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India-GCC Free Trade Agreement — Terms of Reference Signed and What the Deal Means for India's Gulf Diplomacy

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WHY IN NEWS

India and the Gulf Cooperation Council signed the Terms of Reference for a comprehensive Free Trade Agreement — a milestone in a bilateral trade relationship worth USD 178.56 billion annually that touches India's energy security, diaspora remittances, and export markets across six Gulf nations.

INDIA-GCC RELATIONSHIP — THE SCALE

The India-GCC relationship is one of India's most consequential economic partnerships, defined by three structural pillars:

Energy dependence: India imports over **85% of its crude oil** requirements, and the GCC countries — led by Saudi Arabia (India's second-largest oil supplier), UAE, and Kuwait — collectively supply approximately 35–40% of India's crude oil imports. Qatar is the single largest LNG supplier to India (~8.5 million tonnes per year). Any FTA must navigate this asymmetry: India buys far more than it sells, and energy is the dominant driver of the trade deficit.

Diaspora and remittances: India has approximately **10 million citizens in GCC countries** — the largest concentration of the Indian diaspora globally in a single region. Annual remittances from the GCC to India are estimated at **USD 40–45 billion**, constituting roughly a third of India's total inward remittances (~USD 125 billion in FY25, the world's largest). This diaspora is predominantly working-class — construction workers, domestic workers, healthcare workers, and petty traders — making the diplomatic relationship a welfare issue for millions of Indian families.

Merchandise trade: India exports primarily engineering goods, rice, textiles, pharmaceuticals, gems and jewellery to GCC countries. Imports are dominated by crude oil and petroleum products, LNG, gold, and petrochemicals. Bilateral trade stood at **USD 178.56 billion** in FY 2024-25, representing **15.42%** of India's total global trade.

WHAT THE TERMS OF REFERENCE MEAN

The signing of **Terms of Reference (ToR)** is not the FTA itself — it is the **framework that governs how negotiations will be conducted**. ToR documents typically define:

The scope of the agreement (goods, services, investments, intellectual property, government procurement)

The timeline for negotiations

The negotiating bodies (joint working groups by sector)

Dispute resolution principles

India had signed a bilateral **Investment Promotion & Protection Agreement (IPPA)** with individual GCC states but never a comprehensive goods/services FTA at the bloc level. Negotiations for a GCC FTA have been on-and-off since **2006** — making the ToR signing (nearly 20 years later) a significant diplomatic achievement.

The existing **India-UAE CEPA (Comprehensive Economic Partnership Agreement)**, signed in February 2022 and implemented from May 1, 2022, provides a template. That agreement was the fastest-concluded FTA in India's history (88 days of negotiations) and has contributed to a 15%+ increase in India-UAE non-oil bilateral trade since implementation.

WHAT EACH SIDE WANTS — AND WHERE THE TENSIONS ARE

India's asks:

Zero or low duty access for labour-intensive exports: textiles, apparel, leather, footwear, rice, pharmaceuticals, gems and jewellery

Market access for Indian services: IT/ITES, healthcare workers, domestic workers (Mode 4 movement of persons)

Protection for Indian workers in GCC from exploitation

Investment inflows from GCC sovereign wealth funds into Indian infrastructure

GCC's asks:

Market access for petrochemical products (plastics, fertilisers, chemicals) in India — currently protected by high tariffs

Agricultural market access (dates, dried fruits) — sensitive for India due to farmer protection concerns

Digital trade rules and data localisation flexibility

Removal of India's Non-Tariff Barriers (NTBs) on certain Gulf food items

Tension point — Services and Labour: GCC countries have operated the **kafala system** (visa sponsorship system) that ties migrant workers to employers. India has long sought protections for Indian workers — minimum wage guarantees, contract transparency, complaint mechanisms — that GCC governments are reluctant to formalise in a trade agreement. This is likely to be handled separately from the core FTA.

Tension point — Petrochemicals: India's domestic petrochemical industry (Reliance, ONGC, Indian Oil) lobbies vigorously for protection. GCC's petrochemical firms (SABIC, ADNOC, QChem) have production cost advantages. India may seek long transition periods.

GEOPOLITICAL SIGNIFICANCE

The timing of the ToR signing — February 2026 — occurs in a context of evolving geopolitics:

China factor: China has been deepening its economic presence in the Gulf through BRI infrastructure investments, energy supply agreements, and the China-GCC FTA (under negotiation since 2004; a framework was signed in 2023). India's FTA push is partly a competitive response — ensuring Indian exports and services retain preferential access as GCC countries diversify trade partners.

West Asia turbulence: The 2023-24 conflict in Gaza and its spillover effects through the Red Sea (Houthi attacks) temporarily disrupted Indian trade flows through the Suez Canal route. This highlighted India's exposure to West Asia stability and the importance of diversified energy supply chains.

India's role as a transit hub: The **India-Middle East-Europe Economic Corridor (IMEC)**, announced at the G20 New Delhi Summit (September 2023), envisions India as a trade corridor node connecting the Gulf to Europe. An FTA would deepen institutional linkages that complement IMEC infrastructure.

UPSC RELEVANCE

GCC (Saudi Arabia, UAE, Bahrain, Qatar, Kuwait, Oman; HQ: Riyadh; GDP: ~USD 2.3 trillion); India-GCC trade (USD 178.56 billion, 15.42% of India's global trade); India-UAE CEPA (February 2022, implemented May 2022); IMEC (G20 September 2023); India diaspora in GCC (~10 million); GCC cumulative FDI to India: USD 31.14 billion; India crude import dependence: 85–88%; Qatar LNG to India: ~8.5 MT/year; Kafala system (migrant worker visa sponsorship in Gulf).

*India-GCC relations and diplomatic significance; CEPA/FTA framework; Gulf diaspora diplomacy; India's West Asia policy; IMEC as strategic corridor. **GS-3:** Energy security and FTA trade-offs; petrochemical trade tensions; FTA and services trade (Mode 4 movement of persons); India's remittance dependence.*

★ FACTS CORNER — KNOWLEDGEPEDIA

INDIA-GCC TRADE (FY 2024-25):

Total bilateral trade: **USD 178.56 billion**

India exports to GCC: **USD 56.87 billion** (engineering goods, rice, textiles, pharma, gems)

India imports from GCC: **USD 121.68 billion** (crude oil, LNG, gold, petrochemicals)

GCC share of India's global trade: **15.42%**

Annual growth rate (5-year avg): **15.3%**

GCC FDI to India (cumulative): **USD 31.14 billion** (as of September 2025)

GCC — KEY DATA:

Full name: Gulf Cooperation Council

Members: Saudi Arabia, UAE, Bahrain, Qatar, Kuwait, Oman (6 nations)

HQ: Riyadh, Saudi Arabia

Founded: **1981**

Combined GDP: **~USD 2.3 trillion** (9th globally)

Population: **61.5 million**

INDIA-UAE CEPA (CLOSEST ANALOGUE):

Signed: **February 18, 2022** (PM Modi + UAE Crown Prince MBZ)

Negotiations concluded in: **88 days** (fastest India FTA)

Implemented: **May 1, 2022**

Impact: 15%+ increase in non-oil bilateral trade post-CEPA

INDIA DIASPORA IN GCC:

Total: **~10 million** (largest Indian diaspora concentration globally)

Annual remittances from GCC: **USD 40–45 billion** (~33% of India's total ~USD 125 billion)

INDIA-GCC FTA HISTORY:

First FTA discussions: **2006**

Progress stalled multiple times (India's petrochemical protection concerns; GCC's agricultural access demands)

ToR signed: **February 6, 2026** — first concrete framework agreement at GCC bloc level

OTHER RELEVANT FACTS:

Kafala system: Migrant worker visa sponsorship; employer-tied visas; human rights concerns; being partially reformed in Qatar and UAE

IMEC (India-Middle East-Europe Economic Corridor): Announced G20 New Delhi September 2023; India + Saudi + UAE + Jordan + Israel + EU; rail/ship corridor alternative to Suez

SABIC (Saudi Basic Industries Corporation): World's largest petrochemical company; owned by Saudi Aramco; potential competitor if GCC gets petrochemical access to India

India's crude oil suppliers: Iraq (1st), Saudi Arabia (2nd), UAE (3rd), Kuwait (4th), Russia (grew to major supplier post-2022)

Sources: Drishti IAS, AffairsCloud

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