



India-UAE Relations

This editorial is based on [“Etching A Trade Line To Bond Beyond Oil”](#) which was published in the Hindu on 18/02/2022. It talks about the economic relations of India and UAE.

For Prelims: India-UAE Relations, Free Trade Agreements (FTAs), Comprehensive Economic Partnership Agreement (CEPA), World Trade Organisation, Interim Trade Agreement, Gulf Cooperation Council (GCC).

For Mains: India and FTAs - Significance, India-UAE Relations - Economic and Strategic Significance and measures to boost relations.

India's approach towards [Free Trade Agreements \(FTAs\)](#) is changing and now focusing more on **gaining meaningful market access** and facilitating **Indian industry's integration into global value chains**.

The Union Minister of Commerce and Industry has repeatedly emphasised that India would no longer be signing trade agreements just to join a group, but the new approach of FTA negotiations would **respond to the need of new emerging dynamics in international trade** and the Indian economy.

The recent [signing of the India-UAE Comprehensive Economic Partnership Agreement \(CEPA\)](#) by the Commerce Ministers of the two countries is one such example of India's response to new emerging dynamics in international trade.

India and UAE

How are India's Bilateral Relations with the UAE?

- India and the UAE **established diplomatic relations in 1972**.
- The greater push has been achieved in bilateral relations when the visit of India's Prime Minister to the UAE in August 2015 marked the **beginning of a new strategic partnership between the two countries**.
- Further, during the visit of the **Crown Prince of Abu Dhabi** to India in January 2017 as the chief guest at **India's Republic Day celebrations**, it was agreed that bilateral relations were to be **upgraded to a comprehensive strategic partnership**.
 - This gave momentum to launching negotiations for an [India-UAE comprehensive economic partnership agreement](#).

What is the Economic Significance of the UAE?

- The UAE has **emerged as an important economic hub** not just within the context of the Middle East/West Asia, but also **globally**.
 - The UAE, **due to its strategic location**, has emerged as an important economic centre in the world.

- In recent years, the UAE, through its '**Vision 2021**', has sought to diversify its economy and reduce its dependency on oil.
 - Since 2012, growth has been led, according to a [World Trade Organisation](#) document, **by the non-hydrocarbon sectors** reflecting the successful diversification of the economy.
- Although the UAE has diversified its economy, the hydrocarbon sector remains very important followed by services and manufacturing.
 - Within **services, financial services, wholesale and retail trade, and real estate and business** services are the main contributors.

What About India's Economic Ties with UAE?

- The **India-UAE total trade merchandise has been valued at U.S.\$52.76 billion** for the first nine months of the fiscal year 2021-22, making the **UAE India's third largest trading partner**.
 - The aim is to boost bilateral merchandise trade to above U.S.\$100 billion and services trade to U.S.\$15 billion in five years.
- A trade agreement is also an enabler for two-way investment flows. The UAE's **investment in India is estimated to be around U.S.\$11.67 billion**, which makes it the **ninth biggest investor in India**.
- Also, many Indian companies have set up manufacturing units either as joint ventures or in [Special Economic Zones](#) for cement, building materials, textiles, engineering products, consumer electronics, etc. in the UAE.
 - Many Indian companies have also invested in the tourism, hospitality, catering, health, retail, and education sectors.
- Under India's revamped FTA strategy, the Government has prioritised at least six countries/regions to deal with, in which the UAE figures at the top of the list for an [early harvest deal \(or Interim Trade Agreement\)](#), the others are the **UK, the EU, Australia, Canada, Israel** and a group of countries in the [Gulf Cooperation Council \(GCC\)](#).
 - The UAE too announced earlier its intent to pursue bilateral economic agreements with India and seven other countries (U.K., Turkey, South Korea, Ethiopia, Indonesia, Israel, and Kenya).

What is an Interim Trade Agreement (ITA)?

- An interim or early harvest trade agreement is **used to liberalise tariffs on the trade of certain goods** between two countries or trading blocs **before a comprehensive FTA is concluded**.
- Government's emphasis on interim agreements may be tactical so that a deal may be achieved with minimum commitments and would allow for contentious issues to be resolved later.
- Recently, **India and Australia have announced plans to conclude an ITA** in March 2022.
 - India is also looking to complete an early harvest agreement with the UAE and the UK in the first half of 2022.

What Can Be The Way Forward?

- **Manifold Benefits of India-UAE Trade Agreements:** With India's newfound strength in exports, a trade agreement with an important country such as the **UAE would help sustain the growth momentum**.
 - As we are witnessing a big turnaround in manufacturing, the **UAE would be an attractive export market** for Indian **electronics, automobiles, and other engineering products**.
 - As both the UAE and India are aggressively pursuing FTAs with several important countries, not only companies from these two countries but also **MNCs from other geographies** too would **find the UAE and India an attractive market to invest in**.
- **Paving Way for Better Relations with the GCC:** The UAE is a party to several regional and bilateral FTAs, including with countries in the GCC.

- As part of the GCC, the UAE has strong economic ties with Saudi Arabia, Kuwait, Bahrain, and Oman and shares a common market and customs union with these nations.
 - Under the **Greater Arab Free Trade Area (GAFTA) Agreement**, the UAE has free trade access to Saudi Arabia, Kuwait, Bahrain, Qatar, Oman, Jordan, Egypt, Iraq, Lebanon, Morocco, Tunisia, Palestine, Syria, Libya, and Yemen.
- This FTA with the UAE will **pave the way for India to enter the UAE's strategic location**, and have **relatively easy access to the Africa market** and its various trade partners which can **help India to become a part of that supply chain** especially in handlooms, handicrafts, textiles and pharma.
- **Compliance to UAE's NTBs:** The UAE tariff structure is bound with the GCC (applied average tariff rate is 5%), therefore, the scope of addressing **Non-Tariff Barriers (NTBs)** becomes very important.
 - The reflection of NTBs can be seen through **Non-Tariff Measures (NTMs)** mostly covered by **Sanitary and Phytosanitary (SPS)** and **Technical Barriers to Trade (TBT)**.
 - The SPS notifications are mainly related to **live poultry, meat, and processed food** and the TBT notifications are related to **fish, food additives, meat, rubber, electrical machinery**, etc.
 - These compliances pose a challenge for Indian exporters.
 - The FTA agreement must try to **bring more transparency and predictability in the use of NTBs** so that their compliance becomes less cumbersome.

Drishti Mains Question

Discuss the economic and strategic significance of UAE for India and suggest measures that can be taken for stronger India-UAE Relations.