1.1	0.8	1.0	9.9	16.2
87	Vehicles other than railway	0.2	0.3	0.7	0.5	0.9	9.0	4.8
84	Machinery and mechanical appliances	0.5	0.3	0.3	0.4	0.5	5.2	2.5
85	Electrical machinery and equipment	0.4	0.3	0.1	0.2	0.5	4.9	3.2
17	Sugars and Confectionery	0.1	0.0	0.0	0.2	0.3	3.2	26.0
72	Iron and Steel	0.4	0.2	0.1	0.2	0.3	2.8	4.1
73	Articles of iron and steel	0.3	0.2	0.3	0.2	0.3	2.5	6.1
61	Articles of apparel, knitted or crocheted	0.1	0.2	0.2	0.2	0.2	2.3	11.7
39	Plastics and articles	0.1	0.1	0.1	0.1	0.2	1.8	3.9
2	Meat and edible meat offal	0.3	0.1	0.1	0.2	0.2	1.8	6.7
48	Paper and paperboard	0.0	0.1	0.0	0.1	0.2	1.5	7.0
62	Articles of apparel, not knitted or crocheted	0.2	0.2	0.2	0.1	0.2	1.5	6.7
28	Inorganic chemicals and compounds	0.0	0.0	0.0	0.1	0.1	1.4	8.9

Source: ITC Trade Map and India Exim Bank Research

India's Merchandise Imports from Saudi Arabia

In 2022, Saudi Arabia was the 2nd largest import source for mineral oils and fuels (mainly crude) for India accounting for 81.7% of the total imports from Saudi Arabia and 13.6% of the total imports of crude oil by India from the rest of the world. The annual imports growth for mineral fuels and oils was recorded at 70.5% in 2022 owing to the rise in international oil prices as well as increasing energy demand of the country. Besides crude petroleum, India also imported a significant amount of other goods from Saudi Arabia in 2022. These include fertilisers (5.3% of the total imports from Saudi Arabia), organic chemicals (3.7%), plastics and articles (2.7%), and inorganic chemical and compounds (1.9%), among others (**Table 3.2**).

Table 3.2 India's Major Import Commodities from Saudi Arabia (US\$ billion)

HS Code	Products	2013	2018	2020	2021	2022	Share in India's Imports in 2022 (%)	India's share in Saudi Arabia's Global Exports (%)
	All Products	36.6	28.5	17.7	27.7	46.2	100.0	11.2
27	Mineral fuels and oils	32.9	24.4	14.7	22.1	37.7	81.7	11.5
31	Fertilisers	0.4	0.9	0.8	1.4	2.5	5.3	33.6
29	Organic chemicals	1.2	1.2	0.7	1.6	1.7	3.7	10.6
39	Plastics and articles	0.8	0.8	0.5	0.9	1.2	2.7	5.4
28	Inorganic chemicals and compounds	0.3	0.2	0.2	0.3	0.9	1.9	27.9
76	Aluminium and articles thereof	0.2	0.3	0.2	0.3	0.4	0.9	14.6
38	Miscellaneous chemical products	0.1	0.1	0.1	0.3	0.4	0.8	20.3
88	Aircraft, spacecraft, and parts thereof	0.0	0.0	0.0	0.0	0.3	0.7	56.1
74	Copper and articles	0.2	0.1	0.1	0.2	0.2	0.5	11.7
71	Pearls, precious stones and metals	0.1	0.0	0.1	0.0	0.2	0.4	13.3
72	Iron and Steel	0.1	0.0	0.0	0.1	0.1	0.2	10.3
15	Animal, vegetable fats and oils	0.0	0.0	0.0	0.0	0.1	0.2	16.8
40	Rubber and articles thereof	0.0	0.0	0.0	0.0	0.1	0.2	9.9
89	Ships, boats and floating structures	0.0	0.0	0.0	0.1	0.0	0.1	1.3
32	Tanning or dyeing extracts	0.0	0.0	0.0	0.0	0.0	0.1	9.5

Source: ITC Trade Map and India Exim Bank Research

Bilateral Services Trade Relations of India and Saudi Arabia

Bilateral services trade between India and Saudi Arabia has been obtained from the OECD-WTO Balanced Trade in Services (BaTIS) dataset¹⁸.

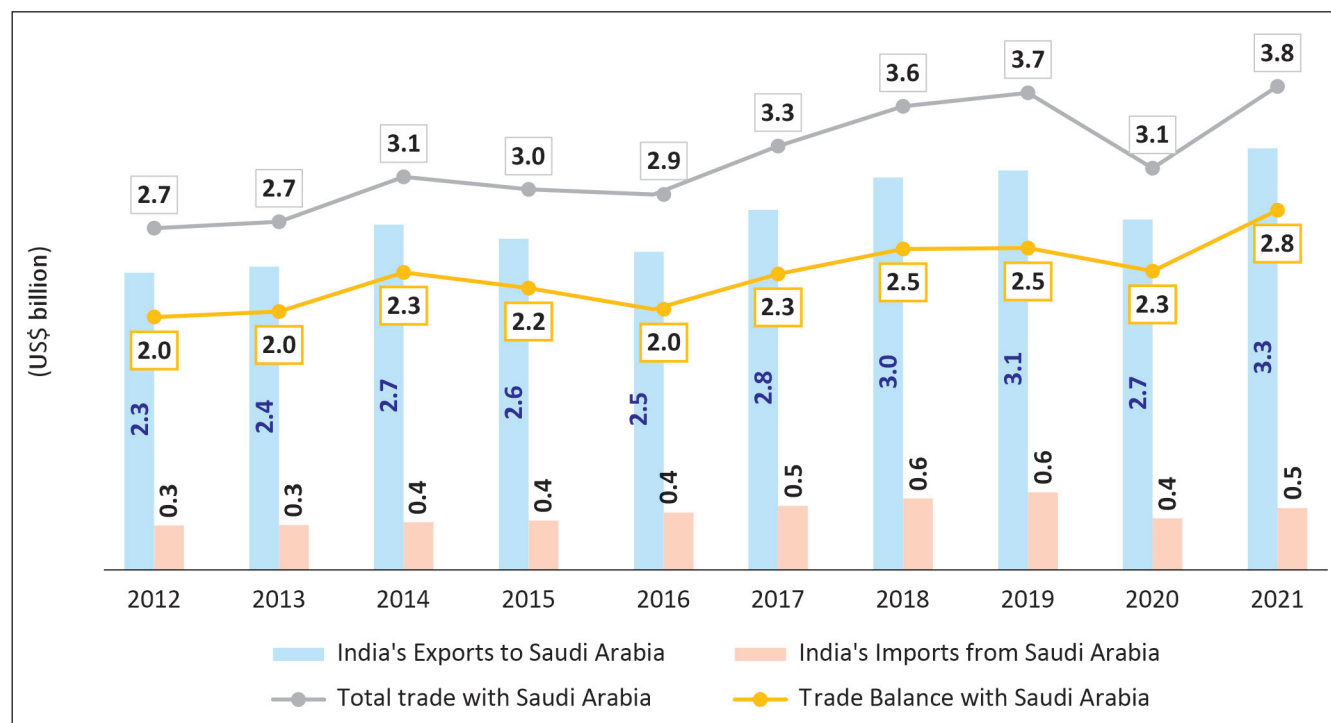
While India's trade volume with Saudi Arabia thrives on the exchange of physical goods, the picture for services trade remains relatively less vibrant. While India exports a variety of products, data suggests limited

¹⁸ BaTIS contains annual bilateral data covering 202 reporters and partners, broken down by the 12 main EBOPS2010 (BPM6) categories. BaTIS has been developed by the OECD and WTO.

BaTIS is considered to be a relatively complete and consistent database for bilateral services trade data. At present, only about 63% of world trade in services is bilaterally specified, and the percentage is even lower for the individual service categories. The OECD-WTO methodology leverages all available official statistics and combines them with estimations and adjustments to provide users with a complete matrix covering virtually all economies in the world. BaTIS is balanced. To resolve the asymmetries between reported and mirror flows, exports and imports are reconciled by calculating a symmetry-index weighted average between the two, following a similar approach to that developed for international merchandise trade statistics.

trade in services between the two nations. In 2021, India's service exports to Saudi Arabia stood at a modest US\$ 3.3 billion, while the imports from Saudi Arabia were a meagre US\$ 0.5 billion. Total services trade, however, has grown steadily, increasing from US\$ 2.7 billion in 2012 to US\$ 3.8 billion in 2021. Interestingly, India has consistently maintained a trade surplus in services with Saudi Arabia growing from US\$ 2 billion in 2012 to US\$ 2.8 billion by 2021. As both countries strive to broaden their economic ties, this trend presents a promising avenue for future collaboration. **(Chart 3.2)**

Chart 3.2 Bilateral Trade in Services between India and Saudi Arabia (US\$ billion)



Source: WTO - OECD Balanced International Trade in Services (BaTIS) and India Exim Bank Research

India's Services Exports to Saudi Arabia

India's services exports to Saudi Arabia have observed a steady growth except during the pandemic registering an AAGR of 4.4% from US\$ 2.4 billion in 2013 to US\$ 3.3 billion in 2021. Saudi Arabia was India's 14th largest export destination for services in 2021 accounting for 2.1% of India's total services exports. Telecommunication, computer, and information services dominated India's services exports to Saudi Arabia accounting for a share of 20.8% of total services exports in 2021. Transportation services come in second position at 7%, followed by construction services at 5.8% and travel-related services at 4.8%. Other business services accounted for majority of India's exports to Saudi Arabia which include research and development services; professional and management consulting services and technical, trade-related, and other business services. Saudi Arabia was the 8th largest export destination for business services with India's exports more than doubling between 2013 to 2021 **(Table 3.3)**.

Table 3.3 India's Major Services Export to Saudi Arabia (US\$ million)

Product/Sector	2013	2018	2020	2021	% Share in 2021
India's Total Export of Services to Saudi Arabia	2,354	3,045	2,719	3,273	100.0
Government goods and services	144	183	197	86	2.6
Commercial services	2,210	2,862	2,522	3,187	97.4
Transport	204	203	241	229	7.0
Travel	314	351	180	156	4.8
Manufacturing services on physical inputs owned by others	0	1	0	1	0.0
Maintenance and repair services	3	2	1	2	0.1
Other commercial services	1,689	2,305	2,099	2,799	85.5
Construction	94	225	259	190	5.8
Insurance and pension services	24	19	20	19	0.6
Financial services	47	69	35	67	2.0
Charges for the use of intellectual property	2	4	5	3	0.1
Telecommunications, computer, and information services	662	622	612	681	20.8
Other business services	844	1,345	1,149	1,813	55.4
Personal, cultural, and recreational services	15	22	19	26	0.8

Source: WTO - OECD Balanced International Trade in Services (BaTIS) and India Exim Bank Research

India's Services Imports from Saudi Arabia

India's services imports from Saudi Arabia have been modest and stood at US\$ 481 million growing by an AAGR of 5.1% as compared to US\$ 349 million in 2013. Saudi Arabia accounted for 0.4% of India's services imports in 2021. Services imports from Saudi Arabia by India were dominated by transport accounting for a share of 35.8% followed by travel services. Among other commercial activities, construction accounted for 8.5% of the total services imports, followed by telecommunication and IT (8.1%) and other business services (7.1%) in 2021. **(Table 3.4)**

Table 3.4 India's Major Services Import from Saudi Arabia (US\$ million)

Product/Sector	2013	2018	2020	2021	% Share in 2021
India's Total Import of Services to Saudi Arabia	349	554	399	481	100.0
Government goods and services	10	12	15	15	3.1
Commercial services	339	542	385	465	96.7
Transport	124	162	116	172	35.8
Travel	151	248	131	147	30.6
Manufacturing services on physical inputs owned by others	0	0	0	0	0.0

Product/Sector	2013	2018	2020	2021	% Share in 2021
Maintenance and repair services	2	8	7	7	1.5
Other commercial services	62	124	132	139	28.9
Construction	23	50	42	41	8.5
Insurance and pension services	5	7	6	7	1.5
Financial services	6	6	9	16	3.3
Charges for the use of intellectual property	0	1	1	1	0.2
Telecommunications, computer, and information services	5	15	31	39	8.1
Other business services	22	44	42	34	7.1
Personal, cultural, and recreational services	0	1	1	2	0.4

Source: WTO - OECD Balanced International Trade in Services (BaTIS) and India Exim Bank Research



Foreign Direct Investment in Saudi Arabia and India's Bilateral Investment Relations

Saudi Arabia's ambitious Vision 2030 focuses on increasing contribution of foreign investment as well as domestic private investment to diversify its economy. The ambitious program envisions a paradigm shift towards a digitalized and knowledge-centric economy. To accomplish this target, the Government of Saudi Arabia is actively attracting foreign investments in sectors experiencing rapid growth, such as infrastructure, tourism, entertainment, health and science, technology, and renewable energy. The Vision 2030 strategy aims to achieve multiple objectives: increasing Foreign Direct Investment (FDI) inflow to 5.7% of GDP, increasing private sector's contribution from 40% to 65% of GDP and propelling Saudi Arabia to the ranks of the world's 15 largest economies by 2030.

An UNCTAD report¹⁹ revealed a significant decline in FDI inflows to Saudi Arabia in 2022. Compared to 2021's inflow of US\$ 19.3 billion, FDI dropped by 59%, reaching US\$ 7.9 billion in 2022. Despite this decrease, Saudi Arabia remained the second-largest recipient of FDI within the GCC countries in 2022, surpassed only by the United Arab Emirates (**Table 4.1**)²⁰. Saudi Arabia's outward foreign direct investment stood at US\$ 18.8 billion in 2022 emerging also as the second largest investor after UAE, among the GCC countries. The country ranked 17th globally in terms of FDI outflows in 2022, demonstrating an improvement from its 18th position in 2021.

Table 4.1: Foreign Direct Investment Inflows into GCC Economies (US\$ million)

Country	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Bahrain	3,729	1,519	65	243	1,426	1,654	1,548	1,021	1,779	1,951
Kuwait	1,434	953	311	419	348	204	351	240	567	758
Oman	1,612	1,287	-2,172	2,265	2,988	6,455	4,237	2,889	4,021	3,716
Qatar	-840	1,040	1,071	774	986	-2,186	-2,813	-2,434	-1,093	76
Saudi Arabia	8,865	8,012	8,141	7,453	1,419	4,247	4,563	5,399	19,286	7,886
United Arab Emirates	9,765	11,072	8,551	9,605	10,354	10,385	17,875	19,884	20,667	22,737

Source: UNCTADSTAT and India Exim Bank Research

To enhance its attractiveness to foreign investors, Saudi Arabia has implemented a suite of new investment incentives. A cornerstone of this strategy is the creation of the nation's first Special Integrated Logistics Zone.

¹⁹ World Investment Report 2023, UNCTAD

²⁰ According to a new methodology used by Saudi's Investment Ministry, FDI inflows into Saudi Arabia stood at approximately US\$ 33 billion in 2022.

This zone offers a compelling advantage: a 50-year tax holiday for investors, including those with complete foreign ownership. Additionally, the zone provides benefits related to Value Added Tax (VAT) on servicing and assembly activities²¹. Furthermore, the Saudi government established the Saudi Investment Promotion Authority in August 2022 as part of the National Investment Strategy. This entity will collaborate with the Ministry of Investment of Saudi Arabia (MISA) to streamline procedures and regulations by soliciting investor feedback and proposing legislative improvements. The Saudi Arabian Government has also taken important steps since 2018 to improve intellectual property rights (IPR) protection, enforcement, and awareness²².

In order to gain a comprehensive picture of recent trends in Saudi Arabia's inward foreign direct investment (FDI), this study utilizes data compiled by the Financial Times' fDi Markets database. This online resource specifically tracks greenfield investments across borders, providing valuable insights into new investment projects. According to Financial Times' fDi Markets, the trend of FDI inflows has exhibited fluctuations in the past decade (**Table 4.2**). Capital expenditure has grown at a compound annual growth rate (CAGR) of 14.5%, reaching a total envisaged investment of US\$ 28.9 billion in 2023 from 390 projects, compared to US\$ 6.5 billion from 130 projects in 2013. However, the trend has not been linear. Between 2018 and 2020, investments averaged around US\$ 13.2 billion before dipping to US\$ 9.1 billion in 2021 due to global economic challenges and the Saudi-Russia oil price war. Post-2021, investments rebounded dramatically, achieving an impressive year-on-year growth average of 80.3% for the year 2022 and 2023.

Table 4.2: Envisaged FDI Inflows in Saudi Arabia (2013-2023)

Year	Capital Expenditure (US\$ million)	Number of Projects	Number of Companies Invested
2013	6,530.4	130	103
2014	9,290.9	97	86
2015	6,506.2	92	74
2016	11,039.1	90	77
2017	6,822.7	89	69
2018	17,743.3	109	98
2019	11,747.5	137	108
2020	10,069.6	93	77
2021	9,140.8	150	115
2022	13,871.1	240	218
2023	28,966.4	390	364
Total	131,728.1	1,617	1,178

Source: fDi Markets and India Exim Bank Research

As shown in **Table 4.3**, maximum investments in Saudi Arabia were recorded from the USA, accounting for 18.5% of total capex invested in the country, during January 2013 to December 2023. The US was followed by China (15.6% of total investment), UAE and France (both at 13.4%) and Kuwait (4.8%) during the same period. India accounted for inflows amounting to US\$ 5.4 billion (4.1% of total investment) in Saudi Arabia during the same period, with investment in 62 projects.

²¹ World Investment Report 2023, UNCTAD

²² 2023 Investment Climate Statements: Saudi Arabia, US Department of States

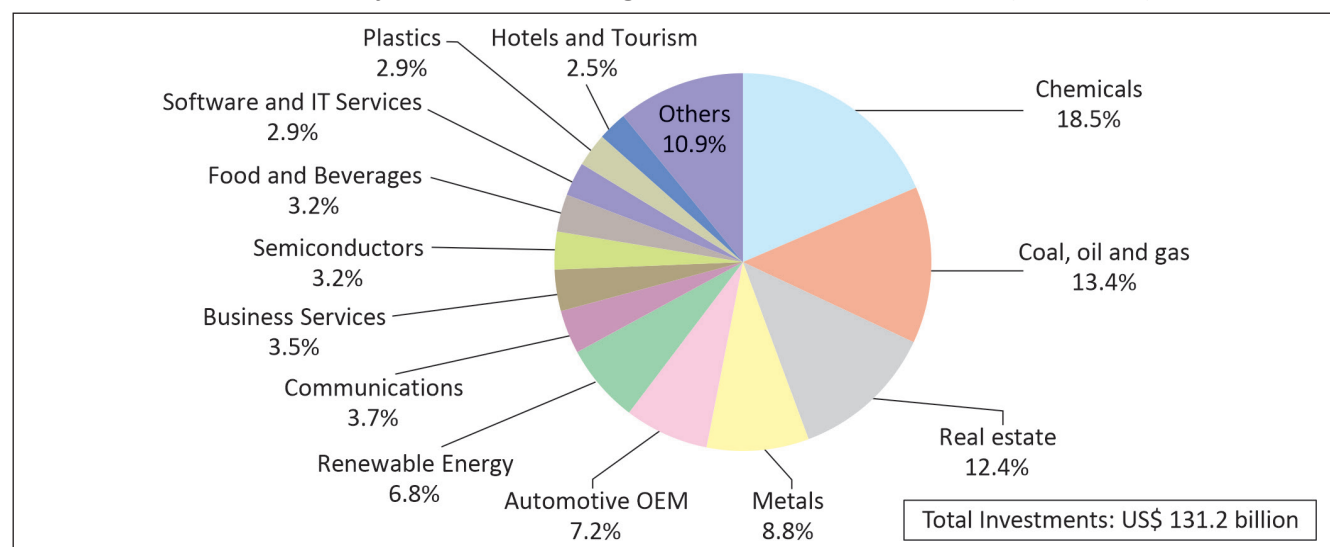
Table 4.3: Major Investors in Saudi Arabia (2013-2023)

Source Country	Capital Expenditure (US\$ million)	Number of Projects	Number of Companies Invested
USA	24,423.9	282	212
China	20,602.7	60	44
UAE	17,708.1	391	239
France	17,657.5	57	42
Kuwait	6,324.6	44	23
India	5,358.0	62	50
Japan	5,235.5	53	43
UK	4,471.8	145	121
South Korea	4,047.2	15	12
Spain	3,276.3	37	29
Switzerland	3,205.0	59	31
Singapore	2,898.6	35	23
Hong Kong	2100.3	11	7
Malaysia	2,000.0	1	1
Germany	1,757.3	37	32
Total	131,728.1	1,617	1,178

Source: fDi Markets and India Exim Bank Research

During January 2013 to December 2023, chemicals sector accounted for the largest share of global envisaged investments into Saudi Arabia (18.5% of total investments received by Saudi Arabia), followed by coal, oil, and gas (13.4%), real estate (12.4%), metals (8.8%), automotive OEM (7.2%), and renewable energy (6.8%) **(Chart 4.1)**. Maximum number of projects were in business services (263 projects), followed by software & IT services sector (174 projects), industrial equipment (92 projects) and financial services (82 projects).

Chart 4.1: Major Sectors Receiving Investments in Saudi Arabia (2013-2023)



Source: fDi Markets and India Exim Bank Research

Similar to inward FDI, Saudi Arabia's outward foreign direct investment (FDI) has demonstrated cyclical fluctuations over the past decade. **Table 4.4** highlights the total outward FDI of US\$ 130.1 billion from 2013 to 2023. Outflows commenced at US\$ 2.7 billion in 2013, rising to US\$ 13.4 billion by 2015. The cyclical trend persisted until 2019, when global economic disruptions caused by the pandemic significantly impacted investment activity. The subsequent two years (2020-2021) witnessed a period of muted outflows due to lingering economic and geopolitical uncertainties like Russia-Ukraine conflict and Saudi-Russia oil war. In 2020, a significant year-on-year decline of 85.3% was observed, followed by a modest 30% year-on-year uptick to US\$ 4.5 billion in 2021, likely attributable to a lower base effect. Interestingly, 2022 saw a surge in outflows, reaching a new peak of US\$ 29.2 billion, before experiencing a slight moderation to US\$ 25.5 billion in 2023.

Table 4.4: Envisaged FDI Outflows from Saudi Arabia (2013-2023)

Year	Capital Expenditure (US\$ million)	Number of Projects	Number of Companies Invested
2013	2,686.3	41	30
2014	1,835.9	44	23
2015	13,453.8	26	21
2016	6,367.5	34	25
2017	14,993.0	37	25
2018	4,397.6	44	28
2019	23,762.2	54	28
2020	3,476.2	51	34
2021	4,504.9	25	22
2022	29,176.7	80	44
2023	25,483.8	79	48
Total	130,137.9	515	218

Source: fDi Markets and India Exim Bank Research

Egypt was the biggest recipient of FDI from Saudi Arabia (US\$ 25.5 billion), accounting for 19.5% of the total FDI outflows from January 2013 to December 2023 (**Table 4.5**). This was followed by China (11% of total investments), South Korea (9.8%), the US (8.9%) and Pakistan (7.7%). India received direct investments amounting to US\$ 1.2 billion (0.8% of total investment) from Saudi Arabia during the same period.

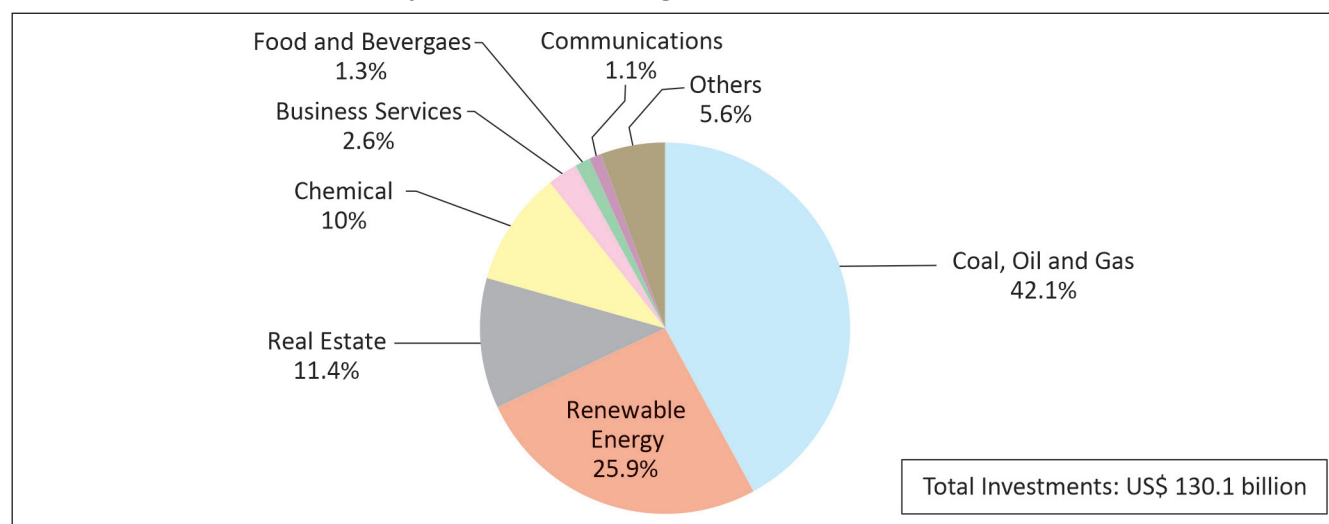
Table 4.5: Major Investment Destinations of Saudi Arabia (2013-2023)

Destination Country	Capital Expenditure (US\$ million)	Number of Projects	Number of Companies Invested
Egypt	25,470.0	80	48
China	14,398.5	16	12
South Korea	12,733.3	10	8
USA	11,681.0	25	17
Pakistan	10,112.5	5	4
Thailand	7,000.0	1	1
Indonesia	6,585.4	4	3
UAE	6,166.8	92	77
Uzbekistan	5,327.6	9	2
Vietnam	3,435.7	5	5
Bangladesh	3,130.8	3	3
Oman	2,739.4	11	10
UK	2,730.4	20	16
South Africa	2,383.9	8	6
Jordan	2,147.1	12	5
Total	130,137.9	515	218

Source: fDi Markets and India Exim Bank Research

Coal, oil and gas sector received the maximum investment of US\$ 54.7 billion, accounting for 42.1% of the total FDI inflows received during 2013-2023 (**Chart 4.2**). This was followed by investments in renewable energy (US\$ 33.7 billion), real estate (US\$ 14.7 billion), chemicals (US\$ 12.9 billion), and business services (US\$ 3.4 billion) among others. The maximum number of projects were in renewable energy (70 projects), followed by financial services (50 projects), and food and beverages (39 projects).

Chart 4.2: Major Sectors Attracting FDI from Saudi Arabia (2013-2023)



India's Bilateral Investment Relations with Saudi Arabia

According to the UNCTAD World Investment Report 2023, India was an outperformer of the global south for FDI flows in 2022. Globally, it was ranked at the 8th position in terms of FDI inflows and at the 25th position for FDI outflows during the same year.

India's appeal is evident in the realm of greenfield projects, ranking among the top five recipients globally. The country secured 1,008 greenfield investments, placing it behind only the United States (2,075 projects) and the United Kingdom (1,230 projects). Furthermore, India experienced a remarkable surge in international project finance deals. The number of projects witnessed a substantial 64% increase, reaching 137 deals. This impressive figure positions India as the second-largest recipient globally, trailing only the United States with 301 project finance deals. Meanwhile, a 16% decline was observed in outward investment by Indian multinational enterprises (MNEs) in 2022, resulting in a total of US\$ 15 billion.

India's financial sector is undergoing a period of calculated liberalization. In 2022, the government amended its policy to permit FDI of up to 20% in the state-owned Life Insurance Corporation of India (LIC). This follows the existing policy allowing foreign ownership of up to 74% in private insurance companies and 20% in state-owned banks. This shift opens doors for foreign entities to participate in the previously restricted state-run insurance sector. Furthermore, India is demonstrating a commitment to sustainable finance. New regulations require financial institutions and companies to report on sustainability factors, including carbon emissions. This aligns with India's growing focus on clean energy, as evidenced by US\$ 80 billion in international investments attracted to renewable energy projects between 2015 and 2022, representing 14% of the total project value.

Saudi Arabia occupies an exceptional geographical location in terms of international trade and logistics. It offers plentiful natural resources, raw material, energy, and human capital and is actively pursuing foreign investments in sectors like tourism, renewable energy, and technology, offering targeted incentives to diversify its economy by 2030. The government has implemented significant reforms to create a more investor-friendly environment, by streamlining the procedure to establish a business by foreign national, provision of 30-year tax relief package to attract companies establishing their regional headquarters in Saudi Arabia and providing visa flexibility to investors visiting Saudi Arabia to name a few.

Saudi Arabia is part of four regional trade agreements namely, Pan Arab Free Trade Agreements (FTA), GCC-Singapore FTA, GCC economic bloc and GCC- European Free Trade Agreement. Two more agreements with Australia and Japan with the GCC are under negotiations.

Indian Investments in Saudi Arabia

To get a more meaningful understanding of the trends in Indian overseas investments in Saudi Arabia, this study has drawn upon the data collated by the Financial Times through its online database tracking cross-border greenfield investment, viz. fDi Markets. According to Financial Times' fDi Markets, during January 2013 to December 2023, total capital investment of India in Saudi Arabia stood at a cumulative amount of US\$ 5.4 billion, making India the 6th largest investing country through 62 projects (**Table 4.6**). The investments picked up in 2016 to US\$ 704 million, before falling to US\$ 14.4 million in 2017. In the entire period of consideration, FDI outflow from India was the highest in 2022 for an amount of US\$ 4,012 million in only 9 projects however this trend reversed in 2023 with an increase in the number of projects to 19 but limited capex of US\$ 132.6 million. This hints towards a diversification of investor interests in Saudi Arabia.

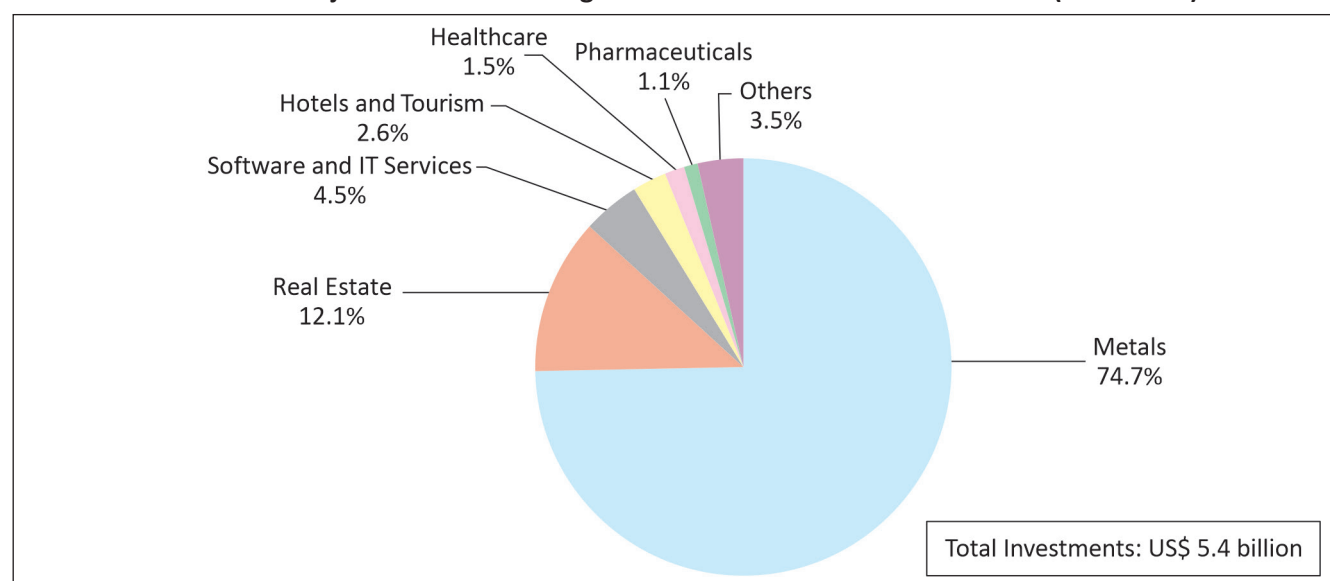
Table 4.6: Indian Foreign Direct Investments in Saudi Arabia (2013-2023)

Year	Capital Expenditure (US\$ million)	Number of Projects	Number of Companies Invested
2013	264.7	4	4
2014	1.3	1	1
2015	26.0	4	3
2016	703.7	5	4
2017	14.4	3	2
2018	113.2	2	2
2019	36.2	4	3
2020	8.8	3	3
2021	44.9	8	8
2022	4,012.2	9	8
2023	132.6	19	18
Total	5,358.0	62	50

Source: fDi Markets and India Exim Bank Research

In terms of capital investments, majority share has been in the metals (74.7% of Indian investments to Saudi Arabia), real estate (12.1%), software and IT services (4.5%) and hotels and tourism (2.6%) **(Chart 4.3)**.

Chart 4.3: Major Sectors Attracting Indian Investments in Saudi Arabia (2013-2023)



Source: fDi Markets and India Exim Bank Research

Saudi Arabia's Investments in India

According to the fDi Markets database, India was the 19th largest FDI destination for Saudi Arabian investments during January 2013 to December 2022. India accounted for US\$ 1.1 billion of FDI receipts from Saudi Arabia,

coming through only 20 projects during 2013-2023 (**Table 4.7**). India witnessed a peak of inflows from Saudi Arabia in 2016 of US\$ 700.1 million and with the second-highest number of companies invested during the period. After 2016, India witnessed relatively consistent capex from Saudi Arabia averaging to US\$ 55.4 million between 2017-2020. The inflows were limited to only US\$ 3.7 million in 2021 due to geopolitical tensions but recovered rapidly by almost 22 times from 2021 level in 2022 to US\$ 80 billion.

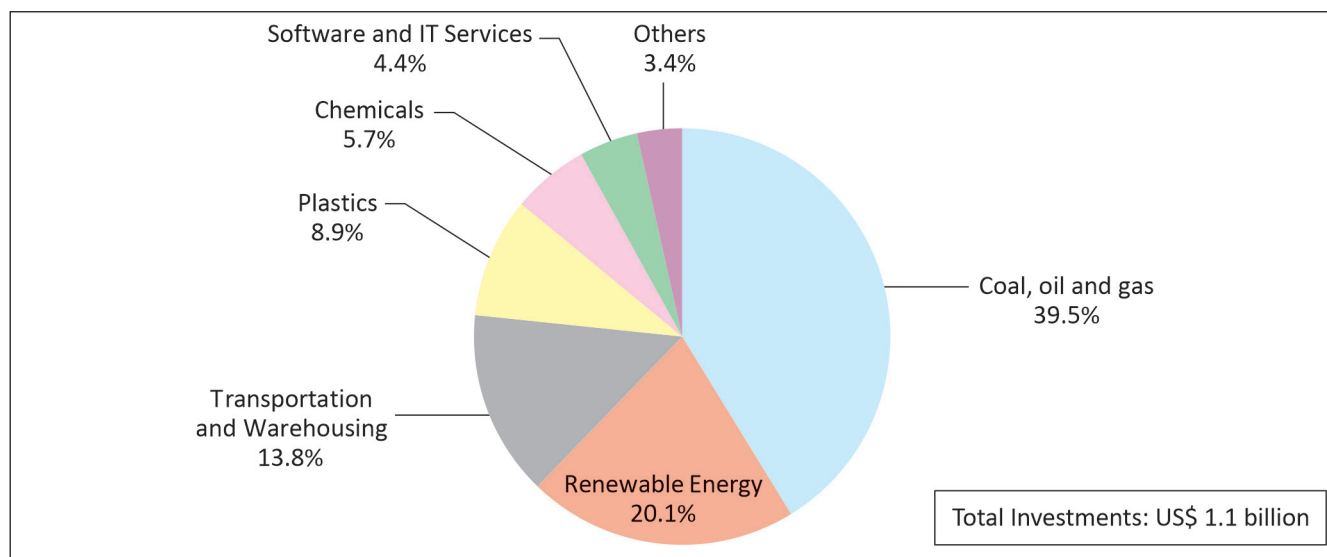
Table 4.7: Saudi Arabian Foreign Direct Investments in India (2013-2023)

Year	Capital Expenditure (US\$ million)	Number of Projects	Number of Companies Invested
2013	110.3	7	2
2015	5.8	1	1
2016	700.1	3	3
2017	51.6	1	1
2018	51.6	1	1
2019	20.6	1	1
2020	97.7	2	2
2021	3.7	1	1
2022	80.0	3	3
Total	1,121.4	20	13

Source: fDi Markets and India Exim Bank Research

In terms of investments, the larger share has been in coal, oil & gas (39.5%), renewable energy (20.1%), transportation and warehousing (13.8%), plastics (8.9%) and chemicals (5.7%) during 2013-2023 (**Chart 4.4**).

Chart 4.4: Major Sectors Attracting Saudi Arabian Investments in India (2013-2023)



Source: fDi Markets and India Exim Bank Research



Potential for Enhancing India's Trade and Investment with Saudi Arabia

India and Saudi Arabia remain strategically important for each other as trade partners and there remains immense scope for scaling the bilateral trade between the two countries and make the economic relations more resilient. From Chapter 2 (**Table 2.2**), it can be observed that India features among the top 5 import source for Saudi Arabia for commodities like electrical machinery and equipment, mineral fuels and oil, precious stones and metals, cereals, plastics and articles, articles of iron and steel, and organic chemicals. This chapter takes an in depth look at the products at HS 6-digit level which could help boost India's export potential to Saudi Arabia.

Revealed Comparative Advantage

Analysing the key products where India has comparative advantage and mapping it with Saudi Arabia's import demand for these products are necessary to increase India's exports to Saudi Arabia. Quantification of comparative advantage helps in identification of products where exports from India have been performing well, as also those where success has been limited, although opportunities are significant.

Revealed Comparative Advantage (RCA) is a measure which has been used extensively to help assess a country's export potential/competitiveness. It helps in identifying categories of exports in which an economy has a comparative advantage by way of comparison of the country's trade scenario with the world trade scenario. It provides useful information about potential trade prospects with new partners. The basic assumption underlying the concept of revealed comparative advantage is that the trade profile reflects the inter-country differences in terms of relative costs as well as non-price aspects.

As per Balassa's (1965) measure, RCA index for country *i* for commodity *j* is:

$$RCA_{ij} = (x_{ji}/X_i) / (x_{jw}/X_w)$$

where,

x_{ji} : Exports of Commodity 'j' from Country 'i'

X_i : Total Exports from Country 'i'

x_{jw} : Total Exports of Commodity 'j' from World

X_w : Total Exports from World

The RCA index ranges from 0 to infinity, with 1 as the break-even point. An RCA value of less than 1 means that the product does not have a comparative advantage, while a value above 1 indicates that the product has a comparative advantage.

Since the RCA analysis is used in regard to one country's exports profile with reference to the world, the above formula of revealed comparative advantage has been modified to assess India's competitiveness in bilateral trade relations with Saudi Arabia.

$$RCA_{ijc} = (x_{ijc}/X_{ic}) / (x_{wjc}/X_{wc})$$

where,

x_{ijc} : India's Exports of Commodity 'j' to Saudi Arabia

X_{ic} : India's Total Exports to Saudi Arabia

x_{wjc} : World's Exports of Commodity 'j' to Saudi Arabia

X_{wc} : World Total Exports to Saudi Arabia

The Normalized Revealed Comparative Advantage (NRCA) index demonstrates the capability of revealing the extent of comparative advantage that a country has in a commodity with more precision and consistency. NRCA can be defined in the following manner.

$$NRCA_{ijc} = (RCA_{ijc} - 1) / (RCA_{ijc} + 1)$$

NRCA ranges from -1 to 1, with 0 as the breakeven point. That is, an NRCA value of less than 0 and greater than -1, means that the product has no export comparative advantage, while a value above 0 and less than 1, indicates that the product has a comparative advantage. The extent of comparative advantage/disadvantage can be gauged from the proximity of the NRCA values to the extreme data points, viz. +1 and -1.

The export competitiveness of India has been mapped with respect to Saudi Arabia's demand. This has been undertaken with a view to outline a market specific approach for exporters. An overarching analysis has been attempted to identify products from the industries for which India has existing export capabilities to Saudi Arabia. These products are the potential export growth drivers from India to Saudi Arabia and could suitably be targeted. The section also attempts to identify the products where India could focus on, to realize potentially higher values of exports to Saudi Arabia, especially when considering that India already possesses manufacturing capabilities for these products. The objective of the exercise is to construct a product market matrix for products in demand in Saudi Arabia, so that necessary actions and policies can be formulated in the direction to enhance exports of these potential products from India to Saudi Arabia.

Following are the considerations in the analysis:

- **Time Period:** The time period considered for the analysis is 2018-2022.
- **Product Limit:** Only those products at 6-digit HS code level with a minimum export value of US\$ 0.5 million from India to Saudi Arabia is considered in the analysis.
- **Parameters in Consideration:** The analysis in this section considers two major determinants of India's performance in Saudi Arabia, namely, the NRCA for products, and Average Annual Growth Rate (AAGR) of world exports to Saudi Arabia.

On the basis of these three considerations, a four-quadrant matrix is prepared for product identification. The four quadrants imply the following:

Product Champions (Product Import AAGR of Saudi Arabia > World Import AAGR of Saudi Arabia; Positive NRCA): These products have the maximum potential, as Saudi Arabia's import demand for these products has shown robust AAGR over the period 2018-22, while India's exports of these products to Saudi Arabia are also competitive, reflected in positive NRCA values for such products. These are the products with maximum export potential to Saudi Arabia and India needs to further expand its exports of these products in order to take advantage of its competitive position and achieve a greater market share in Saudi Arabia.

Underachievers (Product Import AAGR of Saudi Arabia > World Import AAGR of Saudi Arabia; Negative NRCA): India does not have competitiveness in these products although their import demand has grown in Saudi Arabia significantly over the period under consideration. India can strive towards building capacities and capabilities in these identified products. These are the products in which India can diversify in the medium to long term to continue being a strategic trade partner to Saudi Arabia and further expand its bilateral ties with the country.

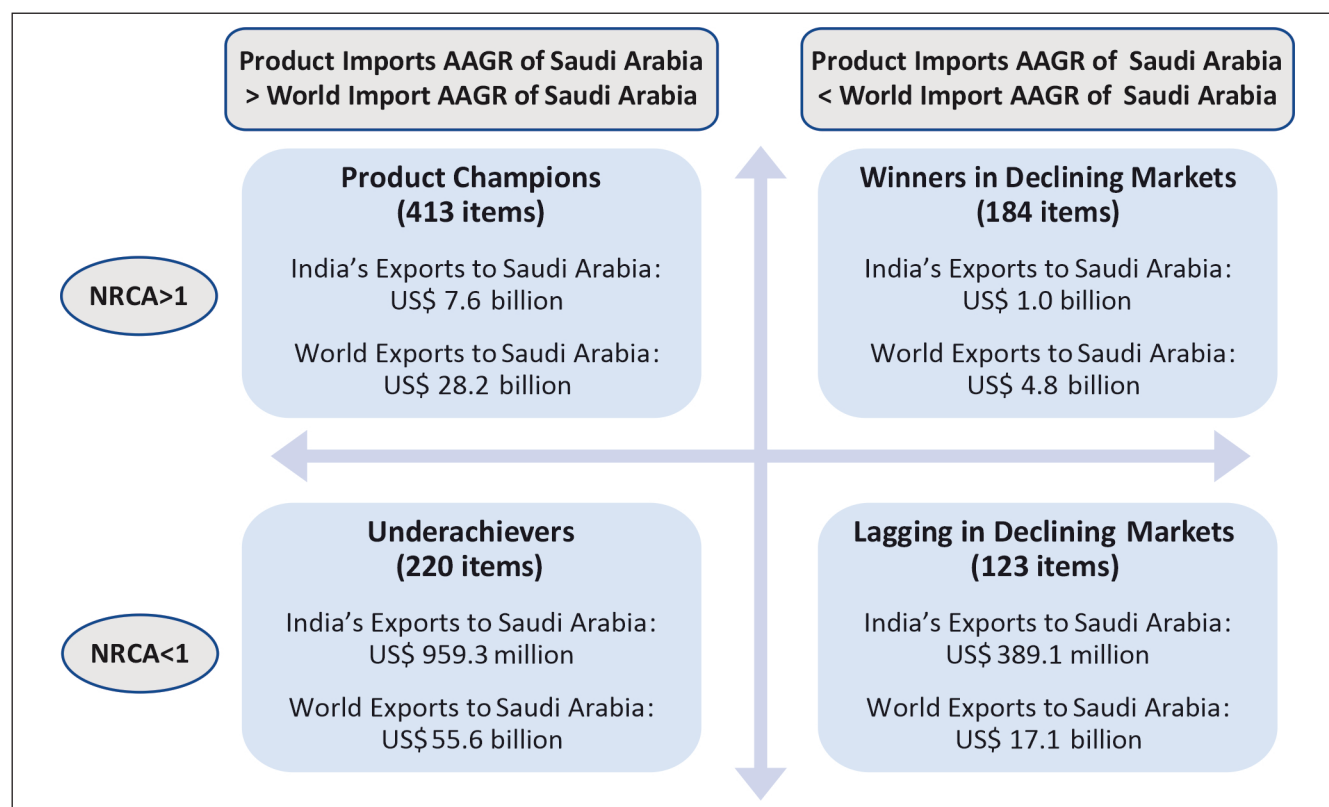
Winners in Declining Sectors (Product Import AAGR of Saudi Arabia < World Import AAGR of Saudi Arabia; Positive NRCA): India has competitiveness in these products, even though Saudi Arabia's import AAGR for these products has been declining. These products may not have much demand in the future, and hence, scarce resources from these sectors could be diverted to other sectors where demand expectations are positive.

Lagging in Declining Sectors (Product Import AAGR of Saudi Arabia < World Import AAGR of Saudi Arabia; Negative NRCA): India does not have competitiveness in these products, and these sectors have also registered weak import demand in Saudi Arabia during the period under consideration.

Product Identification Based on Competitiveness

To identify the products based on their export competitiveness in Saudi Arabia, a four-quadrant analysis has been undertaken based on the HS Code classifications at 6-digit level, whilst calculating their NRCA and mapping them against the AAGR of global imports of Saudi Arabia for all products. The quadrants are drawn by comparing the overall AAGR of global imports of Saudi Arabia for all products during 2018-2022 (which was 9.0%), to the NRCA of India's exports to Saudi Arabia during the same period. This exercise aims to identify products whose imports in Saudi Arabia over the period 2018-2022 have performed better than the overall average of Saudi Arabia for all products during this period, implying that the share of such products in Saudi Arabia's import basket has witnessed an increase, a reflection of their rising demand and dynamism. At 6-digit HS Code, with minimum exports of US\$ 0.5 million from India to Saudi Arabia, 940 products have been identified with the total exports from India to Saudi Arabia, amounting to US\$ 10 billion (98.1% of India's exports to Saudi Arabia in 2022) while the total global imports by Saudi Arabia in the same products stood at US\$ 105.7 billion in 2022 (55.7% of Saudi Arabia's global imports in 2022) (**Table 5.1**).

Table 5.1: Product Identification for Exports from India to Saudi Arabia (2022)



Source: India Exim Bank's Estimates based on ITC Trade Map

Out of the 940 items at the HS 6-digit level, 413 items fell into the category of the product champions. The combined exports of these items from India to Saudi Arabia were US\$ 7.6 billion in 2022, representing approximately 74.7% of India's exports to Saudi Arabia in 2022. Major product champions are provided in **Table 5.2**. These products are low hanging fruits for India and can be targeted in the short to medium term. Saudi Arabia's global imports of these product champions amounted to US\$ 28.2 billion in 2022, implying that there remains substantial scope for tapping the Saudi Arabia market for these products.

Table 5.2: List of Major Product Champions from India to Saudi Arabia

HS Code	Product	India's Exports to Saudi Arabia (US\$ mn)	Share in India's Total Exports to Saudi Arabia (%)	Global Imports of Saudi Arabia (US\$ mn)	Share in Global Imports of Saudi Arabia (%)
100630	Semi-milled or wholly milled rice	989.2	9.7	1361.5	0.5
870322	Motor cars and other motor vehicles principally designed for the transport of <10 persons, incl. station wagons and racing cars	487.0	4.8	8092.1	0.3
870421	Motor vehicles for the transport of goods, with only compression-ignition internal combustion piston engine "diesel or semi-diesel", of a gross vehicle weight <= 5 t	227.5	2.2	643.7	0.1

HS Code	Product	India's Exports to Saudi Arabia (US\$ mn)	Share in India's Total Exports to Saudi Arabia (%)	Global Imports of Saudi Arabia (US\$ mn)	Share in Global Imports of Saudi Arabia (%)
020230	Frozen, boneless meat of bovine animals	162.9	1.6	319.9	0.1
690721	Ceramic flags and paving, hearth or wall tiles	86.5	0.9	328.1	-
847989	Machines and mechanical appliances	84.9	0.8	161.8	-
740811	Wire of refined copper, with a maximum cross-sectional dimension of > 6 mm	82.3	0.8	1290.6	-
251110	Natural barium sulphate "barytes"	70.0	0.7	119.9	-
760511	Wire of non-alloy aluminium, with a maximum cross-sectional dimension of > 7 mm	66.4	0.7	257.5	-
390761	Polyethylene terephthalate", in primary forms, having a viscosity number of >= 78 ml/g	57.1	0.6	68.0	-
271312	Petroleum coke, calcined	56.4	0.6	318.7	-
720230	Ferro-silico-manganese	50.9	0.5	55.9	-
401120	New pneumatic tyres, of rubber, of a kind used for buses and lorries	47.1	0.5	707.5	-
281512	Sodium hydroxide "caustic soda" in aqueous solution "soda lye or liquid soda"	45.3	0.4	207.2	-
610910	T-shirts, singlets and other vests of cotton, knitted or crocheted	42.2	0.4	379.1	-

Note: "-" negligible

Source: ITC Trade Map and India Exim Bank Research

The total number of products in growing in declining markets category is 184, with India's exports amounting to US\$ 1 billion and constitute a share of 10.1% of India's exports to Saudi Arabia in 2022. These are the product items in which India has competitive advantage and has attained a significant share in Saudi Arabia's import basket, however, Saudi Arabia's import demand for these products has been falling in the last five years (**Table 5.3**). India needs to diversify away from this segment of products and move towards the Product Champions and the Underachievers segment.

Table 5.3: List of Major Products Under Growing in Declining Markets Category from India to Saudi Arabia

HS Code	Product	India's Exports to Saudi Arabia (US\$ mn)	Share in India's Total Exports to Saudi Arabia (%)	Global Imports of Saudi Arabia (US\$ mn)	Share in Global Imports of Saudi Arabia (%)
870323	Motor cars and other motor vehicles principally designed for the transport of <10 persons, engine of a cylinder capacity > 1.500 cm ³ but <= 3.000 cm ³	90.6	0.9	237.4	0.1
790111	Unwrought zinc, not alloyed, containing by weight >= 99,99% of zinc	78.7	0.8	192.0	0.1
170199	Cane or beet sugar and chemically pure sucrose, in solid form	66.8	0.7	32.2	-
482390	Paper, paperboard, cellulose wadding and webs of cellulose fibres	40.2	0.4	29.8	-
030617	Frozen shrimps and prawns	37.9	0.4	47.1	-
611120	Babies' garments and clothing accessories of cotton, knitted or crocheted	37.9	0.4	121.2	0.1
080450	Fresh or dried guavas, mangoes and mangosteens	25.5	0.3	70.4	-
730820	Towers and lattice masts, of iron or steel	22.1	0.2	30.7	-
040590	Fats and oils derived from milk, and dehydrated butter and ghee	20.6	0.2	53.7	-
850490	Parts of electrical transformers and inductors, n.e.s.	19.5	0.2	85.6	-
610990	T-shirts, singlets and other vests of textile materials, knitted or crocheted	18.8	0.2	99.7	0.1
730840	Equipment for scaffolding, shuttering, propping or pit-propping	16.2	0.2	77.4	-
850710	Lead-acid accumulators of a kind used for starting piston engine "starter batteries"	16.1	0.2	265.1	0.1
841370	Centrifugal pumps, power-driven	16.0	0.2	123.1	0.1
620520	Men's or boys' shirts of cotton	15.6	0.2	49.4	-

Note: "-" negligible

Source: ITC Trade Map and India Exim Bank Research

The product category of underachievers comprised 220 items, with India's exports of these products amounting to US\$ 959.3 million to Saudi Arabia. These products constitute a share of 9.4% in India's total exports to Saudi Arabia. These are the product items in which import demand in the Saudi Arabia market are rising, but exports from India are currently not competitive (**Table 5.4**). Saudi Arabia's imports of these products stood at US\$ 55.6 billion in 2022, presenting significant opportunities for exporters. There is a need for capacity creation in these product categories, through an appropriate incentive framework for attracting investments into the country.

Table 5.4: List of Major Underachievers from India to Saudi Arabia

HS Code	Product	India's Exports to Saudi Arabia (US\$ mn)	Share in India's Total Exports to Saudi Arabia (%)	Global Imports of Saudi Arabia (US\$ mn)	Share in Global Imports of Saudi Arabia (%)
271012	Light oils and preparations, of petroleum or bituminous minerals	258.9	2.6	13,243.1	0.1
851713	Smartphones for wireless networks	206.7	2.0	4,663.0	0.1
711319	Articles of jewellery and parts	63.8	0.6	1,487.6	-
760120	Unwrought aluminium alloys	14.3	0.1	380.7	-
040510	Butter (excl. dehydrated butter and ghee)	11.6	0.1	244.9	-
620442	Women's or girls' dresses of cotton	11.1	0.1	624.4	-
851762	Machines for the reception, conversion and transmission or regeneration of voice, images	10.5	0.1	1,874.1	-
841510	Air conditioning machines	10.3	0.1	1,053.4	-
540752	Woven fabrics of yarn containing >= 85% by weight of textured polyester filaments	9.0	0.1	174.4	-
853590	Electrical apparatus for switching or protecting electrical circuits	8.5	0.1	231.2	-
180690	Chocolate and other preparations containing cocoa	8.4	0.1	189.7	-
842951	Self-propelled front-end shovel loaders	7.9	0.1	216.7	-
853690	Electrical apparatus for switching electrical circuits	7.3	0.1	185.3	-
392690	Articles of plastics	6.9	0.1	359.8	-
870423	Motor vehicles for the transport of goods, with only compression-ignition internal combustion piston engine "diesel or semi-diesel", of a gross vehicle weight > 20 t	6.8	0.1	172.8	-

Note: "-" negligible

Source: ITC Trade Map and India Exim Bank Research

Exports from India to Saudi Arabia under lagging in declining market category stood at US\$ 389.1 million or 3.8% of India's total exports to Saudi Arabia in 2022. The significant range of exports under the category of declining sectors, which include among others, medicaments (HS 300490), appliances for pipes (HS 848180), perfumes (HS 330300), highlight the need for diversification to other sectors as well as industries which have greater scope for exports in the future. If the scarce resources are not diverted, then excess of supply to these sectors facing limited demand in Saudi Arabia, would result in further fall in their prices in the future. Thus, a shift needs to be made from the declining sectors to the product champions in the short run and underachievers in the medium to the long run, to make efficient utilization of resources and further enhance exports from India to Saudi Arabia.

Potential Areas for Enhancing Investment Relations

Given the symbiotic relationship between India and Saudi Arabia, there exist immense opportunities for collaboration and cooperation in several areas of mutual interest. Both Saudi Arabia and India, driven by strong policy initiatives, and strong macroeconomic fundamentals are expected to witness robust economic activity and growth prospects in the coming years.

Saudi Arabia

Saudi Arabia's Vision 2030 is a comprehensive plan driving a swift economic and social transformation. In the coming years, a surge in investment projects is anticipated. These projects aim to establish new industries, fostering a diversified economy that moves beyond its historical dependence on the oil and gas sector. Saudi Arabia also intends to increase the private sector's contribution by encouraging investments, both domestic and foreign, in healthcare, municipal services, housing, finance, and renewable energy, among others.

The development of large-scale ambitious projects, including those such as development of futuristic smart cities, sustainable tourism destinations and cultural hubs, requires substantial funding from a variety of sources. These include the government itself importantly through the Public Investment Fund (PIF), besides private entities. The Saudi Arabian government, therefore, plays a major role in driving economic diversification across various sectors, including technology, tourism, and culture, with the PIF serving as a key financial instrument for these endeavours.

India

India stands out as a global economic powerhouse with a rapidly growing economy, even amidst global challenges since 2020. This resilience is a testament to its investor-friendly policies that have successfully attracted significant foreign capital and fostered sustainable growth. Remittances from non-resident Indians (NRIs) have played a very important role in building foreign exchange reserves and contributing to economic growth. According to the UN Migration Report 2024, India became the first country to surpass the US\$ 100 billion mark as a recipient of remittances in 2022, with a staggering total of US\$ 111 billion. Additionally, India's vast human resource pool provides a major competitive edge in all the sectors. India is also the source of the largest number of international migrants in the world with large diasporas living in countries such as the United Arab Emirates, the United States and Saudi Arabia. As the country strives to become a global manufacturing hub, its sheer workforce size offers a significant advantage. The government's "Make in India, Make for the World" initiative capitalizes on this strength by incentivizing leading global companies to invest in the Indian manufacturing sector, further solidifying the nation's position as a key player in the global market. According to the UNCTAD, India was the 8th largest recipient of FDI globally in 2022.

Investment Partners

Saudi Arabia has invested US\$ 1.1 billion in India between January 2013 to December 2023 emerging as the 30th largest investor in India and accounting for 0.2% of envisaged investments received by India during the same period. Major Saudi Arabian firms like Aramco, SABIC, Zamil Industrial and the Al-Batterjee Group have contributed to this growing partnership in India. A substantial portion, US\$ 442.8 million, has been directed towards the traditional sectors of coal, oil, and gas between 2013 and 2023, representing 40% of total Saudi investment²³. Energy cooperation has remained a major pillar of the India-Saudi Arabia relations, with Saudi

²³ fDi Markets

Arabia being a major source for crude oil imports as well as FDI into the energy sector. Saudi Arabia's Public Investment Fund (PIF) has invested across various sectors in India including telecommunication, retail, food processing and healthcare technology, as well as in Indian start-ups²⁴.

Besides being one of the major recipients of global FDI inflows, India has also increasingly emerged as an important global investor in overseas markets. India was the 6th largest investor in Saudi Arabia, with Saudi Arabia accounting for a share of 3.1% in India's envisaged investments during 2013 to 2023. This chapter delves deeper into the various areas of cooperation for India and Saudi Arabia to enhance their bilateral investment potential.

Potential Areas for Investment and Cooperation

Agriculture and Allied Sectors

The Indian food and agriculture industry has undergone a remarkable transformation in the past three decades. Boasting the world's second-largest production in food, horticulture, and fisheries, and ranking first in production of milk and spices, the sector is a significant contributor to the Indian economy²⁵. In 2022, agriculture and allied activities comprised 16.7% of GDP and employed 42.9% of the workforce²⁶. Further, India's agriculture exports stood at a high of US\$ 47.6 billion in 2022-23 and the growth in exports in recent years has fuelled expansion, innovation, and adoption of new technologies and practices, propelling the exploration of domestic and international markets.

India's Agritech sector has witnessed a phenomenal surge in investments over the past three years. This can be attributed to several key drivers: expanding digital connectivity across the nation, disruptions in supply chains caused by the COVID-19 pandemic, a growing consumer preference for high-quality produce, and a significant rise in interest from private equity and venture capital firms. Notably, with nearly 2,800 recognized Agritech startups as of December 2023²⁷, India's focus on Agritech investment emanates from the global trend of investment in innovative food products. The focus has been on providing technology solutions to enhance farm practices and agricultural efficiency while mitigating climate risks. The government has been constantly making efforts to promote precision farming initiatives and climate smart agriculture in the face of climatic vagaries to reduce the negative impacts of climate change on traditional agricultural systems. The creation of digital public infrastructure like easing digital reach through Farmers Producer Organisations (FPOs), digital soil-health cards and the development of agristack, a unified agricultural database has been helping agritech companies to easily access and scale up their business models²⁸.

Another sunrise sector is India's food processing sector which plays a quintessential role in connecting farmers to domestic and international consumers. This sector holds significant weight, contributing nearly 18.3% of the total agricultural sector's gross value addition to the economy in 2022-23. Exports of agricultural and processed food products are flourishing, reaching nearly US\$ 51 billion in 2022-23, with major destinations including the USA, Bangladesh, and the UAE. The Indian food processing market is projected to reach a

²⁴ India Saudi Arabia, Bilateral Brief, Ministry of External Affairs, August 2023.

²⁵ Invest India

²⁶ WDI Database, World Bank

²⁷ Start Up India Database

²⁸ How agtech is poised to transform India into a farming powerhouse, McKinsey Article, 2023

staggering US\$ 535 billion by 2025 driven by various initiatives of the government including setting up of Mega Food Parks and agro-processing clusters²⁹.

As a major food supplier to Saudi Arabia (second only to Brazil in 2022), India could collaborate with Saudi Arabia to help address Saudi Arabia's food security challenges of which also remains an important objective in Saudi Arabia's Vision 2030. Saudi Arabia's arid climate and water scarcity challenges could be addressed by leveraging India's expertise in cutting-edge technologies like vertical farming, controlled-environment agriculture, and smart agriculture with integration of technologies like internet of things (IoT).

Infrastructure and Connectivity

India's booming construction industry, which is a key driver of economic growth contributing a substantial 9% of GDP, is projected to reach US\$ 1.4 trillion by 2025³⁰. Government of India's initiatives like Smart Cities and the National Infrastructure Pipeline are modernizing infrastructure across sectors. The sector is one of the leading recipients of FDI in the country amounting to US\$ 33.9 billion between April 2000 to March 2024. India's focus on affordable green infrastructure aligns with Saudi Arabia's sustainability goals, creating an opportunity for collaboration that unlocks economic growth and strengthens their strategic partnership.

The government has also been proactive in its investments in other social infrastructures. Water and wastewater management is a promising subsector in India's environmental technology segment with expectations of reaching US\$ 2.08 billion by 2025 from US\$ 1.31 billion in 2020, registering a CAGR of 9.7%³¹. Various government initiatives such as the National Mission for Clean Ganga, Atal Mission for Rejuvenation and Urban Transformation, Jal Jeevan Mission, and Community Drinking Water Schemes, are providing thrust to the Indian water and wastewater treatment sub sector. This has been attracting many small and medium-sized international enterprises especially in the field of engineering and construction, UV disinfection, advanced filtration, and the likes.

India's massive demand for electricity has driven a huge expansion in power generation and transmission. It is among the major power producer as well as consumer of electricity. Infrastructure projects, including areas like power, construction, transport and connectivity, offer a promising investment opportunity for Saudi Arabia.

According to the Project Export Promotion Council of India (PEPC), the Middle East region accounted for 25.4% of India's project exports, 2nd largest after Asia in 2022-23. According to the data from PEPC with respect to its member companies, Saudi Arabia was the largest destination for Indian project exporters, with Indian companies securing the most of number of contracts during 2020-21 to 2022-23. Concomitantly, there also exist immense opportunities in Saudi Arabia for Indian project exporters, who have shown prowess in executing infrastructure projects encompassing sectors like energy, transport, water and sanitation, both domestically and internationally. Indian project exporters have secured diverse contracts in a number of countries, by participating in bids of various multilateral banks, which is a testament to their versatility and technological capabilities.

²⁹ Invest India

³⁰ Invest India

³¹ International Trade Administration, USA

Digital Infrastructure

Over the past few years, India has built a strong digital economy, driven by robust Digital Public Infrastructures (DPIs) which have been contributing significantly to business and economy.

Aadhaar, a unique ID system that uses biometrics and other data to identify citizens, has emerged as a significant DPI, finding relevance and acceptability across various sectors of the economy including banking and financial services. Another important tool is the Unified Payment Interface (UPI), developed by the National Payments Council of India through collaboration between the Reserve Bank of India and the Indian Banks' Association. It is an instant real-time payment system for facilitating inter-bank transactions which is simple, safe, cost-effective mobile-based and has become one of the most prominent forms of digital payments in India. Together, these initiatives aim to promote financial inclusion, improve government service delivery, and empower citizens in the digital age. On the back of these strong DPIs, India could boast of a financial technology (fintech) adoption rate of around 87%, which is substantially higher than the world average of 64%.

In July 2023, the Reserve Bank of India and the Central Bank of UAE signed two MoUs for (i) establishing a Framework to Promote the Use of Local Currencies viz. the Indian rupee (INR) and the UAE Dirham (AED) for cross-border transactions; and (ii) cooperation for interlinking their payment and messaging systems. NPCI International Payments Ltd (NIPL), the international arm of the National Payment Corporation of India announced in April 2022 that BHIM UPI is live at NEOPAY terminals, across the UAE. This initiative is envisaged to empower millions of Indians who travel to the UAE, to make payments using BHIM UPI safely and conveniently. This arrangement would also promote investments and remittances between the two countries. Use of local currencies would optimise transaction costs and settlement time for transactions, including for remittances from Indians residing in UAE.

Countries including Bhutan, France, Mauritius, Nepal, Oman, Singapore, Sri Lanka and UAE are now accepting transactions through India's homegrown digital payments technology. This will ensure seamless, cost effective, swift and secure settlements between India's trading partners. Witnessing the success of UPI in the UAE, Saudi Arabia could also explore similar opportunities for engaging with India and adopting its digital payment mechanisms which could prove to be mutually beneficial. With this integration, tourists traveling between the two countries could enjoy a seamless payment experience.

Information Technology and Business Process Management (IT-BPM)

Capitalizing on its economic strength, technological advancements, skilled population, and sizeable domestic market, India aspires to become a global leader in the digital domain. This vision hinges on the development and adoption of next-generation technologies like 5G/6G, satellite communication (SatCom), and semiconductors. A KPMG report³² projects a significant economic impact from these sectors, estimating a collective contribution of US\$ 240 billion to the Indian economy by FY 2028, translating to roughly 1.6% of the national GDP.

India's IT and information technology-enabled devices (ITES) sector stands as a prominent contributor to the national economy. A large pool of skilled professionals fuels this powerhouse industry, directly employing 5.4 million workers and indirectly supporting an additional 15 million jobs. Software development and related

³² Expanding Tech Horizons Unlocking India's Digital Potential, KPMG, October 2023

services are a key driver, generating US\$ 251 billion in 2022-23, which translates to a substantial 7.4% of GDP. India's prowess extends globally, with exports accounting for a significant 77% of this production (US\$ 193 billion in 2022-23) and boasting a strong annual growth rate of 12.2%. This dominance is further solidified by India commanding 35% share of the global US\$ 1.11 trillion IT-BPM market, cementing its position as a leader in the global sourcing landscape³³.

By leveraging Indian IT exports, Saudi Arabia can gain access to a highly skilled and cost-competitive workforce for tasks like software development, IT infrastructure management, and data analytics. This can empower Saudi Arabian businesses to become more efficient and competitive in the global market. Additionally, Indian IT companies could offer expertise in areas like e-commerce solutions, digital transformation, and cybersecurity, all crucial aspects for building a modern and knowledge-based economy. This collaboration can not only improve operational efficiency within Saudi Arabia but also foster innovation and entrepreneurship within the kingdom.

Pharmaceuticals and Medical Devices

India's pharmaceutical industry is a significant global player, ranking third in production volume. This sector, valued at US\$ 50 billion in 2023³⁴, is known for its affordable generic medicines and vaccines. Contributing roughly 6% to India's merchandise exports in 2023-24³⁵, the industry boasts a strong export presence, supplying 60% of global vaccines and 20% of generic drugs. With an average annual growth rate of 9.5% from 2017-2022 and attracting 3.4% of total FDI inflows, the Indian pharmaceutical industry is projected to reach US\$ 65 billion by 2024 and US\$130 billion by 2030.

The medical device market in India which is valued at around US\$ 11 billion in 2022 and expected to reach US\$ 50 billion by 2025 is experiencing growth prospects, with a CAGR of 16.4%. The Indian medical device market share in the global market is estimated to be 1.65%, and ranks fourth among its Asian counterparts after Japan, China and South Korea. FDI inflow in the medical and surgical appliances sector stood at US\$ 3.3 billion between April 2000-March 2024. The market is segmented into consumables, diagnostic imaging, dental, orthopaedics, and patient aids, with a significant portion controlled by multinational corporations. However, domestic players are on the rise, driven by government initiatives like the National Medical Devices Policy 2023. The National Medical Devices Policy 2023 is expected to facilitate an orderly growth of the medical device sector to meet the public health objectives of access, affordability, quality, and innovation.

Saudi Arabia has a strategic opportunity to leverage India's booming pharmaceutical and medical devices industry. By investing in the Indian pharmaceutical sector, Saudi Arabia could secure a reliable source of affordable, high-quality generic drugs to meet its growing domestic healthcare needs. Furthermore, such investment aligns with Saudi Arabia's goals of developing its own pharmaceutical sector. Collaboration with established Indian firms could provide access to expertise and technology, accelerating Saudi Arabia's ambitions of becoming a regional leader in biotechnology. This partnership would be mutually beneficial, with India gaining access to a lucrative new market and Saudi Arabia achieving greater self-sufficiency in pharmaceuticals.

³³ Electronics and Communication Software Export Promotion Council, Statistical Yearbook 2023

³⁴ Federation of Indian Chambers of Commerce and Industry (FICCI)

³⁵ Includes bulk drugs, drug intermediates, drug formulations and biologicals, calculated using data from MOCI, GOI)

Renewable Energy

India's geographic location presents a significant advantage for harnessing renewable energy sources. Situated within the tropics, the country receives high levels of solar radiation throughout the year, making it an ideal choice of country for solar power generation. Additionally, India's extensive coastline provides consistent and strong winds, ideal for wind energy production. This is reflected in India's global ranking, placing it fourth in total installed renewable energy capacity (including large hydro), fourth in wind power capacity, and fifth in solar power capacity³⁶. Underscoring this potential, India has pledged ambitious nationally determined contributions (NDCs) under the Paris Agreement during the 26th Conference of Parties, or COP26 to combat climate change. These goals include achieving net-zero emissions by 2070 and establishing a target of 500 gigawatts of non-fossil fuel-based energy production by 2030. The India led renewable energy organisation – the International Solar Alliance (ISA) was joined by Saudi Arabia in 2019 which signed and ratified the ISA Framework Agreement. The largest solar plant in Saudi Arabia, Sudair Solar Power Plant in Riyadh has in fact been executed by an Indian company. There remain huge opportunities for both countries to cooperate in solar power generation projects.

In a significant push for clean energy, the Indian government has implemented multifaceted programs to bolster the renewable energy sector. One such initiative is the National Green Hydrogen Mission, launched in January 2023. The mission aspires to position India as a global leader in green hydrogen production, utilization, and export. By 2030, it aims to achieve an annual production capacity of at least 5 million metric tons (MMT) of green hydrogen. This endeavour is projected to generate cumulative savings of ₹ 1 lakh crore through reduced fossil fuel imports and prevent 50 MMT of annual greenhouse gas emissions. Furthermore, the mission anticipates attracting over ₹ 8 lakh crore in investments and creating over 6 lakh jobs by 2030³⁷. Complementing this initiative is the government's PLI scheme for High Efficiency Solar Photovoltaic (PV) Modules. This programme, boasting a total outlay of ₹ 24,000 crore, aims to enhance India's manufacturing capabilities and export potential in the renewable energy sector³⁸.

Despite ambitious decarbonization goals, India faces significant financial hurdles. The McKinsey Report³⁹ estimates that India would require US\$ 7.2 trillion by 2050 (about 3.5% of India's GDP through this period) to achieve decarbonization under current policies and technological advancements and another US\$ 4.9 trillion (about 2.4% of India's GDP through this period) if more ambitious measures like carbon pricing, carbon capture and storage (CCUS), natural climate solutions (NCS), and green hydrogen are implemented. Successful decarbonization presents substantial economic opportunities. By focusing on the six key sectors responsible for 70% of India's emissions – power, automotive, aviation, steel, cement, and agriculture – the nation could unlock green growth and create nearly a million new jobs. Therefore, navigating the financial challenges of decarbonization is crucial to unlocking a sustainable and prosperous future for India.

Saudi Arabia's Vision 2030 has also significantly increased its renewable energy goals, aiming for a massive 130GW capacity by 2030 (up from the initial 9.5 GW target in 2016). This ambitious plan includes diverse renewable sources like onshore and offshore wind, solar power (both photovoltaic and thermal), and biofuels. Through investments and collaborating with India, a nation with established experience in renewable energy, Saudi Arabia could leverage this expertise to accelerate its domestic production. This partnership could be

³⁶ Renewables 2023 Global Status Report, REN21

³⁷ PIB Press Release, January 2023

³⁸ Invest India

³⁹ Decarbonising India Charting a Pathway for Sustainable Growth, McKinsey Report, October 2022

mutually beneficial, with India potentially exporting solar equipment and turbine parts to the growing Saudi Arabian market.

An MoU between India and Saudi Arabia in the fields of Electrical Interconnections, Green or Clean Hydrogen and Supply Chains was signed on the sidelines of the MENA Climate Week in Riyadh in October 2023. This MoU aims to establish a general framework for cooperation between the two countries in the field of electrical interconnection; exchange of electricity during peak times and emergencies; co-development of projects; co-production of green / clean hydrogen and renewable energy; and also establishing secure, reliable and resilient supply chains of materials used in green / clean hydrogen and the renewable energy sector⁴⁰.

Logistics and Warehousing

Fueled by the surge in e-commerce and technological innovation, India's logistics and warehousing sector is undergoing a metamorphosis. This transformation transcends basic transportation and storage, evolving into a sophisticated service that orchestrates the entire supply chain. This holistic approach encompasses last-mile delivery, leverages data analytics to optimize operations, and even employs predictive capabilities to anticipate customer needs. Notably, logistics costs have witnessed a significant reduction, plummeting from 13% of GDP in 2016 to a range of 7.8% - 8.9% in 2021-2022, a testament to the sector's efficiency gains⁴¹.

Progress could also be seen in the World Bank's Logistics Performance Index Ranking, in which India scaled impressive heights, rising from the 54th position in 2014 to the 38th out of 139 countries in 2023. This advancement can be attributed to a multi-pronged approach, including substantial investments in infrastructure, the strategic implementation of digitization initiatives, and a strong focus on skilling the workforce. Furthermore, government policies like the National Manufacturing Policy and National Logistics Policy have significantly bolstered the investment landscape.

The India-Middle East-Europe Corridor (IMEC) initiative, announced during the G20 Summit, 2023, among the leaders from the European Union, France, Germany, Italy, India, Saudi Arabia, UAE, and the US, presents a unique opportunity for Saudi Arabia and India to develop a mutually beneficial trade relationship. The IMEC will comprise of two separate corridors, the east corridor connecting India to the Gulf and northern corridor connecting Gulf to Europe. This new corridor aims to be a dependable and affordable way to move goods between countries, combining ship and rail transport to complement existing sea routes. It intends to increase efficiency, reduce costs, secure regional supply chains, increase trade accessibility, enhance economic cooperation, generate jobs, and lower greenhouse gas emission, resulting in a transformative integration of Asia, Europe, and the Middle East⁴².

While the corridor leverages Saudi Arabia's existing logistics infrastructure, investing directly in India's growing logistics sector offers the country a strategic advantage. Saudi Arabia's investment in India's logistics sector could act as a catalyst and strengthen the entire IMEC framework, benefiting both economies by streamlining trade, reducing costs, and unlocking new growth opportunities. Leveraging Indian technology and skilled manpower could contribute to operational efficiencies and innovation in Saudi Arabia's logistics industry. This symbiotic relationship positions Saudi Arabia as a key player in shaping the future of trade between Asia, Europe, and the Middle East.

⁴⁰ <https://pib.gov.in/PressReleasePage.aspx?PRID=1966200>

⁴¹ Report on Logistics Cost in India: Assessment and Long-term Framework of NCAER.

⁴² Exploring New Frontiers in India-US Bilateral Trade (Exim Bank, WP 133)

Tourism and Hospitality

India's tourism and hospitality industry is a significant contributor to the nation's service sector, playing a pivotal role in driving economic growth and prosperity. It acts as a catalyst for the development of multi-use infrastructure, encompassing hotels of international standards, resorts, exquisite restaurants, efficient transportation networks (aviation, roads, shipping, and railways), and state-of-the-art healthcare facilities. In 2023, data indicates a robust influx of foreign tourists, with 9.23 million visitors contributing US\$ 28.1 billion in foreign exchange earnings into India. Looking ahead, projections for 2028 anticipate the industry generating revenue exceeding US\$ 59 billion, alongside a projected increase in Foreign Tourist Arrivals to a staggering 30.5 million by the same year⁴³.

India has emerged as a popular destination for medical tourism due to its advanced healthcare facilities, skilled healthcare professionals, and lower costs of medical treatments compared to developed countries. India is increasingly becoming the preferred medical treatment destination for people from the Middle East, Africa, and some Western countries such as the US and UK various medical services, including cardiac surgery, organ transplantation, dental care, and traditional medicine. According to the Medical Tourism Index 2020-21, India ranked 10th among the top 46 destinations, 12th globally in wellness tourism markets, and 5th in Asia-Pacific for wellness tourism destinations⁴⁴. India's healthcare industry offers a unique blend of modern and traditional medical practices at competitive costs, coupled with its geographical accessibility. This advantage, along with world-class healthcare facilities, positions India as a leading destination for medical tourism and wellness retreats, attracting a significant 21% of international travellers seeking healthcare services⁴⁵.

Recognizing a shared vision for the potential of the tourism sector, Saudi Arabia offers a compelling case for collaboration with India's expanding tourism industry in areas ranging from recreational tourism, religious and medical tourism, to the hospitality sector. Saudi Arabia's Vision 2030 outlines investments in pilgrimage facilities and services to improve the experience for visitors. This includes expanding digital services to streamline procedures and potentially integrate them with religious tourism offerings. While the current Hajj quota for India has remained stable at 175,025 pilgrims for 2023 and 2024, the possibility of future increases could be explored. This could benefit both pilgrims and tourism for both countries. Saudi Arabia has made significant progress by attracting over 100 million tourists in 2023 and generating US\$ 67 billion in revenue. The robust tourism sector presents a strategic opportunity for India. By leveraging Saudi Arabia's strong investment appetite and India's high-quality healthcare services, a powerful synergy could be achieved between the nations.

Defence Equipment/ Technology Development

India's defence sector is undergoing a major transformation through policy reforms by the government and digital solutions provided by the Indian industry thereby achieving exports of US\$ 2.6 billion in 2023-24⁴⁶. In recent years the defence sector has also witnessed increasing participation by the private sector including startups. This is evident in the significant increase in FDI allowed – up to 74% through an automatic route and a full 100% with government approval. With India's prowess in software development and services, coupled with strengths in hardware manufacturing, India is poised to be one of the major electronics manufacturing

⁴³ Invest India

⁴⁴ FICCI

⁴⁵ Invest India

⁴⁶ PIB Press Release, Ministry of Defence, April 1, 2024.

hubs in the world. India is trying to create opportunities in the defence sector not just for co-development and co-production but to also meet requirements for all friendly foreign nations. Defence cooperation has helped in demonstrating India's commitment to regional stability as well as showcasing India's defence/defence-industrial capabilities.

In recent years Saudi Arabia has emerged as a destination for India's defence exports. Maritime cooperation has emerged as one of the of cooperation in the domain of defence and capacity building between the two countries. As a part of the Joint Committee on Defence Cooperation, India and Saudi Arabia have been considering possibilities of joint development and production of defence equipment. Saudi Arabia aims to indigenously produce 50% of its military equipment spending by 2030. These could be done through direct investments and strategic partnership between Indian and Saudi companies which will help knowledge exchange and technology transfer.



Way Forward and Recommendations

India and Saudi Arabia share strong and deep ties of cooperation. Both countries have emerged as trusted strategic partners for each other, with several economic complementarities. India's rapidly growing economy, digital public infrastructure, and stable institutions complement Saudi Arabia's enormous hydrocarbon resources, connectivity, and economic influence in the Middle East. Saudi Arabia and India both emerged as fastest growing economies among the G20 in 2022 and Saudi Arabia's pursuit for economic diversification beyond hydrocarbons bodes well with India's cost effective and innovative technologies. The symbiotic bilateral trade relations is evident from India's export basket comprising refined petroleum, organic chemicals, cereals, motor vehicles, machinery, and electrical equipment while Saudi Arabia export basket comprises crude oil, fertilizer, organic chemicals, plastic articles, among others. India is among the major suppliers of electric equipment, refined oil, precious stones and metals, cereals, plastic articles, iron and steel, among others for Saudi Arabia. India is also an important market for Saudi products like crude oil, organic chemicals, fertilizers, inorganic chemicals, and compounds, among others. As new trade and investment partnerships are forming across the world, India and Saudi Arabia could forge mutually beneficial collaborations in a number of diverse areas, which are discussed below.

Enhancing India-Saudi Arabia Merchandise Trade based on Identified Potential

India needs to expand its production and trade in products in which it has comparative advantage with Saudi Arabia. This would help in expansion of trade and improve India's merchandise trade balance (deficit of US\$ 36 billion in 2022) with Saudi Arabia. The study has identified potential items of exports which could be targeted by Indian exporters. According to the analysis, in the short term, it is suggested to strengthen the existing products in the category of Product Champions to harness the full potential for the products which are already showing a robust growth in Saudi Arabia, where India's exports also hold a comparative advantage. These are mainly rice, passenger vehicles, goods vehicles, automotive parts like engines and tyres, frozen boneless bovine meat, ceramic items, wires of copper / aluminium, chemical compounds, cotton T-shirts, among others.

In the medium to long run, efforts and investments could be enhanced in the Underachievers category products to develop capacities in these products, which will help in meeting the demands of Saudi Arabia in a more competitive manner. These include light oil and preparations, smart phones for wireless network, articles of jewellery, aluminium alloy, butter, women's dresses, air condition machines, electric apparatus, chocolate preparation and articles of plastic, commercial vehicles, among others.

According to the EEPC India⁴⁷, Saudi Arabia was the third largest market for India's engineering goods exports in 2023-24, which stood at US\$ 5.2 billion and registered an increase of 69.7% over 2022-23. Saudi Arabia accounted for a share of 4.8% in India's engineering exports after USA (16.1%) and UAE (5.4%). The major engineering goods exported to Saudi Arabia are vehicles and automotive parts, and machinery and mechanical appliances, electrical equipment, articles of iron and steel, among others. As a growing economy, Saudi Arabia remains a key market for India's engineering goods exports.

Saudi Arabia could also explore a similar Local Currency Settlement (LCS) mechanism with India, as is the arrangement between India and UAE, which would help in reducing transaction costs, accelerate settlement timings and enhance predictability of trade. The surplus currency could be utilised in various investment opportunities in mutually agreed areas.

Saudi Arabia remains India's 2nd largest export destination in the GCC and therefore and a FTA with Saudi Arabia could provide greater market access for India's exports. Harmonisation of digital trade and e-commerce could also help in boosting bilateral trade between the two countries.

Enhancing Services Trade

India was the 5th largest services exports supplier to Saudi Arabia in 2021 at US\$ 3.3 billion, accounting for a share of 5.1% in Saudi Arabia's global services imports, which was US\$ 73.2 billion. The other major services exporters ahead of India were USA, UK, UAE, and China, respectively, during the same period. India accounted for 56.9% of Saudi Arabia's global imports of telecommunication, computer, and information services in 2021⁴⁸. This sector remains India's strength as it also dominated India's services exports to Saudi Arabia accounting for a share of 20.8% of total services exports. However, there remains significant scope for expanding India's services exports in other areas like other business services which accounted for majority of India's exports to Saudi Arabia (55.4%) and include research and development services; professional and management consulting services and technical, trade-related, and other business services. But in terms of Saudi Arabia's global imports, India's business services exports accounted for a modest 8.9% share. Other services sectors with potential for further enhancing India's exports include construction services (2.9% share in Saudi's global import of the respective service), financial services (2.1%), transportation services (1.4%), and travel-related services (1.3%).

On similar lines as the India-UAE Comprehensive Economic Partnership Agreement (CEPA), India and Saudi Arabia could also elevate their strategic partnership to the next level by exploring scope of a Free Trade Agreement in services. Capacity building in areas like technical, IT and education could also lead to higher services exports by creating demand.

Mutual Recognition Agreements

Mutual recognition agreements (MRAs) recognise different regulatory regimes of partners on the presumption that they achieve the same end objectives. Among others, India and Saudi Arabia could share expertise in the field of education. Indian universities supporting technical education could be set up in Saudi Arabia. Mutual recognition of professional qualifications and skills qualifications in the Agreement could facilitate

⁴⁷ Analysis of Engineering Exports and Imports during March 2024, EEPC India.

⁴⁸ Calculated using data from stats.wto.org.

professionals and skilled workers to deliver services. Saudi Arabia is home to approximately 2.5 million Indian expatriates⁴⁹. Saudi Arabia's global import of pharmaceutical products stood at US\$ 7.3 billion whereas exports from India to Saudi Arabia accounted for just 3.9% share of the same. This could be enhanced with an MRA on facilitation of Indian pharmaceutical products as signed with the UAE, especially automatic registration and marketing authorisation in 90 days for products approved by developed country regulators namely the United States (USFDA), the United Kingdom (UKMHRA), the European Union (EMA), and Japan (PMDA).

Cofinancing Infrastructure and Connectivity Projects

According to its Vision 2030, Saudi Arabia seeks to effectively establish linkages with other countries in the region, through enhanced logistics services and new cross-border infrastructure projects, including land transport projects with Africa through Egypt cementing its position as a major trade hub. As development partners of Africa and other friendly developing economies / regions, India and Saudi Arabia could partner in co-financing projects. According to the OECD, Saudi Arabia is one of the largest development assistance providers in the Gulf region with total ODA provided worth US\$ 6 billion in 2022. Africa is the largest recipient of Saudi Arabia's bilateral ODA accounting for 77.6% share, followed by the Middle East region (15.7%). The Saudi Fund for Development is a Saudi Arabian government agency that provides development assistance to developing countries by financing social and infrastructure projects.

As a part of trilateral cooperation, India and Saudi Arabia could collaborate in co-financing development projects in partner countries including in Africa especially for infrastructure projects, which would require significant resources as well as technical expertise. The trilateral partnership initiatives could be given further impetus by setting up a dedicated fund or agreements involving the development finance institutions of the respective countries for investing in infrastructure projects in Africa and other regions.

India Exim Bank has supported Indian companies by way of Bank Guarantee facilities for various projects including execution of Riyadh Metro Project, construction of sewage treatment plant at Jeddah airport, construction of transmission lines between substations of Al Wafra in Kuwait and Al Fadhili in Saudi Arabia, EPC of solar power plant project in Riyadh province, and mechanical, electrical and plumbing work for data centre in Dammam, among others.

Joint Ventures and Technological Collaboration

Market access of Indian companies in Saudi Arabia could be further promoted through joint ventures and technical collaboration especially in sectors like healthcare and medical devices, pharmaceuticals, machinery and electrical equipment, processed food, agri products, renewable energy, tourism, defence, and services (financial services, information technology, engineering and construction), which could contribute to shared economic development. Blended financing or public private partnerships could also be explored to encourage the participation of private sector of both countries.

⁴⁹ Ministry of External Affairs, GOI

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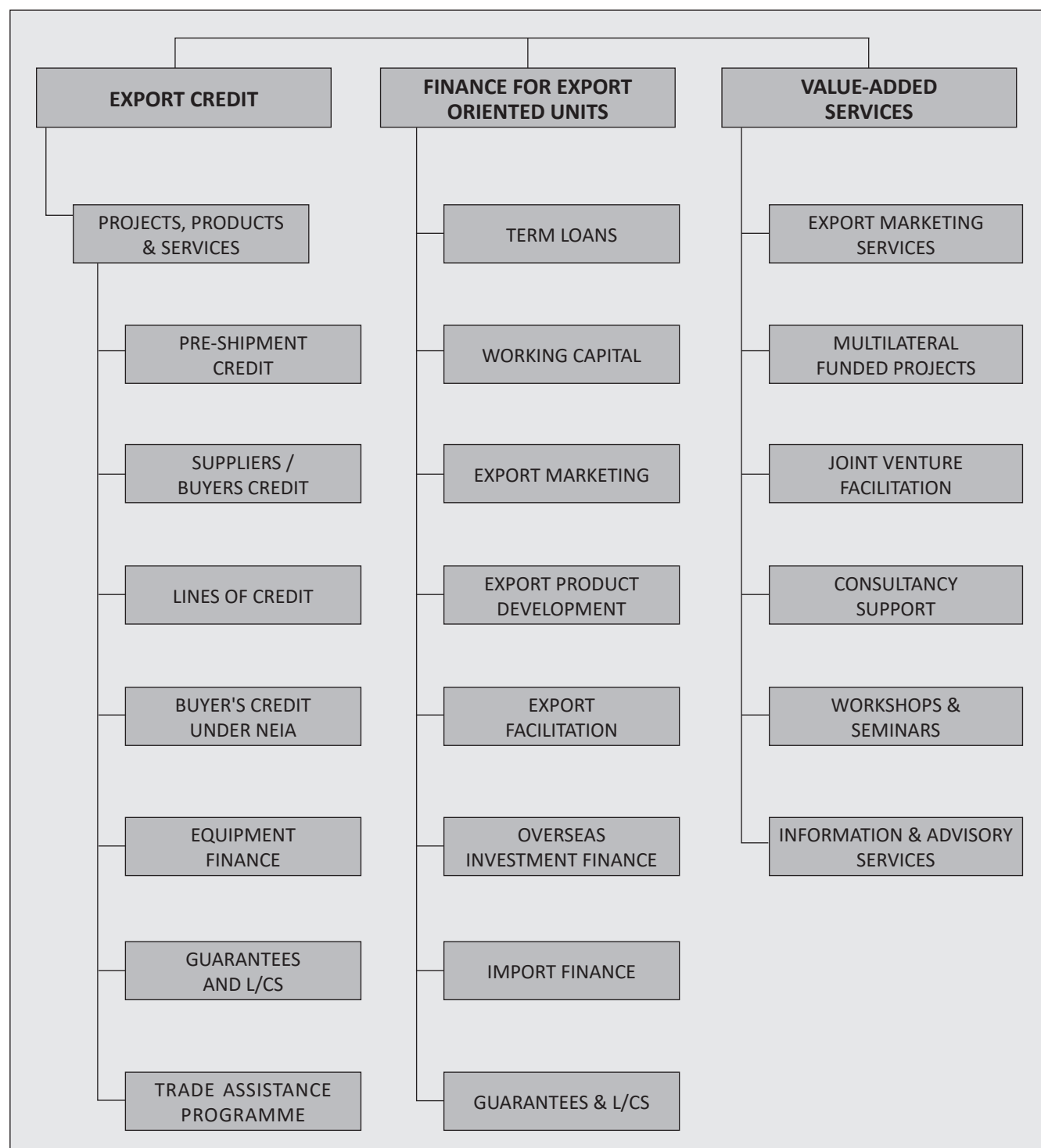
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