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# The UAE-India trade agreement: Everything you need to know

Primus Partners India

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# THE INDIA-UAE COMPREHENSIVE ECONOMIC PARTNERSHIP AGREEMENT (CEPA)

On February, 18, India and UAE signed the Comprehensive Economic Partnership Agreement (CEPA) which covers commitments around trade in goods, trade in services, technical barriers to trade, dispute settlement, telecom, customs procedures, and pharmaceuticals. The agreement aims to increase bilateral goods trade to $100 billion over the next five years.

## CURRENT INDIA-UAE COMMERCIAL TIES

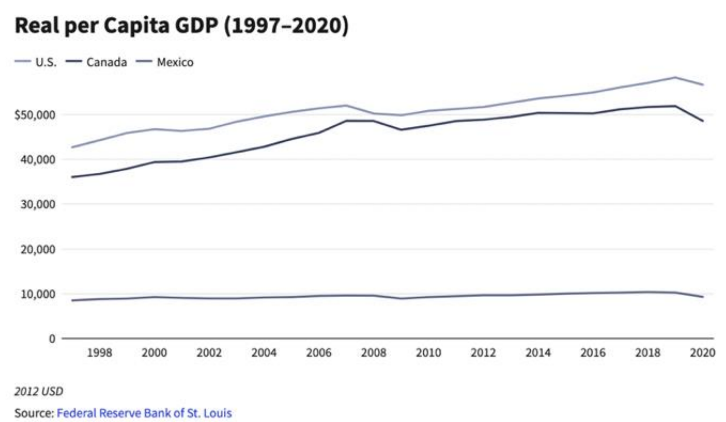
- UAE is India's third largest trading partner for the year 2019-20 after China and US, valued at US$ 59 billion in 2019-20
- UAE is the second-largest export destination of India after US, amounting to nearly US$ 29 billion (approx.) for the year 2019-20.
- The UAE's current investment in India is estimated to be around US $17-18 Billion of which US $11.67 billion is in the form of FDI while the remaining is portfolio investment. UAE is the 9th biggest investor in India in terms of FDI.

## ARE TRADE AGREEMENTS ACTUALLY BENEFICIAL?

Previously, India's exports to FTA countries such as ASEAN, Japan, South Korea have not been as vibrant as their exports to the rest of the world and India's trade deficit was valued at US$ 15.24 billion in April 2021. India has generally underutilised trade agreements, possibly due to lack of awareness about FTAs, high compliance costs and its inability to identify strengths in competitive negotiations. FTAs in general have adversely impacted India's domestic manufacturers, given New Delhi's inability to play to its strengths and strategically protect its growing interests. However, in the CEPA with UAE, India has added substantial measures protecting growing sectors, with clauses against anti-dumping and necessitating value addition. The CEPA thus promises to ensure benefits such as equitable economic growth, fair access to markets, increase in local employment and in making local industries more competitive.

## CASE OF NAFTA (NORTH AMERICA FREE TRADE AGREEMENT)

NAFTA was signed in 1994, between US, Canada and Mexico, aimed at strengthening commercial ties and facilitating economic growth. It was successful in achieving increased economic growth in US and Canada. The agreement lowered tariffs and reduced some non-tariff barriers such as Mexican local content requirements. This led to an increase in trade and investment. Most of the increase came from U.S.-Mexico trade, which totalled $481.5 billion in 2015, and U.S.-Canada trade, which totalled $518.2 billion.




However, the unequal impact created tensions. Unlike US and Canada, economic growth in Mexico was barely a fifth of its neighbours despite being an emerging economy. The trade balance tilted in favour of Mexico, which created adverse effects in the US economy. During NAFTA's implementation there was a 30% drop in manufacturing employment, from 17.7 million jobs at the end of 1993 to 12.3 million at the end of 2016.

Trade agreements can lead to mutual benefit if they are premised on equal access to markets, potential for economic growth and take into account the local requirements of industry and employment.

## IS CEPA DIFFERENT FROM A FREE TRADE AGREEMENT (FTA) ?

An FTA eliminates customs tariff and non-tariff barriers on a significant number of products whereas a CEPA aims at lowering trade barriers instead of complete elimination of trade restrictions.

## KEY HIGHLIGHTS OF THE AGREEMENT

- The UAE is expected to offer immediate market access at Zero duty from the day of the enforcement of the Agreement to products accounting for 90% of India's exports to UAE in value terms.
- Zero duty access for Indian products is set to expand over 5-10 years to go up to 97% of UAE tariff lines
- On the other hand, India is touted to bring down import duties on about 65% of tariff lines immediately and on 90% tariff lines in 10 years.

## INDIAN SECTORS PROPOSED TO BENEFIT FROM THE CEPA

- Gems and Jewellery
- Textiles
- Leather
- Footwear
- Sports goods
- Engineering goods
- Pharmaceuticals

## WHAT NEW DELHI SHOULD FOCUS ON

Given that India has a massive trade deficit (US$ 159.87 billion approximately), especially with countries such as China, it is essential for the Government to focus on enhancing trade while protecting its domestic sector. With India's pull out from Regional Comprehensive Economic Partnership (RCEP), it prioritised its dairy and pharmaceutical sectors, and should embody the same spirit in its future trade negotiations with US, UK, EU and Canada. The Government should seek to minimise compliance costs for getting benefits under FTA, reduce hurdles faced by exporters and focus on ease of doing business.

## OUR TAKE ON THE FTA

The UAE will likely serve as a major destination for Indian pharmaceuticals, jewellery and spices, especially since 30% of the UAE's population (approx.) comprises of Indian nationals. The table below elucidates how India will seek to benefit from the CEPA through an analysis of  the re-export potential of Indian goods from the UAE. It is vital to note that, Indian markets for goods included in the CEPA largely do not overlap with those of the UAE, encouraging mutual benefit and increasing acceptability of Indian goods in the Gulf Cooperation Council (GCC) market, consisting of Bahrain, Kuwait, Oman, Qatar, Saudi Arabia.

| Sectors expected to benefit in India through exports in the CEPA | Markets for India | Markets for UAE |
|---|---|---|
| **Gems and jewellery** | US, Europe, Japan, China, UAE, and Hong Kong | Switzerland, Hong Kong, Iraq, Bahrain, and Kuwait |
| **Textiles** | United States, United Arab Emirates, United Kingdom, Bangladesh, and Germany | Saudi Arabia, Iran, Kuwait, Oman, and Bahrain |
| **Leather** | US, Germany, UK, and Italy | GCC (United Arab Emirates, Saudi Arabia, Qatar, Oman, Kuwait, and Bahrain) |
| **Footwear** | United States, United Kingdom, Germany, China and France | Saudi Arabia, Kuwait, Oman, Bahrain, Iran, China, and US |
| **Sports goods** | US, UAE, UK, Australia, Germany, Netherlands, France, South Africa, Sweden, and Canada | Domestic market and Middle Africa |
| **Engineering goods** | US, UAE, China Germany, and Italy | Oman, Saudi Arabia, Bahrain, Cyprus, and Morocco |
| **Pharmaceuticals** | US, S. Africa, UK, Russia, Germany, Brazil, Nigeria, and Canada | Not very significant |

The agreement seeks to eliminate tariffs on Indian products worth an estimated $26 billion that are subject to 5% import duty by the UAE. This accounts for elimination of such tariffs on 90 per cent of traded goods to bring Indian exports on par with textile exports from countries such as Bangladesh and Vietnam.

Through the UAE's Jebel Ali port, one of the world's top ten busiest ports, India will also gain access to the markets of the larger African and Arab regions.

The CEPA is a major turning point for India because it combines the goals of economic growth with the SDGs of reduced inequalities and sustainable consumption and production. The Stringent 'rules of origin' and the move to allow goods with only 40% value addition to be part of the CEPA displays India's desire to protect MSMEs, SHGs and developing sectors. The agreement is likely to create over 10 lakh jobs, which will tap into India's demographic potential and aid in the "K Shaped recovery" of the economy.

Apart from the India-UAE joint-goal of reaching USD 100 billion in bilateral trade in the next 5 years, the Government should focus on sector-specific targets to augment its export potential and catalyse investment.

Through a formal trade arrangement with the UAE, India has been able to expand its existing export potential of goods such as refined petroleum, jewellery, packaged medicaments and increase the viability and reach of its pharmaceutical industry, which proved its mettle during the Covid crisis. India could seek to promote its GI-tagged products such as honey, jaggery, different textiles and teas and build on its position as the "pharmacy of the world". India also hopes to negotiate a larger trade pact with GCC soon.

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## About Primus Partners

Primus Partners has been set up to partner with clients in 'navigating' India, by experts with decades of experience in doing so for large global firms. Set up on the principle of 'Idea Realization', it brings to bear 'experience in action'. 'Idea Realization'— a unique approach to examine futuristic ideas required for the growth of an organization or a sector or geography, from the perspective of assured on ground implementability.

Our core strength comes from our founding partners, who are goal-oriented, with extensive hands-on experience and subject-matter expertise, which is well recognized in the industry. Our core founders form a diverse cohort of leaders from both genders with experience across industries (Public Sector, Healthcare, Transport, Education, etc), and with varied specialization (engineers, lawyers, tax professionals, management, etc).


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