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India-UAE Trade Deal: Why is it Significant for India's West Asian Policy?

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Referred to as the 'early harvest deal', India's Comprehensive Economic Partnership Agreement (CEPA) with the United Arab Emirates (UAE) in February 2022 could become a game-changer for India in West Asia. Considered to be the most significant trade agreement between India and the UAE, mostly in non-oil products, this deal is also the first Free Trade Agreement (FTA) between the two nations. Further, this deal is significant as its major thrust rests on increased non-oil trade. It is noteworthy here that the negotiations for this trade deal were initiated in September 2021. Therefore, this becomes a major bilateral trade agreement signed by India in the record minimum time of 88 days which will become effective from May 1, 2022. This can serve as a milestone for India to follow in negotiating ambitious trade deals with the United Kingdom, Australia, and the European Union (EU) in the future. Through this precedent, New Delhi signals that its bureaucratic system, which is infamous for dawdling over decisions, is trying to reshape its systems.

India's relations with the UAE are significant as they form part of India's 'extended neighbourhood.' The UAE is the third-largest trading partner of India and the second-largest export destination after the United States. Also, India is the UAE's second-largest trading partner and the largest in terms of exports. With this FTA, both nations aim to increase non-oil trade to \$100 billion in the next five years, which was \$45 billion in 2021.¹ The significance of the UAE for India stems from the shared economic visions and compatible regional geopolitical outlooks. In addition, Abu Dhabi's 'Vision 2030' plans specified an economic diversification strategy to move beyond the revenues earned from the oil trade. In this context, India can play a significant role to become a dependable partner of the Emirates as well as to harness the benefits from this deal.

Moreover, the UAE's Centennial 2071 plans outline the Emirates' plans to develop a diversified, knowledge-based 21st century economy with special emphasis on technological advancements. These plans significantly dovetail with New Delhi's blueprint for harnessing India's economic potential. So, in the quest for the realization of mutual developmental agendas, the promotion of economic engagement has become a vital component of Indian foreign policy in the present scenario. Furthermore, in all of this, Indian comprehension related to its role in the 'extended neighbourhood' and the policies related to it form the bedrock of Indian policymaking to pursue this engagement. Added to this is the large Indian diaspora in the UAE, forming a pivotal aspect of its policy in the region.

With this trade agreement, it is anticipated that the benefits to Indian products would be around \$26 billion, which are at present subjected to almost 5 percent import duty by the UAE. The UAE will remove customs tariffs on nearly 80 percent of the goods, which account for almost 90 percent of India's total exports to the West Asian region. Another significant aspect of CEPA for India is the creation of jobs—almost 10 lakhs—in various sectors such as textiles, gems & jewellery,

leather, footwear, pharma, agriculture products, medical devices, sports goods, and automobiles. Besides this, CEPA also encompasses 11 service sectors and more than 100 sub-sectors, including business services, telecommunications, construction, education, tourism, nursing, finance, etc. This FTA between India and the UAE also comprises an extensive array of subjects, including sectors of the digital economy and government procurement. It is significant as the collaborations and partnerships have remotely found a presence in the bilateral agreements that India has negotiated so far. This also makes a deviation from India's scepticism related to the signing of bilateral CEPAs due to New Delhi's hesitation arising because of its three CEPAs signed with its East Asian partners, viz., the Association of South East Asian Nations (ASEAN), South Korea and Japan. These three CEPAs failed to yield the benefits that the Indian government was anticipating. In 2019, India also exited the Regional Comprehensive Economic Partnership (RCEP)—a trade agreement between members of ASEAN and its six FTA partners. This step back of New Delhi from RCEP invariably presented a view that India was trying to back away from the process of global economic integration. So, this FTA between the UAE and India could change this perception.

Even though this is one of the swiftest signed FTAs by New Delhi, it is not devoid of challenges to achieve the desired results from this trade agreement to facilitate India's desires and aspirations in the region. Considering that the UAE is at the core of global redistribution channels, especially with exports to Africa being re-directed through it; through this agreement, there are chances that it will drive the warehousing and distribution centres in the UAE for Indian exporters. To achieve the desired results, it will be necessary to remove tariff limitations as minor margins can lead to major changes in large trading circles, which might become troublesome for Indian traders. Moreover, there is a need for the implementation of Rules of Origin (RoO) as a way forward in order to safeguard Indian companies from feeling discomfiture due to the undue advantage that third parties/nations can get as part of lowered tariffs in this FTA. Also, India needs to make sure that goods and products from outside the UAE are not allowed to enter duty-free into India as part of this treaty. There is the challenge of treaty abuse arising because of UAE being a global transshipment hub. Therefore, India needs to be vigilant against these duty-free imports of transshipped products. While the sectoral effects would differ, it is necessary to protect India's interests in service sectors, which have been difficult to safeguard in the past.

Globally, India is amongst the few nations with major economies that have not signed any big regional trading agreements with any big economy, making this FTA significant for India. Further, being part of the "early harvest" mechanism, India is more concerned about allowing imports of raw material, minerals, or mineral components. This means that there remains an important value addition post-import for India. This free trade agreement between India and the UAE, being the first

one in the West Asian North African (WANA) region, is anticipated to provide momentum to its exports not only to the Emirates but also to the larger West Asian region, establishing India as a credible trading partner. New Delhi expects that this CEPA could help in increasing the bilateral trade value to more than \$100 billion in the next five years.

NOTES

¹ Sunainaa Chaddha, "FTA boost: All you need to know about India-UAE trade deal", *The Times of India*, February 18, 2022, <https://timesofindia.indiatimes.com/business/india-business/trade-benefits-explained-all-you-need-to-know-about-the-india-uae-trade-deal/articleshow/89658408.cms>. Accessed on March 01, 2022.

