



## India-UAE's Strategic Cooperation

This editorial is based on [“A privileged strategic partnership, without a gulf”](#) which was published in The Hindu on 12/02/2024. The article explores how India's strategic partnership agreements, particularly the one with the United Arab Emirates (UAE), demonstrate a high level of convergence and mutual respect across all levels.

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

**For Mains:** India-UAE Relations - Economic and Strategic Significance, Measures to boost bilateral relations.

Over the years, India's relationship with the UAE has evolved into one of its most prominent bilateral relationships. The UAE not only serves as a strategic partner but also plays a pivotal role in India's engagement in the [Gulf region](#) highlighting the close rapport between leaders.

[Prime Minister's](#) visit to the UAE in February 2024, holds significance as he is set to inaugurate a temple constructed by the Bochasanwasi Shri Akshar Purushottam Swaminarayan Sanstha in Abu Dhabi. This marks his seventh visit to the UAE since 2015, reflecting the growing importance of bilateral relations.

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## How are India's Bilateral Relations with the UAE?

### ▪ About:

- 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**.

### ▪ Economic Relations:

- The economic partnership between India and the UAE has flourished, with bilateral trade reaching USD 85 billion in 2022-23. The UAE is India's third-largest trading partner and second-largest export destination.
  - The aim is to boost bilateral merchandise trade to above USD 100 billion and services trade to USD 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 USD 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 (SEZs)** 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).

#### India-UAE Bilateral Trade

Value in US\$ Million

| S.No. | Year        | 2017-18  | 2018-19  | 2019-20  | 2020-21  | 2021-22  | 2022-23<br>(April-Sept) |
|-------|-------------|----------|----------|----------|----------|----------|-------------------------|
| 1     | EXPORT      | 28146.12 | 30126.73 | 28853.59 | 16679.54 | 28044.88 | 16,056.47               |
| 2     | %Growth     |          | 7.04     | -4.23    | -42.19   | 68.14    |                         |
| 3     | IMPORT      | 21739.11 | 29785.33 | 30256.65 | 26622.99 | 44833.43 | 28,403.98               |
| 4     | %Growth     |          | 37.01    | 1.58     | -12.01   | 68.4     |                         |
| 5     | TOTAL TRADE | 49885.23 | 59912.05 | 59110.23 | 43302.53 | 72878.31 | 44,460.45               |
| 6     | %Growth     |          | 20.1     | -1.34    | -26.74   | 68.3     |                         |

#### ▪ Cultural Relations:

- UAE has over 3.3 million Indians and Emiratis are quite familiar and receptive to Indian culture. India participated as the Guest of Honour Country in Abu Dhabi International Book Fair 2019.
- Indian cinema/ TV / radio channels are easily available and have good viewership; major theaters/cinema halls in the UAE screen commercial Hindi, Malayalam and Tamil films.
- The Emirati community also participate in our annual International Day of Yoga events and various schools of yoga & meditation centres are running successfully in the UAE.

#### ▪ Fintech Collaboration:

- India and the UAE are actively collaborating in the fintech sector. Initiatives such as the acceptance of the [RuPay card in the UAE since August 2019](#) and the operationalization of a Rupee-Dirham settlement system demonstrate mutual convergence in digital payment systems.
  - The framework for the use of local currencies for transactions between India and the UAE aims to put in place a **Local Currency Settlement System (LCSS)**.
  - The creation of the LCSS would enable exporters and importers to invoice and pay in their respective domestic currencies, which in turn would enable the development of an INR-AED [foreign exchange](#) market, according to the RBI.

#### ▪ Energy Security Cooperation:

- The UAE plays a crucial role in India's energy security, with [strategic oil reserves](#) stored in India. Agreements such as the investment in the strategic crude oil storage facility in Mangaluru underscore the depth of cooperation in this vital sector.

#### ▪ Strategic Regional Engagement:

- India and the UAE are actively engaged in various regional groupings and initiatives such as the [I2U2](#) and the [India-Middle East-Europe Economic Corridor \(IMEC\)](#), reflecting shared interests and strategic alignment.

## What are Different Challenges in India-UAE Relations?

#### ▪ Trade Barriers Impacting Indian Exports:

- [Non-Tariff Barriers \(NTBs\)](#) like Sanitary and Phytosanitary (SPS) measures and Technical Barriers to Trade (TBT), notably mandatory Halal certification, have impeded Indian exports, particularly in sectors such as poultry, meat, and processed foods.
  - These barriers have led to a significant decline in processed food exports to the UAE by almost 30% in recent years, according to a report from India's Ministry of Commerce and Industry.

#### ▪ Chinese Economic Influence in the UAE:

- China's "Cheque Book Diplomacy," characterized by offering low-interest loans, has

overshadowed Indian economic endeavors in the UAE and the broader Middle East.

- Data from the American Enterprise Institute's China Global Investment Tracker reveals that China's investments and contracts in the UAE exceeded USD 30 billion between 2005 and 2020, significantly surpassing Indian ventures in the region.

▪ **Challenges of the Kafala System:**

- The **Kafala system** in the UAE, which grants employers considerable power over immigrant laborers, especially those in low-wage jobs, presents significant human rights concerns.
  - Instances of passport confiscation, delayed wages, and poor living conditions underscore the challenges faced by migrant workers under this system.

▪ **Concerns Over UAE's Financial Support to Pakistan:**

- The UAE's substantial financial aid to Pakistan raises apprehensions about the potential misuse of these funds, considering Pakistan's history of sponsoring cross-border terrorism against India.
  - For instance, in 2019, the UAE pledged USD 3 billion to bolster Pakistan's foreign exchange reserves, raising concerns about the funds' diversion towards activities detrimental to India's national security.

▪ **Diplomatic Balancing Act Amid Regional Conflicts:**

- India finds itself in a delicate diplomatic position due to the ongoing conflict between Iran and Arab nations, notably the UAE. Despite U.S. sanctions on Iran, India continued to import oil from the country, accounting for approximately 10% of its total oil imports. This underscores issues in India's need to navigate its relations with both Iran and the Arab world cautiously.
- Recent outbreak of war between Israel and Hamas further aggravates the challenges as it runs the proposed IMEC into rough weather.

## What are the Steps Required to Overcome the Challenges?

▪ **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 aspect of UAE should be leveraged effectively which 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's tariff structure is bound with the GCC ( where applied average tariff rate is 5%), therefore, the scope of addressing NTBs becomes very important as its 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.
  - This includes consistent updates and information exchange regarding labelling requirements, licensing protocols, permits, and import monitoring. Such transparency will facilitate smoother trade relations, particularly in sectors affected by these barriers.

▪ **Exploring 2+2 Dialogues:**

- Comparable to India's 2+2 dialogues conducted with countries such as the U.S. and Russia, the initiation of a similar high-level dialogue with the UAE would prove advantageous.
- Such a platform could effectively tackle strategic, defense, and political matters, thereby nurturing enhanced bilateral understanding and cooperation between the two nations.

▪ **Integrating With 'Vision 21' of UAE:**

- In line with the UAE's 'Vision 2021', aimed at reducing dependence on oil and diversifying the economy, there lies a significant opportunity for India.
- Collaborating with the UAE in sectors like renewable energy, technology startups, fintech,

and other emerging industries can bolster economic ties between the two nations, aligning with the UAE's vision for economic transformation away from traditional oil-centric models.

▪ **Addressing the Kafala System:**

- India ought to diplomatically engage with the UAE to push for reforms in the Kafala labor system. Following the example of Qatar, where reforms were influenced by Indian advocacy, India has the potential to make a substantial impact on enhancing the welfare of migrant workers in the UAE.

## Conclusion

Prime Minister's forthcoming visit to the UAE underscores the deepening and multifaceted ties between the two nations. Beyond religious landmarks, the relationship encompasses robust economic partnerships, exemplified by burgeoning trade and significant investments. Moreover, collaborative ventures in fintech and energy security underscore the breadth of their cooperation. As India and the UAE continue to forge ahead with their exceptional strategic partnership, they signal a model of convergence and mutual respect that is poised to strengthen further in the future.

### **Drishti Mains Question:**

In the context of India-UAE relations, critically analyze the strategic, economic, and cultural dimensions, emphasizing recent developments and future prospects.

## UPSC Civil Services Examination Previous Year Questions (PYQs)

### **Prelims:**

**Q. Which of the following is not a member of 'Gulf Cooperation Council'? (2016)**

- (a) Iran
- (b) Saudi Arabia
- (c) Oman
- (d) Kuwait

**Ans: (a)**

### **Mains:**

**Q. Religious indoctrination via digital media has resulted in Indian youth joining the ISIS. What is ISIS and its mission? How can ISIS be dangerous to the internal security of our country? (2015)**

**Q. The question of India's Energy Security constitutes the most important part of India's economic progress. Analyse India's energy policy cooperation with West Asian countries. (2017)**