India-United Arab Emirates Bilateral Relations: Trends, Opportunities and Way Ahead

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India Exim Bank

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INDIA-UNITED ARAB EMIRATES BILATERAL RELATIONS: TRENDS, OPPORTUNITIES AND WAY AHEAD

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EXECUTIVE SUMMARY

According to IMF[1], the United Arab Emirates (UAE) is the 4th largest economy in the Middle East and North Africa (MENA) region after Iran, Saudi Arabia, and Israel; and 2nd largest among the GCC countries after Saudi Arabia. The UAE has developed rapidly and is known for its modern infrastructure, emergence as a destination for mega international events and status as an important trade and transport hub.

In the recent years, the UAE registered subdued economic performance, partly due to cuts in oil output as part of OPEC agreements, continued corporate restructuring, reduced government investment and declining real estate prices. External factors also include a slowing global economy, geopolitical tensions, weaker energy demand due to the pandemic. In 2020, the economy contracted by (-) 6.1% due to the temporary recession triggered by the COVID-19 pandemic, lower oil prices and reduced oil production. The economic growth has however, picked up in 2021 with a growth rate of 2.2%. Economic growth is expected to strengthen in 2022 and 2023 (3% growth) on the back of the recovery in oil prices and production level. The UAE's strategic plan for the next few years focuses on economic diversification, promoting the UAE as a global trade and tourism hub, developing industry, and creating more job opportunities for nationals through improved education and increased private sector employment.

International Trade of the UAE

The UAE serves as a major trade and investment hub for the Middle East and North Africa, and increasingly South Asia, Central Asia, and Sub-Saharan Africa. The UAE's trade regime is open, with low tariffs and few non-tariff barriers to trade. The UAE attaches great importance to multilateral trade liberalization, and bilateral and regional trade agreements as a valuable complement to, though not a substitute for, a rule-based and non-discriminatory

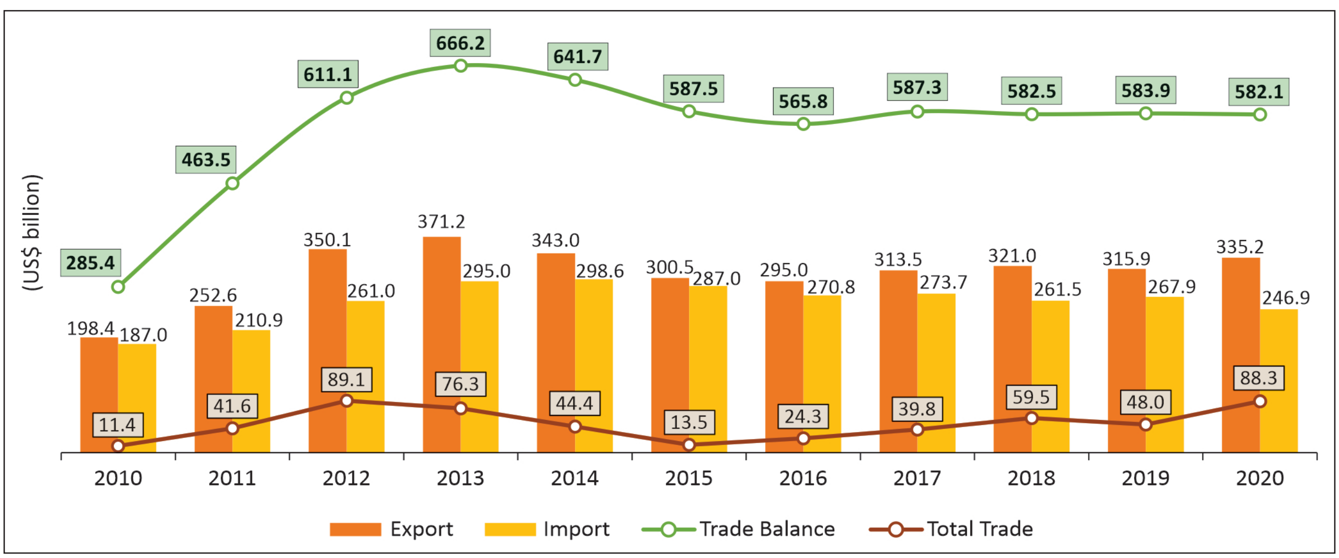
[1] As of October 2021

multilateral trade system. The UAE is a currently a party to several multilateral and bilateral trade agreements, including with partner countries in the GCC.

In 2020, the UAE was the 17th largest exporter and 21st largest importer of merchandise goods. Total merchandise trade of the UAE has risen from US$ 285.4 billion in 2010 to US$ 582.1 billion in 2020, reflecting the rise in both exports and imports **(Chart A)**. There has been a significant rise in the trade during 2010-2013, with the total trade reaching US$ 666.2 billion in 2013. The UAE has had a persistent trade surplus which has risen from US$ 11.4 billion in 2010 to US$ 88.3 billion in 2020, as exports have risen faster than the imports during the period. This has been underlined by increasing trade surplus majorly in mineral fuels and oils. Exports have risen from US$ 198.4 billion in 2010 to US$ 335.2 billion in 2020. Imports have also witnessed a rise from US$ 187 billion to US$ 246.9 billion during the same period.

As per the estimate for 2021, total trade of the UAE witnessed a sharp jump to US$ 414.6 billion in 2021, with US$ 217.7 billion worth exports and US$ 196.9 billion imports. However, trade surplus witnessed a moderation to US$ 20.9 billion during the same period.

Chart A: International Merchandise Trade of the UAE (2010-2020)



Source: ITC Trade Map and India Exim Bank Research

Major Traded Products: The UAE's exports have been historically dominated by mineral fuels, oil and products which accounted for 51.7% of total exports in 2020. The other major products of export are pearls, precious stones and metals (13.5% of total exports), electrical machinery and equipment (8.5%), machinery and mechanical appliances (4.9%) and vehicles other than railway and tramway (3%), among others.

On the import side, pearls and precious stones, mineral fuels and oils, electrical machinery, machinery and mechanical appliances together accounted for 62.9% of total imports of the UAE in 2020. Other major import items include vehicles other than railway (6.2%), pharmaceuticals (1.8%), and plastics and articles thereof (1.7%), among others.

Major Trading Partners: In 2020, 14.4% of the UAE's exports headed to India which amounted to US$ 23.9 billion, making it the single largest export destination for the UAE exports. China was the second largest destination for the UAE exports worth US$ 16.9 billion (10.2% of total exports) followed by Japan, Switzerland, Iran, and Saudi Arabia.

In 2020, China was the single largest source of imports for the UAE. The UAE's merchandise import from China amounted to US$ 32.3 billion (18.9% of the UAE's total imports in 2020). India followed China as the second largest source of imports for the UAE in 2020, with imports amounting to US$ 18 billion with a share of 10.5% in total imports in 2020. Other major sources of imports include USA, Germany, Hong Kong and UK.

Foreign Direct Investment of the UAE

FDI Inflows: According to United Nations Conference on Trade and Development (UNCTAD) World Investment Report 2021, the UAE was the 15th largest Foreign Direct Investment (FDI) recipient in 2020, jumping 7 positions from the 2019 rankings. According to the Financial Times' fDi Markets[2], the UAE received a total envisaged investment of US$ 104.9 billion during 2010-2020, from 4,011 projects by 3,384 companies which created 2,66,314 jobs in the country.

Coal, oil and gas sector received the maximum investment of US$ 15.8 billion, which accounted for 15.1% of the total FDI inflow received during 2010-2020. This was followed by investments in hotel and tourism (US$ 11.7 billion), real estate (US$ 11.4 billion), renewable energy (US$ 11.3 billion), transport and warehousing (US$ 7.4 billion), communications (US$ 4.5 billion), financial services (US$ 4.1 billion) and business services (US$ 4.1 billion).

During 2010-20, India made the maximum investment in the UAE, accounting for 15.2% of total capex received by the UAE. India was followed by USA (14.7% of total investment), Japan (8.3%), and UK (7.5%).

[2] fDi Markets tracks cross border investment in a new physical project or expansion of an existing investment which creates new jobs and capital investment. This data differs from official data on FDI flows as company can raise capital locally, phase their investment over a period of time, and can channel their investment through different countries for tax efficiency.

FDI Outflows: According to UNCTAD World Investment Report 2021, the UAE had retained the position of 13th largest global FDI source in 2020. According to fDi Markets database, envisaged cumulative capital investment for an aggregate 2740 projects stood at US$ 200.8 billion during 2010-2020, creating 4,40,703 jobs in destination countries.

Real estate sector received the maximum FDI flowing out of the UAE from January 2010 to December 2020, amounting to US$ 80.7 billion constituting 40.2% of the total outflow from the UAE. The other sectors receiving FDI from the UAE are coal, oil and gas (US$ 21.5 billion), transport and warehousing (US$ 19 billion), food and beverages (US$ 11.1 billion), financial services (US$ 10.8 billion), hotel and tourism (US$ 10.4 billion), semiconductors (US$ 9.4 billion) among others.

During 2010-20, Egypt was the biggest recipient of FDI from the UAE (US$ 28.7 billion) comprising of 14.3% of the total FDI outflow from UAE. Egypt was followed by Oman (9.7% of total investments), India (9.0%), Saudi Arabia (8.1%) and USA (4.6%).

Bilateral Trade and Investment Relations between India and the UAE

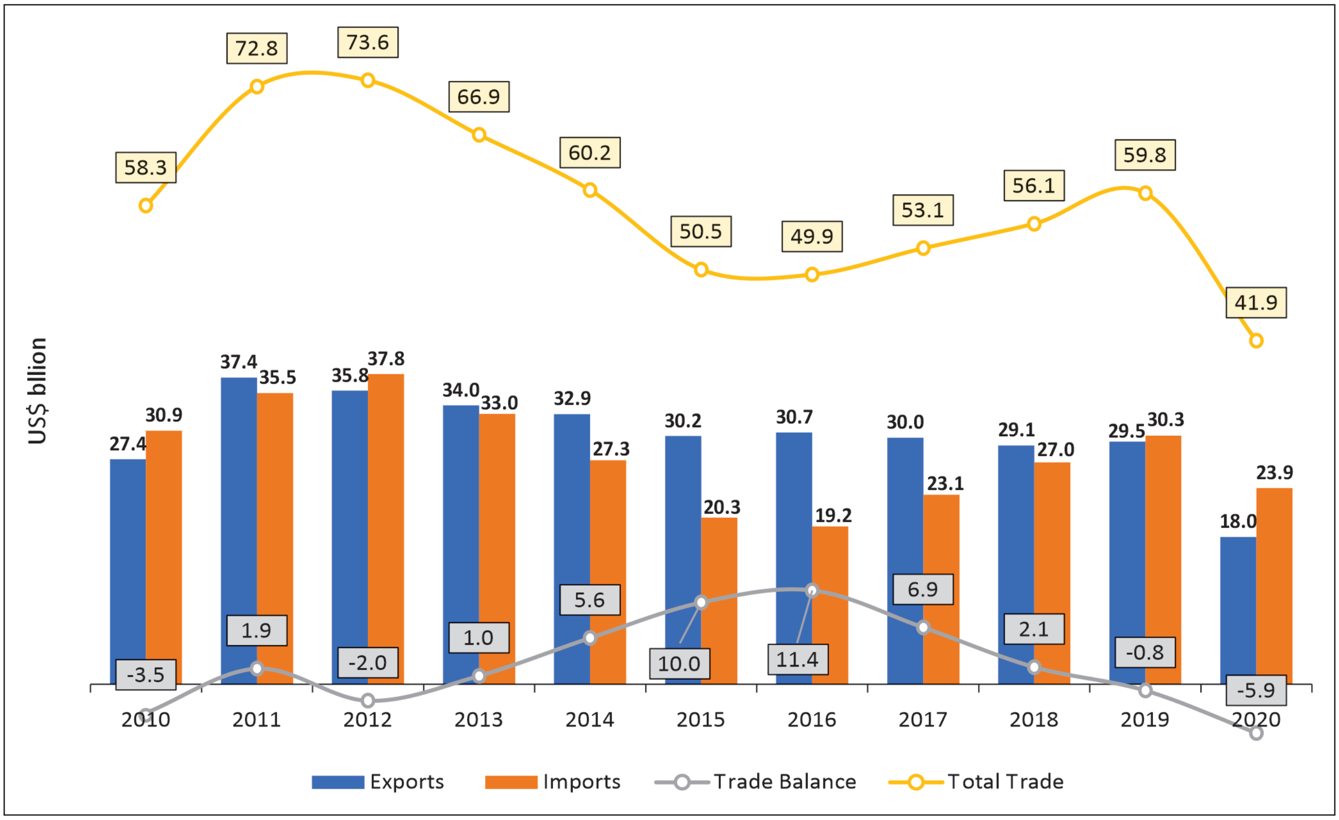
India's relationship with the UAE is at the centre of an assertive new Gulf policy subsumed under India's 'Extended Neighborhood Policy'. The promotion of economic engagement with the UAE is a vital component of India's foreign policy in the region. India has acquired an increased salience for the UAE, with its 2.6 trillion-dollar economy, it being a leading consumer of energy resources, and with a large expatriate population, making India a strategic partner to the UAE. India-UAE bilateral relations have two dominant aspects: the economic symbiosis and India's expatriate community. Both these intertwined pillars of India-UAE ties have paved the way to further expand India-UAE relations. The growing India-UAE economic relations contribute to the stability and strength of a rapidly diversifying and deepening bilateral relationship between the two countries.

Merchandise Trade

India-UAE trade witnessed a cyclical trend, while increasing from US$ 58.3 billion in 2010 to US$ 59.8 billion in 2019, while peaking at US$ 73.6 billion in 2012. However, in In the recent times, India's total trade with the UAE has decreased to US$ 41.9 billion in 2020 **(Chart B)**. While exports have fallen from US$ 27.4 billion in 2010 to US$ 18.0 billion in 2020, imports have also declined from US$ 30.9 billion in 2010 to US$ 23.9 billion in 2020. However, in 2020, there has been a significant fall in the overall trade owing to the disruption caused by the pandemic and fall in the oil prices level. In 2010, the total deficit amounted to US$ 3.5 billion which has increased to US$ 5.9 billion in 2020.

As per the estimates, with the recovery in global demand, India's trade with the UAE increased to US$ 68.5 billion in 2021, with exports of US$ 25.4 billion and imports of US$ 43.1 billion. India's trade deficit with the UAE was recorded at US$ 17.6 billion in 2021.

Chart B: India's Merchandise Trade with the UAE



Source: ITC Trade Map and India Exim Bank Research

Exports: India's major exports to the UAE in 2020 were mineral fuels, oils and products (19% of total exports in 2020) followed by pearls, precious stones and metals (18.5%). Other major exports include electrical machinery and equipment (9%), article of apparel and clothing accessories, kitted (5.0%), iron and steel (4.5%), machinery and mechanical appliances (4.3%), among others.

Imports: As regards imports, India's top import items from the UAE in 2020 were mineral fuels, oils and products (49.8% of total imports), followed by pearls, precious stones and metals (28.5%), plastics and articles thereof (3.1%), ships, boats and floating structures (3%) and salt and sulphur (2.2%), among others.

Foreign Direct Investment

This relationship between India and the UAE has strengthened in recent years, with closer engagement to enhance bilateral ties. Both India and the UAE have made significant investments in each other's economy, thus supporting their development agenda.

UAE's Investments in India: During April 2000-September 2021, the UAE became the 9th largest investor in India accounting for 2.1% of the total FDI inflows of India. According to Financial Times' fDi Markets, during 2010-2020, total envisaged capital investment of the UAE stood at a cumulative amount of US$ 18.1 billion from 344 projects by 121 companies which led to creation of 91,521 jobs. The UAE sovereign wealth funds invested over US$ 4.12 billion in India during FY 2020-21[3].

In terms of capital investments, the majority of the UAE investment in India is in the real estate sector (29.6% of the total investment), followed by financial services (23%), food and beverages (16.7%), transport and warehousing (7.9%), consumer products (6%) healthcare (5.8%) and metals (2.8%), among others.

India's Investments in the UAE: During April 1996-March 2021, the UAE was India's 6th largest destination of FDI outflows accounting for 5.2% of the total investment in the same period. According to Financial Times' fDi Markets, during 2010-2020 envisaged investment from India to the UAE stood at a cumulative amount of US$ 15.9 billion invested in 332 projects by 270 Indian companies resulting in 37,398 jobs.

In terms of capital investments, most of India's investments in the UAE are in the real estate sector (32.8% of the total investment), followed by coal, oil and gas (14%), chemicals (11.5%), consumer products (6.5%), hotel and tourism (4.7%), transport and warehousing (3.7%), and metals (3%), among others.

Aligning India's Exports to the UAE

Using the revealed comparative advantage analysis, India's exports to the UAE have been classified into 4 groups, based upon their competitiveness. The export competitiveness of India has been mapped with respect to the UAE's demand. This has been undertaken with a view to outline a market specific approach for exporters.

Product Champions: Out of the 1067 items at the HS 6-digit level, 506 items fell into the category of the product champions (PCs). The combined exports of these items from India to the UAE were US$ 21.1 billion in 2019, representing approximately 72% of India's exports

[3] Embassy of India, Abu Dhabi, UAE

to the UAE in 2019. Major products include articles of jewellery and parts thereof; light oils and preparations, of petroleum or bituminous minerals; medium oils and preparations, of petroleum or bituminous minerals and light-vessels, fire-floats, floating cranes and other vessels, among others.

Top Products in Declining Sectors: The total number of products in declining sectors category is 146, with India's exports amounting to US$ 2.9 billion and constituting a share of 9.8% of India's exports to the UAE in 2019. These are the product items in which India has attained a significant share in the UAE's import basket, but the UAE's import demand for these products has been falling in the last decade. Major products include diamonds, worked, but not mounted or set; semi-milled or wholly milled rice; cruise ships, excursion boats and similar vessels; ferro-manganese and men's or boys' shirts of man-made fibres, among others.

Underachievers: This was followed by underachievers with 370 items with India's exports worth US$ 4.6 billion from India to the UAE. These products constitute a share of 15.6% in India's total exports to the UAE. These are the product items in which import demand in the UAE market is rising, but India does not have the required competitiveness in the export of these items. India can strive towards building capacities and capabilities in these identified products. These are the products in which India can diversify in the medium to long term to continue being a strategic trade partner to the UAE and further expand its bilateral ties with the UAE. Major products includes telephones for cellular networks; non-industrial diamonds unworked; aluminium oxide; medicaments consisting of mixed or unmixed products for therapeutic or prophylactic purposes and appliances for pipes, boiler shells, tanks, vats, among others.

Laggers in Declining Sector: The high range of exports under the category of declining sectors highlight the need for diversification to other sectors as well as industries which have greater scope for exports in the future.

Further, the analysis suggests strengthening of the existing products in the category of product champions to harness the full potential of these products which are already showing a robust growth in the UAE market, whilst India's exports also hold a comparative advantage in them.

India - UAE CEPA

On February 18, 2022, India and the UAE signed a Comprehensive Economic Partnership Agreement (CEPA). The two countries had been working towards this deal since 2015. The first round of CEPA negotiations were held on September 23-24, 2021. The CEPA is also India's first bilateral trade agreement in the Middle East and North Africa (MENA) region.

The term ‘comprehensive’ connotes not just trade and investments, but also technical barriers to trade, dispute settlement, telecommunications, customs procedures, pharmaceuticals, intellectual property rights, digital trade, and cooperation in other areas. It is for the first time that the chapters on digital trade, government procurement and IPR have been included by India in a trade agreement.

According to Ministry of Commerce and Industry, the trade pact is envisaged to increase the bilateral trade in goods from the present levels of US$ 60 billion to US$ 100 billion over the next five years, and also achieve services trade worth US$ 15 billion. The CEPA is likely to increase the competitiveness of Indian products worth an estimated US$ 26 billion that are currently subjected to 5% import duty by the UAE.

The CEPA would provide a fresh impetus to labour intensive sectors, gems and jewellery, textiles, leather, footwear, sports goods, plastics, furniture, agricultural and wood products, engineering products, pharmaceuticals, medical devices and automobiles. To facilitate the access of Indian pharmaceuticals products, separate annexure on pharmaceuticals is also included in the deal. In the area of trade in services, the pact has provided Indian service providers market access to 11 broad service sectors like business services, communications services, construction and related engineering services, educational services, financial services, and tourism and travel related services.

Further, the CEPA can become a gateway for India into the Middle East and North Africa (MENA) region in terms of trade and economic relations. The UAE is a major global redistribution centre and much of exports to Africa are routed through Dubai. The FTA could encourage the setting up of warehousing or distribution centres in the UAE for exports to Africa.

The CEPA is likely to be particularly beneficial to the pharmaceutical, food and beverages sector, as companies and products which have received prior approval certificates will now gain faster approvals from the authorities in the UAE, thereby, saving time that is spent in acquiring these. Like in the case of Indian generic medicines, the CEPA will provide automatic registration and marketing authorisation in 90 days upon their approval in developed countries such as the USA, EU, UK and Japan. In the gold and jewellery sector, India will benefit from easier access to the UAE, helped by changes to the customs duty. It will mean that India-made jewellery can be brought by the UAE at competitive rates. India’s carpet industry, known globally for its fine workmanship, is another segment to be benefited from the pact as its players can now operate across the MENA region and across Europe. It was earlier transported via Istanbul to reach CIS countries and Eastern Europe, which had higher duties. Now, Russia, the CIS and other east European countries are easily accessible through

Dubai. The deal also provides for both countries to set up a technical council on investment, trade promotion and facilitation led by representatives of both governments that would promote and monitor trade and investment flows between the two countries.

With the CEPA becoming effective, it will bring down the tariff to zero for 90% of Indian exports to the UAE. While this comprises almost 80% of the tariff lines, the list however will entail around 97% of the tariff lines over the next five years. Notably, the import duty on jewellery exports to the UAE from India has been reduced from 5% to 0%. Additional 9% of trade value will also be duty free in 5-10 years for products in electronic goods, chemicals and petrochemicals, articles of stone, cement, ceramics, machinery.

For the UAE exports to India, there will be an immediate relief on import duties on about 65% of tariff lines that is slated to increase to 90% of tariff lines in 10 years. India is allowed to import up to 120 tonnes of gold from the UAE at 1% duty less than the applicable duty in the first year. The volume will increase to 200 tonnes in five years.

Policy Recommendations to Enhance India-UAE Partnership

The two countries have been meticulously working to further enhance bilateral engagement. The signing of India-UAE CEPA is an acknowledgment of these economic synergies and shared vision and destined to usher stronger economic relations between the two countries and open new avenues for trade and investment. However, in order to further enhance this partnership, there are certain hindrances which are to be addressed and a careful assessment and resolution could help boost this bilateral cooperation. A few policy imperatives that could help boost bilateral cooperation include (i) expansion of trade based on identified commodities which hold export potential for India while also develop capabilities and capacities in underachievers category of commodities in the medium to the long run, in order to make efficient utilization of resources and further enhance exports (ii) strict adherence of Rules of Origin to guard against duty-free imports of transhipped products (iii) cooperation in enhancing maritime security for ensuring peace, security, stability and prosperity in the Indian Ocean region (iv) moving from bilateralism to minilateralism as they are more task-oriented to address problems with fewer countries (v) promote exports of GI tagged products as these are unique to India thus placing India at an advantageous position (vi) enhancing supportive logistical infrastructure to reduce transaction and transport costs (vii) promote CEPA towards the goal of self-reliant India so that the UAE market can act in complementarity to India’s needs thus diversifying India's import source markets and reduce risk as well as create new capability and capacities together.

Chapter

1

THE UAE: ECONOMIC OVERVIEW

The United Arab Emirates (UAE) is a constitutional federation of seven emirates. Initially, the UAE was the federation of six emirates - Abu Dhabi, Dubai, Sharjah, Ajman, Umm Al-Quwain, and Fujairah, while the seventh emirate, Ras Al Khaimah, joined the federation in 1972. Since the discovery of oil in the UAE nearly 60 years ago, the country has undergone a profound transformation from an impoverished region of small desert principalities to a modern state with a high standard of living. According to IMF[4], the UAE is the 4th largest economy in the Middle East and North Africa (MENA) region after Iran, Saudi Arabia, and Israel; and 2nd largest among the GCC countries after Saudi Arabia. The UAE has developed rapidly and is known for its modern infrastructure, emergence as a destination for mega international events and as an important trade and transport hub.

The Government of the UAE is rigorously pursuing economic diversification to promote development of private sector to lessen its reliance on an unsustainable hydrocarbon industry in the long term. The oil industry has attracted a large influx of foreign workers. The UAE hosts more than 200 nationalities who are living and working in the UAE. The expatriate community outnumbers the population of the UAE nationals. Indians form the largest foreign community in the UAE, followed by Pakistanis, Bangladeshis, other Asians, Europeans and Africans.

In the recent years, the UAE registered subdued economic performance, partly due to cuts in oil output as part of OPEC agreements, continued corporate restructuring, reduced government investment and declining real estate prices. External factors also include a slowing global economy, geopolitical tensions, and weaker energy demand due to pandemic. In 2020, the economy contracted by (-) 6.1% due to the temporary recession triggered by the COVID-19 pandemic, lower oil prices and reduced oil production. The economic growth has however, picked up in 2021 with the growth rate of 2.2% **(Table 1.1)**. This growth is supported by the UAE's early and strong health response, continued supportive macroeconomic policies

[4] As of October 2021

and a rebound in tourism and domestic activity related to the Dubai Expo 2020 (held during 2021-2022). Economic growth is expected to strengthen in 2022 and 2023 (with 3% growth) on the back of the recovery in oil prices and production level. The UAE's strategic plan for the next few years focuses on economic diversification, promoting the UAE as a global trade and tourism hub, developing industry, and creating more job opportunities for nationals through improved education and increased private sector employment.

In 2021, the gross domestic product (GDP) of the UAE was estimated at US$ 410.2 billion with the population of 10.1 million. The UAE has one of the highest per capita income levels of US$ 40,609.7 (2021) in the world and a highly developed welfare system. The deflation observed in 2020 (-2.1%) turned into a moderate inflation in 2021 (2%) which is projected to remain stable in 2022 (2.2%) and 2023 (2.1%).

The portion of GDP from oil and gas sector has declined gradually owing to a successful economic diversification policy. The UAE holds 6.7% of the world's proven oil reserves estimated at 97.8 billion barrels and 3.5% of proven gas reserves, equal to 6091 billion cubic metres[5]. The UAE is ranked as the 6th largest proved reserves of oil and 7th largest reserves of natural gas globally[6]. According to World Bank, since 2020, this sector has suffered from the impacts of the COVID-19 pandemic, OPEC+ oil production cuts, lower oil prices, reduced global oil demand, and disruption in global supply chains, but it is expected to recover in 2022.

Manufacturing activities have seen an unprecedented growth in recent years, particularly in sectors such as metal processing, furniture, industrial preparation of food stuffs, aluminium production, construction materials, fertilisers, petrochemicals, fibreglass and real estate. Industry now comprises 46.2% of GDP[7].

The tertiary sector contributes 53.1% of GDP[8]. The main sub-sectors are air transport, financial activities and tourism. The travel and tourism sector, in particular, has a significant contribution, mainly driven by the Emirate of Dubai. Due to the COVID-19 pandemic, this sector contracted in 2020, as tourism, international transport and trade decreased sharply. The lifting of lockdown measures and the Dubai Expo held from October 2021 to March 2022 are expected to stimulate the sector in 2022.

[5] Annual Statistical Report 2018- OAPEC
[6] Emirates News Agency-WAM
[7] World Bank
[8] World Bank

Agriculture contributes to 0.7% of GDP[9] as most of the country is unsuitable for agriculture and animal husbandry. Hence, around 80% of the UAE's food is imported. Fishing and date-growing are among the main agricultural activities.

The public debt of the UAE is low but has increased rapidly in recent years, from 20.9% GDP in 2018 to 39.4% in 2020[10]. It decreased slightly in 2021 (37.3% GDP) and is projected to remain under 40% of GDP in 2022 (38.6%) and 2023 (38.9%). The public debt is expected to be funded mostly by tapping into the international capital markets[11], although the UAE's Central Bank and sovereign wealth funds own important foreign assets, providing the country with a large liquidity cushion and making it a net creditor at global level.

Table 1.1: Macroeconomic Indicators of the UAE

Indicator	2016	2017	2018	2019	2020	2021[e]	2022[f]	2023[f]
Real GDP Growth (% change)	3.1	2.4	1.2	3.4	-6.1	2.2	3.0	3.0
GDP, current prices (US$ bn)	357.0	385.6	422.2	417.2	358.9	410.2	427.9	443.3
GDP per capita, current prices (US$)	37983.5	40590.0	43980.7	42573.1	36249.4	40609.7	41546.6	42214.4
Inflation (avg, % change)	1.6	2.0	3.1	-1.9	-2.1	2.0	2.2	2.1
Population (mn)	9.4	9.5	9.6	9.8	9.9	10.1	10.3	10.5
General government gross debt (% GDP)	19.4	21.6	20.9	27.1	39.4	37.3	38.6	38.9
Current account balance (US$ bn)	13.2	27.5	40.5	35.4	11.1	39.6	40.1	38.9
Current account balance (% of GDP)	3.7	7.1	9.6	8.5	3.1	9.7	9.4	8.8
External Debt (US$ bn)	212.8	230.1	234.2	244.1	258.8	273.6	279.2	284.6
Total International Reserves (US$ bn)	85.4	95.4	99.5	108.4	106.7	122.2	142.1	151.9
Exchange Rate (avg; Dh:US$)	3.67	3.67	3.67	3.67	3.67	3.67	3.67	3.67

Note: - e- Estimates; f-Projections

Source: World Economic Outlook (WEO), IMF, October 2021 and EIU

9 World Bank

10 IMF, October 2021

11 Coface

Total international reserves increased from US$ 106.7 billion in 2020 to US$ 122.2 billion in 2021, representing an import cover of 6.2 months in 2021. While the total external debt of the UAE decreased to 66.7% of the GDP in 2021 from 72.1% of GDP recorded in 2020. The UAE dirham's peg to the US dollar, at Dh3.67:US$1. The peg has provided stability for decades despite the lack of monetary flexibility that it entails.

Key Policy Measures Undertaken in the Pandemic

The UAE economy has been affected by the spread of COVID-19 as well as the sharp decline in oil prices in 2020. At the onset of the pandemic, the authorities have enacted several fiscal and monetary measures to limit the spread of the virus as well as impact on the economy.

Fiscal Measures: The authorities have so far announced about AED 33 billion (US$ 9 billion or 2.5% of GDP) in various fiscal measures. In order to support the private sector, government reduced various government fees, taxes, labour and other charges and refunded 50% of bank and financial guarantees to some establishments and accelerated existing infrastructure projects. As a part of the stimulus, additional water and electricity subsidies as well as credit guarantees and liquidity support to small- and medium-sized enterprises were provided. It also included deferral of payment of outstanding instalments and interests on loans and credit cards for a period of 3 months, suspension of all rental property eviction cases and deferral of the collection of rent payments and service fees for tenants.

Monetary Measures: The Central Bank of the UAE (CBUAE) has reduced its policy interest rate twice by a combined 125 basis points in 2020. Furthermore, in March 2020, the CBUAE has announced an AED 256 billion (US$ 70 billion or 20% of GDP) package of measures, called Targeted Economic Support Scheme (TESS). It includes reduced Banks' reserve requirements; zero-interest rate collateralized loans to banks; allowing the use of banks' excess capital buffers; reduction in provisioning for SME loans; increase of loan-to-value ratio for first-time home buyers; limiting bank fees for SMEs; waiver of all payment service fees charged by the CBUAE for six months; raising the limit on banks' exposure to the real estate sector, subject to adequate provisioning; allowing banks to defer loan repayments; and relaxation of the Net Stable Funding Ratio and the Advances to Stable Resources Ratio. The TESS was extended twice, till the end of June 2022. The CBUAE's financing for loan deferrals under the TESS was extended until the end of 2021.

Chapter 2

INTERNATIONAL TRADE AND INVESTMENT OF THE UAE

The UAE serves as a major trade and investment hub for the Middle East and North Africa, and increasingly South Asia, Central Asia, and Sub-Saharan Africa. The UAE's trade regime is open, with low tariffs and few non-tariff barriers to trade. The UAE's openness plays an instrumental role in achieving the solid growth registered over the years and has facilitated the diversification of economic activity, otherwise limited to oil exports. The UAE is among the world's most dynamic markets in terms of foreign trade, with trade accounting for 160.9% of the GDP[12]. The country is one of the world's top 25 largest exporters and importers of commodities and the largest trading nation of the Middle East **(Table 2.1).**

The UAE attaches great importance to multilateral trade liberalization, and bilateral and regional trade agreements though not a substitute for a rule-based and non-discriminatory multilateral trade system. The UAE is currently a party to several multilateral and bilateral trade agreements, including with partner countries in the GCC. As part of the GCC, the UAE has strong economic ties with Saudi Arabia, Kuwait, Bahrain, and Oman, meaning the UAE shares a common market and a customs union with these nations. Under the Greater Arab Free Trade Area Agreement (GAFTA), the UAE has free trade access to Saudi Arabia, Kuwait, Bahrain, Qatar, Oman, Jordan, Egypt, Iraq, Lebanon, Morocco, Tunisia, Palestine, Syria, Libya, and Yemen.

According to the UAE Federal Customs Authority (FCA), the UAE has also signed agreements with the following countries Islamic Republic of Pakistan (2006), Republic of Algeria (2007), Republic of Azerbaijan (2011), Republic of India (2012), Republic of Kazakhstan (2012), Republic of Argentina (2013), Republic of Armenia (2013), Republic of Maldives (2014), Republic of South Korea (2015), and the Kingdom of the Netherlands (2015). In June 2009 the GCC signed an FTA with the European Free Trade Area (ETFA) (Iceland, Liechtenstein, Norway, and Switzerland), which was implemented in July of 2015.

[12] World Bank, as on 2019.

Table 2.1: Leading Global Merchandise Exporters and Importers

(US$ billion)

S No.	Exporters	Exported value in 2010	Exported value in 2015	Exported value in 2020	Share in 2020	S No.	Importers	Imported value in 2010	Imported value in 2015	Imported value in 2020	Share in 2020
	World	15094.1	16412.9	17503.4	100.0%		World	15338.4	16566.8	17706.1	100.0%
1	China	1577.8	2281.9	2590.6	14.8%	1	USA	1968.3	2315.9	2406.9	13.6%
2	USA	1278.1	1503.3	1424.9	8.1%	2	China	1396.0	1681.7	2055.6	11.6%
3	Germany	1267.7	1323.7	1379.9	7.9%	3	Germany	1060.7	1053.4	1172.9	6.6%
4	Japan	769.8	625.0	641.0	3.7%	4	Japan	694.1	648.4	634.7	3.6%
5	Hong Kong	400.7	510.6	551.5	3.2%	5	UK	627.6	630.3	634.2	3.6%
6	Netherlands	492.6	464.7	551.4	3.1%	6	Hong Kong	441.4	559.3	573.1	3.2%
7	South Korea	466.4	526.9	512.8	2.9%	7	France	599.2	563.2	569.3	3.2%
8	Italy	446.8	457.0	496.0	2.8%	8	Netherlands	440.0	412.6	484.1	2.7%
9	France	511.7	495.4	476.1	2.7%	9	South Korea	425.2	436.5	467.5	2.6%
10	Belgium	407.4	396.9	419.5	2.4%	10	Italy	487.0	410.9	422.6	2.4%
11	Mexico	298.3	380.8	417.0	2.4%	11	Canada	392.1	420.2	404.3	2.3%
12	UK	422.0	466.3	395.7	2.3%	12	Belgium	393.5	375.7	395.9	2.2%
13	Canada	386.6	410.7	389.9	2.2%	13	Mexico	301.5	395.2	383.0	2.2%
14	Singapore	353.2	346.6	373.9	2.1%	14	India	350.0	390.8	368.0	2.1%
15	Taiwan	274.6	279.9	346.6	2.0%	15	Spain	318.2	304.7	329.7	1.9%
16	Russia	397.1	333.5	337.1	1.9%	16	Singapore	313.1	296.8	328.8	1.9%
17	UAE	0.0	300.5	335.2	1.9%	17	Switzerland	176.3	253.5	291.0	1.6%
18	Switzerland	195.6	290.4	319.0	1.8%	18	Taiwan	252.1	228.4	287.2	1.6%
19	Spain	247.6	277.0	312.1	1.8%	19	Viet Nam	84.8	165.8	261.3	1.5%
20	Viet Nam	72.2	162.0	281.4	1.6%	20	Poland	174.1	189.7	254.7	1.4%
21	India	220.4	263.9	275.5	1.6%	21	UAE	0.0	287.0	246.9	1.4%
22	Australia	212.1	191.3	254.5	1.5%	22	Russia	228.9	177.3	231.7	1.3%
23	Poland	157.1	194.5	254.2	1.5%	23	Turkey	185.5	207.2	219.5	1.2%
24	Malaysia	198.8	200.9	233.6	1.3%	24	Thailand	182.4	202.1	208.6	1.2%
25	Thailand	195.3	211.2	229.3	1.3%	25	Australia	201.7	201.2	202.3	1.1%

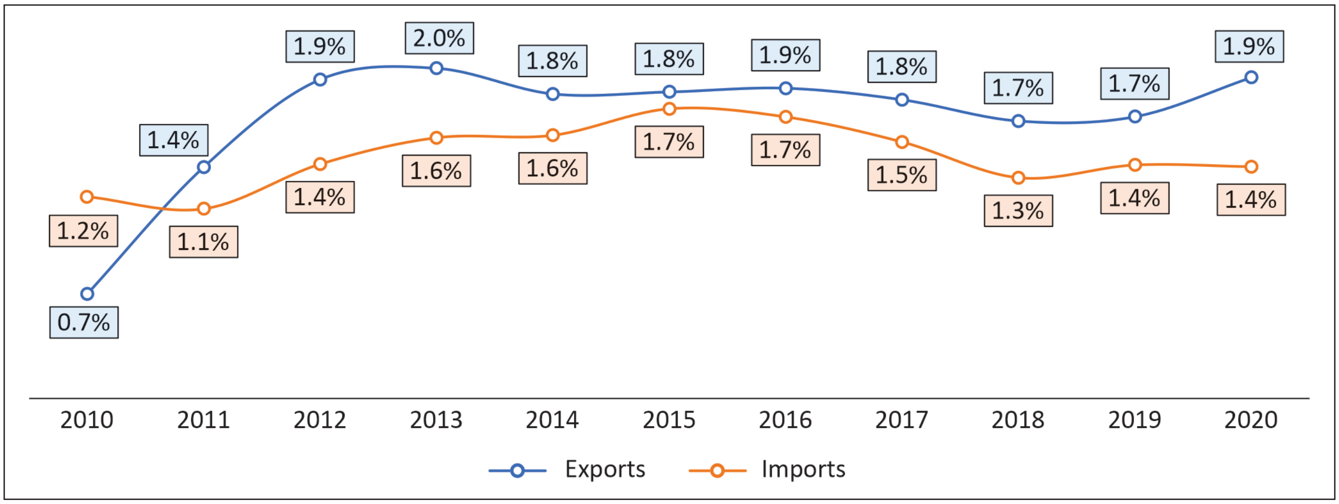
Source: ITC Trade Map and India Exim Bank Research

The UAE has engaged in talks about the establishment of similar arrangements, whether on its own as part of the GCC, with the European Union, Japan, Australia, South Korea, Brazil, China, Argentina, Malaysia, Pakistan, Paraguay, Turkey, and Uruguay. The UAE announced in September 2021 its intention to pursue bilateral economic agreements with eight countries i.e. India, UK, Turkey, South Korea, Ethiopia Indonesia, Israel, and Kenya with the goal of concluding several agreements within one year. It has also entered into several agreements on the protection and promotion of investment and the prevention of double taxation.

UAE's Share in International Trade

In 2020, the UAE was the 17th largest exporter and 21st largest importer of merchandise goods. Over the years the UAE's share in international merchandise trade has increased from 0.9% in 2010 to 1.7% in 2020, with share in exports coming up from 0.7% in 2010 to 1.9% in 2020 and share in imports also increasing from 1.2% in 2010 to 1.4% in 2020 **(Chart 2.1)**.

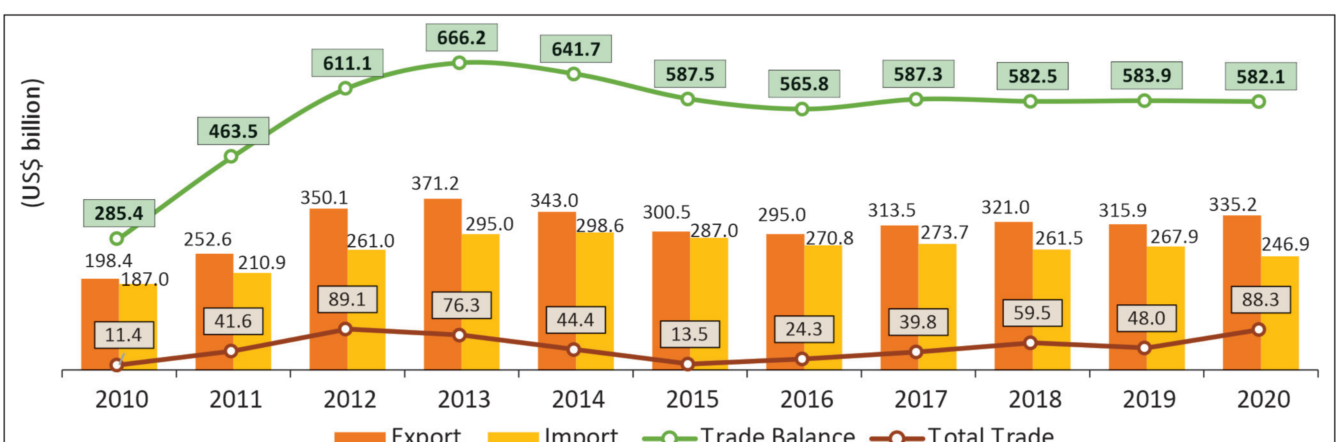
Chart 2.1: Share of UAE's Trade in Global Merchandise Trade (%)



Source: ITC Trade Map and India Exim Bank Research

Total merchandise trade of the UAE has risen from US$ 285.4 billion in 2010 to US$ 582.1 billion in 2020, reflecting the rise in both exports and imports. There has been a significant rise in the trade during 2010-2013, with the total trade reaching US$ 666.2 billion in 2013. The UAE has had a persistent trade surplus which has risen from US$ 11.4 billion in 2010 to US$ 88.3 billion in 2020 as exports have risen faster than the imports during the period **(Chart 2.2)**. This has been underlined by increasing trade surplus majorly in mineral fuels and

Chart 2.2: International Merchandise Trade of the UAE (2010-2020)



Source: ITC Trade Map and India Exim Bank Research

oils. Exports have risen from US$ 198.4 billion in 2010 to US$ 335.2 billion in 2020. Imports have also witnessed a rise from US$ 187 billion to US$ 246.9 billion during the same period.

As per the estimate for 2021, total trade of the UAE witnessed a sharp jump to US$ 414.6 billion in 2021, with US$ 217.7 billion worth exports and US$ 196.9 billion imports. However, trade surplus witnessed a moderation to US$ 20.9 billion during the same period.

UAE's Top Traded Items

The UAE's exports have been historically dominated by mineral fuels, oil and products which accounted for 51.7% of total exports in 2020. The other major products of export are pearls, precious stones and metals (13.5% of total exports), electrical machinery and equipment (8.5%), machinery and mechanical appliances (4.9%) and vehicles other than railway and tramway (3%) **(Table 2.2).**

Table 2.2: Major Merchandise Export Commodities of the UAE (US$ billion)

HS Code	Product label	2018	2019	2020	Share in 2020 (%)
	All products	**321.0**	**315.9**	**335.2**	**100%**
27	Mineral fuels, oils and products	92.5	94.0	173.3	51.7%
71	Pearls, precious stones and metals	45.9	47.8	45.1	13.5%
85	Electrical machinery and equipment	27.3	30.5	28.6	8.5%
84	Machinery and mechanical appliances	17.6	18.7	16.6	4.9%
87	Vehicles other than railway or tramway rolling stock	12.9	12.2	10.0	3.0%
39	Plastics and articles thereof	5.5	6.0	7.0	2.1%
76	Aluminium and articles thereof	6.4	5.5	4.4	1.3%
24	Tobacco and manufactured tobacco substitutes	4.5	4.7	4.4	1.3%
33	Essential oils and resinoids	3.5	3.9	3.6	1.1%
73	Articles of iron or steel	3.4	3.8	3.4	1.0%
72	Iron and steel	1.9	2.8	2.4	0.7%
74	Copper and articles thereof	3.1	2.8	2.1	0.6%
88	Aircraft, spacecraft, and parts thereof	4.2	3.1	2.0	0.6%
90	Optical, photographic, cinematographic apparatus	2.3	2.4	1.9	0.6%
48	Paper and paperboard and articles of paper pulp	0.9	1.0	1.8	0.5%

Source: ITC Trade Map and India Exim Bank Research

On the import side, pearls and precious stones, mineral fuels and oils, electrical machinery, machinery and mechanical appliances together accounted for 62.9% of total imports of the UAE in 2020 **(Table 2.3).**

Table 2.3: Major Merchandise Import Commodities of the UAE (US$ billion)

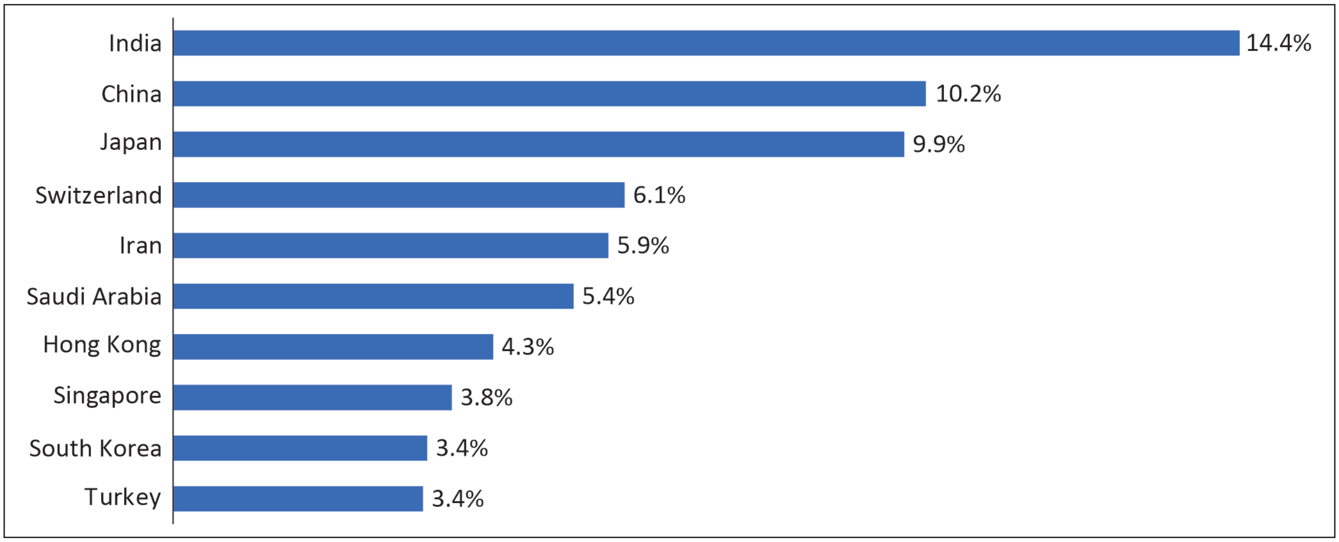
HS Code	Product label	2018	2019	2020	Share in 2020 (%)
	All products	**261.5**	**267.9**	**246.9**	**100%**
71	Pearls, precious stones and metals	54.2	58.6	52.5	21.3%
27	Mineral fuels, oils and products	15.4	16.5	42.4	17.2%
85	Electrical machinery and equipment	34.2	36.7	33.2	13.4%
84	Machinery and mechanical appliances	28.6	28.1	27.2	11.0%
87	Vehicles other than railway or tramway	20.5	19.2	15.2	6.2%
30	Pharmaceutical products	4.0	4.1	4.4	1.8%
39	Plastics and articles thereof	4.9	4.7	4.2	1.7%
90	Optical, photographic, cinematographic apparatus	3.5	4.1	3.8	1.5%
73	Articles of iron or steel	5.4	4.4	3.8	1.5%
72	Iron and steel	5.2	4.3	3.6	1.5%
88	Aircraft, spacecraft, and parts thereof	7.0	4.6	3.2	1.3%
74	Copper and articles thereof	3.3	3.1	2.8	1.1%
33	Essential oils and resinoids	3.2	3.2	2.5	1.0%
94	Furniture; bedding, mattresses and mattress supports	2.3	2.4	2.0	0.8%
8	Edible fruit and nuts	2.0	2.4	2.0	0.8%

Source: ITC Trade Map and India Exim Bank Research

UAE's Top Trade Partners

In 2020, 14.4% of the UAE's exports headed to India which amounted to US$ 23.9 billion, making it the single largest export destination for the UAE exports. China was the second largest destination for the UAE exports worth US$ 16.9 billion (10.2% of total exports) followed by Japan, Switzerland, Iran, and Saudi Arabia **(Figure 2.3).**

Chart 2.3: UAE's Top Export Destinations in 2020

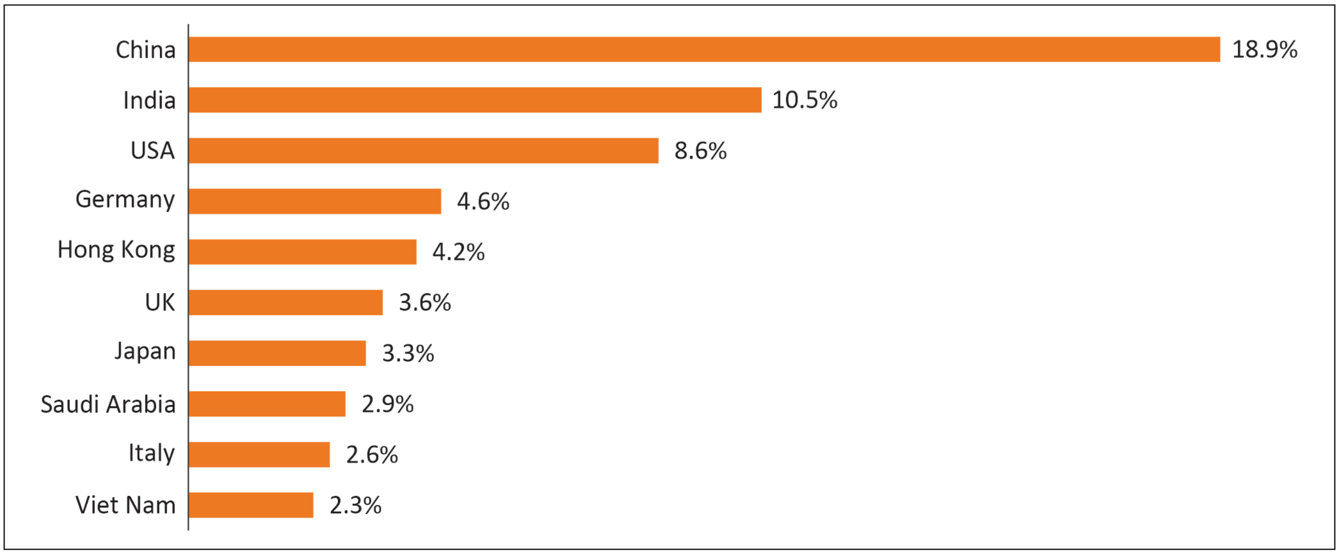


Note: The share is based on the mirror data as the direct data has a significant export under 'area not elsewhere specified' category.

Source: ITC Trade Map and India Exim Bank Research

In 2020, China was the single largest source of imports for the UAE. The UAE's merchandise import from China amounted to US$ 32.3 billion (18.9% of the UAE's total imports in 2020). India followed China as the second largest source of imports for the UAE in 2020, with imports amounting to US$ 18 billion and a share of 10.5% in total imports in 2020. Other major sources of imports include USA, Germany, Hong Kong and UK **(Chart 2.4)**.

Chart 2.4: UAE's Top Import Sources in 2020



Note: The share is based on the mirror data as the direct data has a significant export under 'area not elsewhere specified' category.

Source: ITC Trade Map and India Exim Bank Research

Foreign Direct Investment of the UAE

The UAE has been ranked 15th globally in Kearney's 2021 Foreign Direct Investment (FDI) Confidence Index[13], up from 19th place in 2020. In addition to ranking 15th place globally, the country also ranked first place in the Arab world. UAE is further liberalizing its foreign investment regime and expanding foreign investors' access to the domestic economy. This move, combined with continued acquisitions in the oil and gas sector and the implementation of major announced projects in innovative industries are likely to ensure that the country will continue driving FDI to the region.

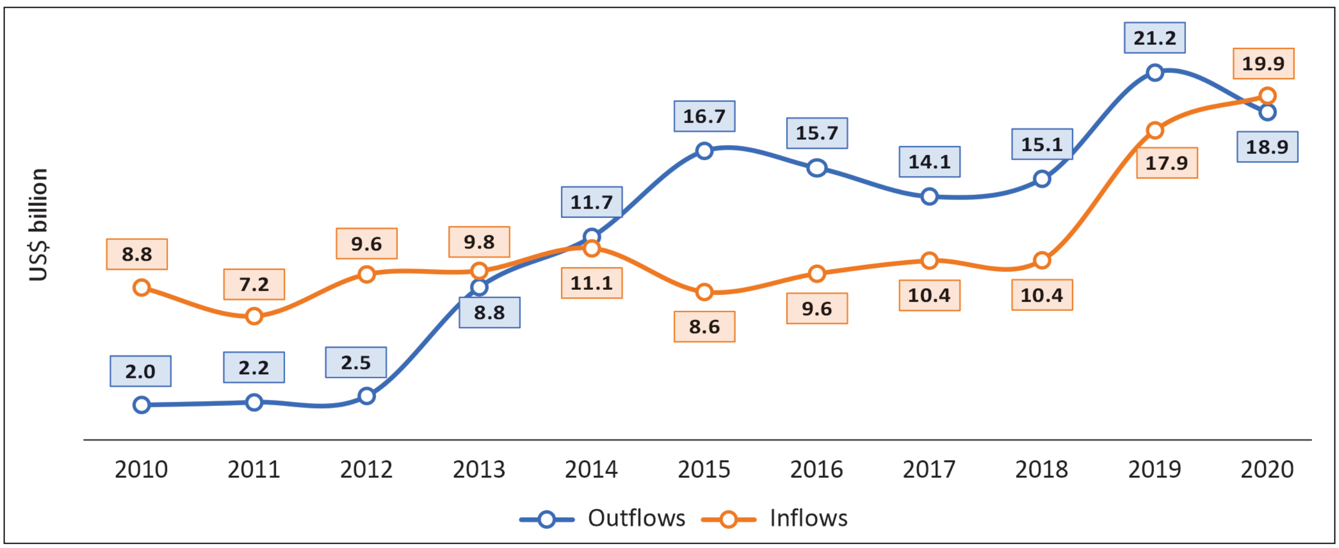
UAE remains among the top FDI destination in the wake of salient features possessed by the economy:

- As per the World Bank's Ease of Doing Business Report 2020, the UAE was ranked 16th globally. The UAE has performed exceptionally in certain indices i.e. 1st in 'getting electricity', 3rd in 'dealing with construction permits', 9th in 'enforcing contracts' and 10th globally in 'registering property'.
- As per the Global Competitiveness Report 2019, globally, the UAE is the 25th most competitive economy in the world and leading in the MENA region. The UAE is constantly working to enhance the status by diversifying its national income.
- The UAE extends the flexibility to do business anywhere in the country. There are more than 40 free zones that allow 100% foreign ownership of business; provides state-of-the-art industrial and commercial areas; allows 100% foreign ownership in 122 economic activities across 13 sectors.
- The UAE's talent and labour force is one of the most skilful in the world. Its multi-cultural population enhances workforce productivity and creativity. The UAE launched a new visa system, attracting qualified workforce in the health, scientific, technological and cultural sectors. The country's official language is Arabic, with English and other major languages also being widely used.
- The UAE encourages private sector growth, competition and enforces regulations that prohibit monopoly. It has strong ties with key regional and international trade associations like WTO, GAFTA and EFTA among others.
- The UAE has a long-term political stability, with open diplomatic policy worldwide. According to the Global Peace Index 2021[14], the UAE is the 3rd most peaceful country in the region. The UAE is a safe place to live and invest in.

[13] The Kearney FDI Confidence Index, first released in 1998, is an annual survey of global business executives that aims to rank the markets that are likely to attract the most investment in the next three years.
[14] Institute for Economics and Peace, a New York think tank.

According to United Nations Conference on Trade and Development (UNCTAD) World Investment Report 2021, the UAE was the 15th largest FDI recipient in 2020, jumping 7 positions from 2019 rankings. According to UNCTADStat, FDI inflows into the UAE have constantly increased (except in the year 2015) year-by-year in the last decade. It has expanded from US$ 8.8 billion in 2010 to US$ 19.9 billion in 2020, signalling positive sentiments of the foreign investors in the country **(Chart 2.5)**. FDI into the UAE has increased by a significant 11% in 2020 from 2019. Natural resources transactions drove investments in the country, primarily Abu Dhabi National Oil Company's US$ 10 billion sale of a 49% stake in its natural-gas pipelines. The UAE also received investments in other industries for example, 53% of FDI to the Emirate of Dubai in the first half of 2020 was in medium and high-tech sectors; and a key deal was realised in the pharmaceuticals industry, with CCL Pharmaceuticals (Pakistan) acquiring a majority stake in StratHealth Pharma.[15]

Chart 2.5: Foreign Direct Investment Flows of the UAE



Source: FDI Market Online Database and India Exim Bank Research

According to United Nations Conference on Trade and Development (UNCTAD) World Investment Report 2021, the UAE has retained the position of 13th largest FDI source in 2020. The FDI outflows of the UAE have also increased from US$ 2 billion in 2010 to US$ 18.9 billion in 2020. However, the investment outflows have fallen from US$ 21.2 billion 2019 to US$ 18.9 billion in 2020 for the success of public health and economic support policy measures taken by governments to address the COVID-19 pandemic and the resulting recession. Major investments in 2020 include International Holdings Company investment in Sudan's agricultural sector and Mubadala investment of US$ 201 million in Uzbekistan's power industry.

[15] UNCTAD, Investment Policy Monitor, "United Arab Emirates Amending Commercial Companies Law", 23 November 2020, https://investmentpolicy.unctad.org

Inward Direct Investments

Table 2.4 shows the trends in envisaged foreign capital investment, number of FDI projects and jobs created in the UAE. According to the Financial Times' fDi Markets[16], the UAE received a total envisaged investment of US$ 104.9 billion during 2010-2020, from 4,011 projects by 3,384 companies which created 2,66,314 jobs in the country.

Table 2.4: Trends in Foreign Direct Investment Inflows to the UAE

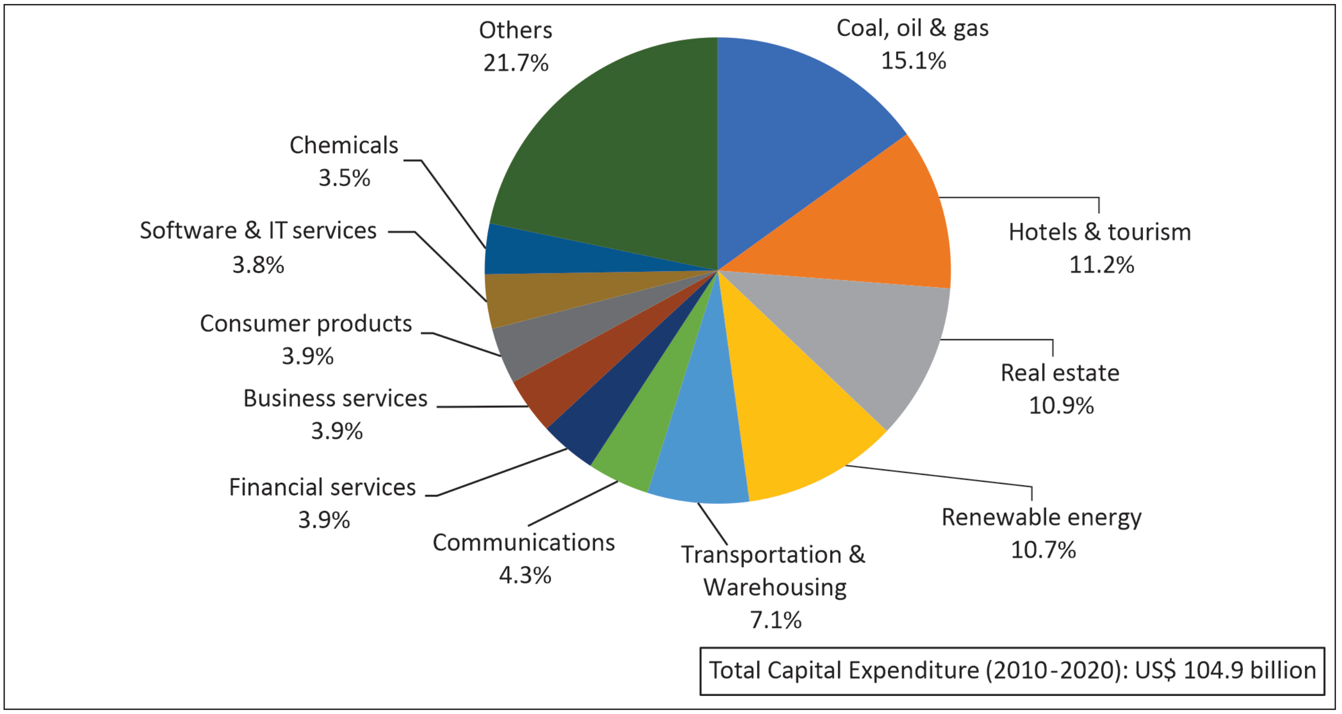
Year	Capital Expenditure (US$ billion)	No. of Projects	No. of Jobs Created	No. of Companies
2010	10.8	332	28752	313
2011	9.1	392	22647	364
2012	9.2	358	27135	347
2013	5.4	354	20743	348
2014	10.7	338	18112	322
2015	8.3	337	22897	326
2016	9.5	310	20427	297
2017	8.2	337	20314	317
2018	11.7	410	31506	384
2019	13.2	459	33103	420
2020	8.7	384	20678	370
Total	**104.9**	**4011**	**266314**	**3384**

Source: fDi Markets online database and India Exim Bank Research

Coal, oil and gas sector received the maximum investment of US$ 15.8 billion, which accounted for 15.1% of the total FDI inflow received during 2010-2020 **(Chart 2.6)**. This was followed by investments in hotel and tourism (US$ 11.7 billion), real estate (US$ 11.4 billion), renewable energy (US$ 11.3 billion), transport and warehousing (US$ 7.4 billion), communications (US$ 4.5 billion), financial services (US$ 4.1 billion) and business services (US$ 4.1 billion). Maximum number of projects were in business services (702 projects), followed by software and IT services (563 projects), financial services (417 projects) and industrial equipment (263 projects), amongst others.

[16] fDi Markets tracks cross border investment in a new physical project or expansion of an existing investment which creates new jobs and capital investment. This data differs from official data on FDI flows as company can raise capital locally, phase their investment over a period of time, and can channel their investment through different countries for tax efficiency.

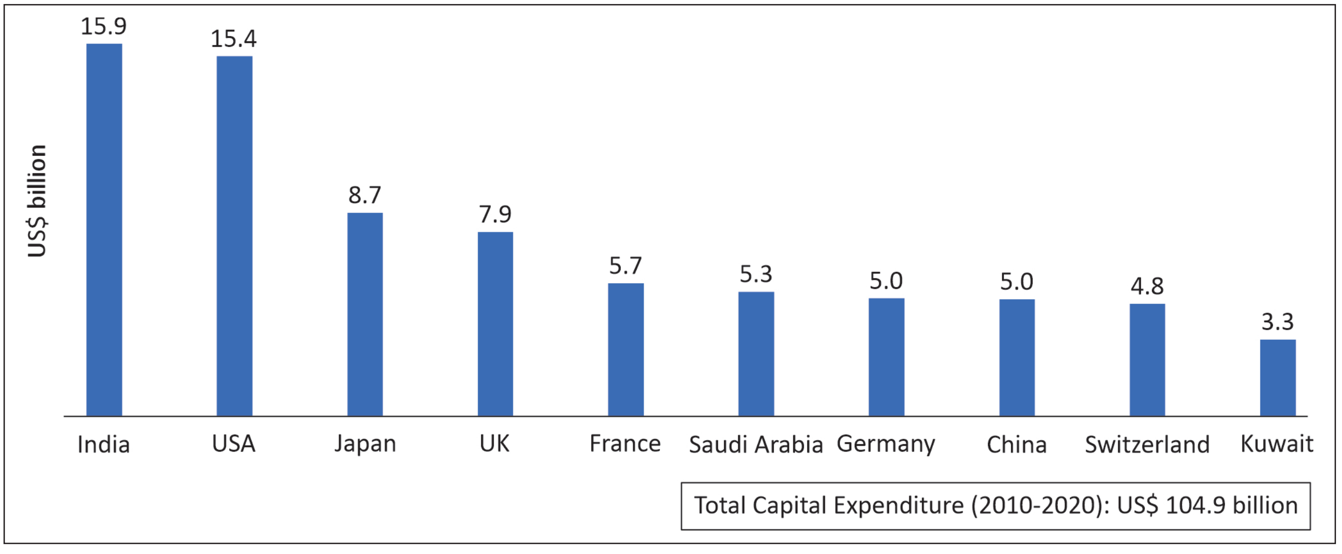
Chart 2.6: Major Sectors Attracting Investment in the UAE during 2010-2020



Source: fDi Markets online database and India Exim Bank Research

As shown in **Chart 2.7,** India made the maximum investment in the UAE, accounting for 15.2% of total capex received by the country during January 2010 to December 2020. India was followed by USA (14.7% of total investment), Japan (8.3%), and UK (7.5%). While in terms of projects, USA (864 projects), UK (657 projects) and India (332 projects) were the major investor in the UAE during the same period.

Chart 2.7: Major Investors in the UAE during 2010-2020



Source: fDi Markets online database and India Exim Bank Research

Outward Direct Investments

According to fDi Markets database, envisaged cumulative capital investment for an aggregate 2740 projects stood at US$ 200.8 billion during 2010-2020, creating 4,40,703 jobs in destination countries **(Table 2.5).**

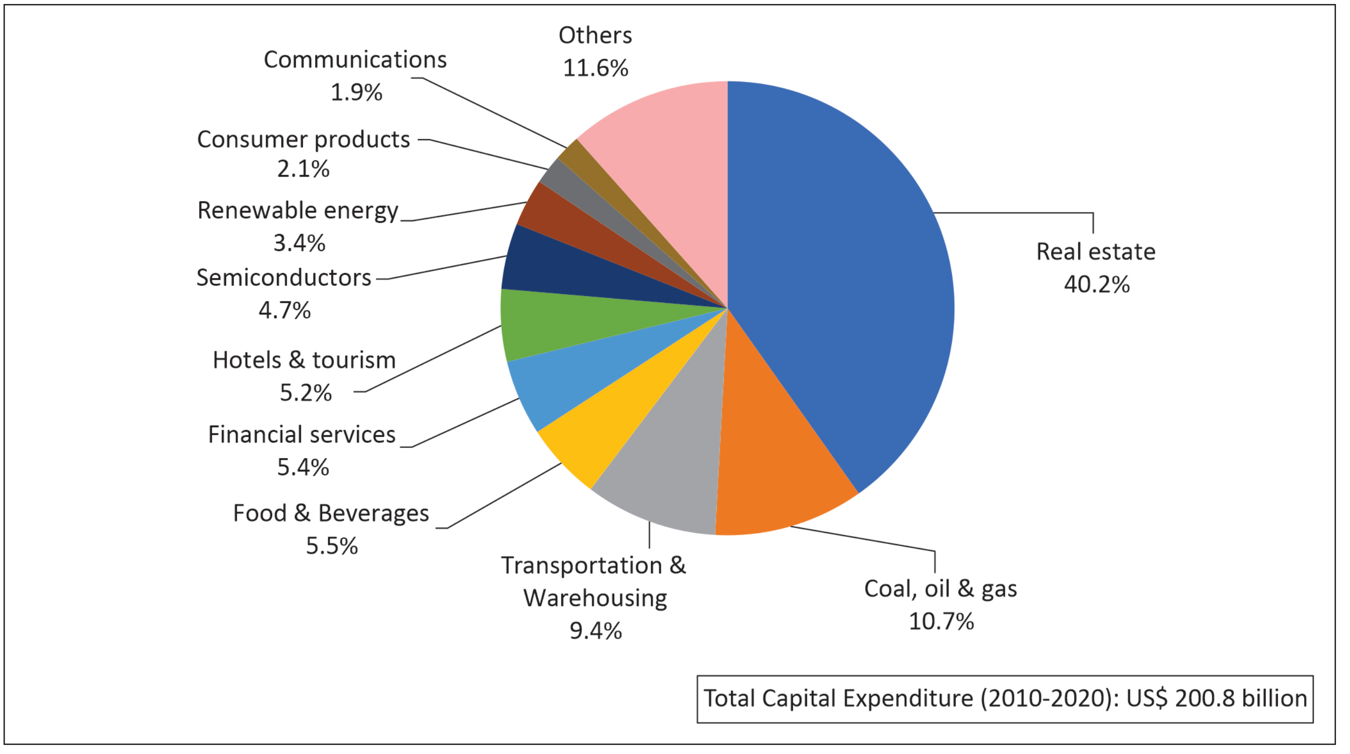
Table 2.5: Trends in Foreign Direct Investment Outflows from the UAE

Year	Capex Expenditure (US$ billion)	No. of Projects	No. of Jobs Created	No. of Companies
2020	6.7	184	24317	107
2019	16.6	276	34285	153
2018	28.7	235	44344	118
2017	15.1	188	37754	103
2016	24.7	228	43584	116
2015	21.8	201	33111	99
2014	19.3	291	48405	106
2013	18.2	292	42013	137
2012	16.7	353	52253	134
2011	13.4	272	38463	140
2010	19.8	220	42174	124
Total	**200.8**	**2740**	**440703**	**815**

Source: fDi Markets online database and India Exim Bank Research

Real estate sector received the maximum FDI flowing out of the UAE from January 2010 to December 2020, amounting to US$ 80.7 billion constituting 40.2% of the total outflow from the UAE **(Chart 2.8)**. The other sectors receiving FDI from the UAE are coal, oil and gas (US$ 21.5 billion), transport and warehousing (US$ 19 billion), food and beverages (US$ 11.1 billion), financial services (US$ 10.8 billion), hotel and tourism (US$ 10.4 billion), semiconductors (US$ 9.4 billion) among others. Maximum number of projects were in financial services (530 projects), followed by transport and warehousing (305 projects), food and beverages (234 projects) and consumer products (216 projects).

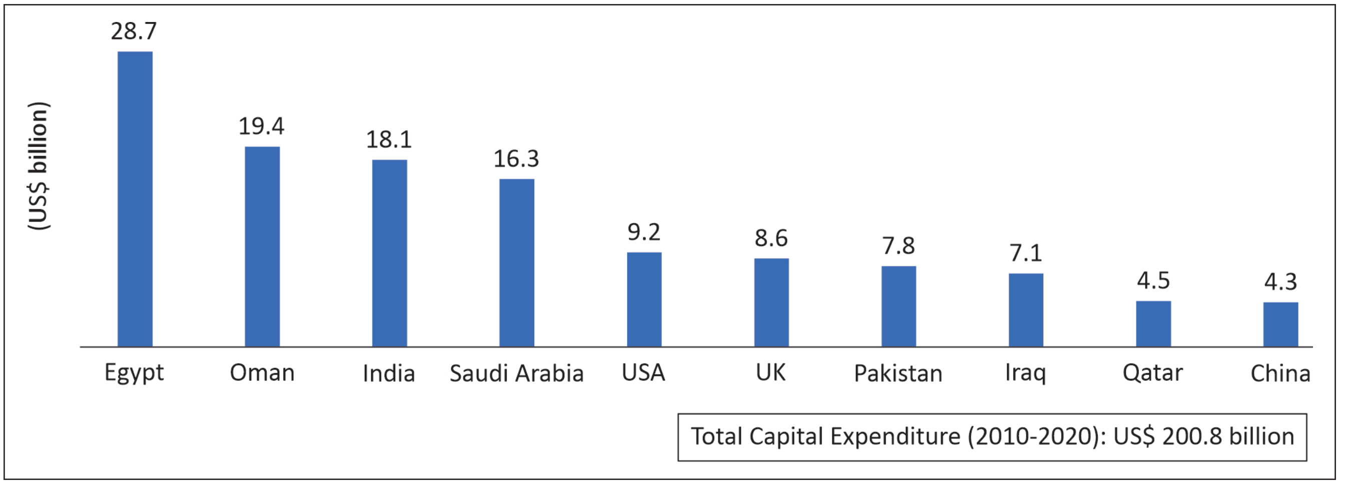
Chart 2.8: Major Sectors Attracting Investment from the UAE during 2010-2020



Source: fDi Markets online database and India Exim Bank Research

Egypt was the biggest recipient of FDI from the UAE (US$ 28.7 billion) comprising of 14.3% of the total FDI outflow from January 2010 to December 2020. Egypt was followed by Oman (9.7% of total investments), India (9.0%), Saudi Arabia (8.1%) and USA (4.6%). In terms of number of projects, India is largest recipient of the UAE investments with total 861 projects, followed by Saudi Arabia (344 projects), Oman (174 projects) and UK (141 projects).

Chart 2.9: Major Investment Destinations of the UAE during 2010-2020



Source: fDi Markets online database and India Exim Bank Research

Highlights of Investment Climate of the UAE

The UAE as a whole and seven emirates at federal levels have taken numerous initiatives, and passed laws and regulations to attract more investments. To state a few:

- In 2020, the UAE issued Federal Decree-Law Number 26, which relaxed restrictions on foreign ownership of commercial companies except for state-owned entities and companies operating in strategically important sectors. It has annulled the requirement that commercial companies should be majority-owned by Emirati nationals, should have a majority-Emirati board, or should maintain an Emirati agent. These changes in the decree will allow granted licenced foreign investments an equal treatment as national companies within the limit permitted by the legislation in force and protect the interest of minority shareholders.
- To combat commercial fraud, the federal cabinet has approved a new resolution. The resolution established a unified federal mechanism to deal with commercial fraud across the UAE and outlined a process or removal and destruction of counterfeit products.
- The absence of corporate and personal income taxes act as a strength to local investment climate relative to other regional options.
- In 2020, the UAE's citizenship law has been amended which allows foreign investors, members of certain professions, those with special talents, and their families to acquire long-term residency, Emirati passports, and citizenship.
- Free trade zones (FTZ) form an integral part of the local economy and serve as major re-export centres to other markets in the Gulf, South Asia, and Africa. These FTZs have stronger and more equitable legal and regulatory frameworks for foreign investors than onshore jurisdictions. They also enjoy 100% import and exports tax exemption, 100% exemptions from commercial levies, and can repatriate 100% of capital and profits. However, goods and services delivered onshore by FTZ companies are subject to 5% VAT.

Chapter 3

BILATERAL TRADE AND INVESTMENT RELATIONS BETWEEN INDIA AND THE UAE

India's relationship with the UAE is at the centre of an assertive new Gulf policy subsumed under the 'Extended Neighborhood Policy'. The promotion of economic engagement with the UAE is a vital component of India's foreign policy in the region. One of the reasons for a strong and sustained trade relations was the strategic geographical location which is supported by straight and uninterrupted sea route connectivity providing smooth flow of goods without much additional cost. A sudden and upward push to the bilateral trade resulted from political recognition between the two countries which led to the establishment of the UAE Embassy in Delhi in 1972 and Emirati Consulate in Mumbai, Indian Embassy in Abu Dhabi, Indian Consulate in Dubai in 1973. The recent developments in India-UAE relations stem from shared economic visions and compatible regional geopolitical outlooks. The UAE's plan to develop a diversified and knowledge-based 21st century economy has dovetailed with India efforts in unleashing India's economic potential.

India has acquired an increased salience for the UAE, with its 2.6 trillion-dollar economy, leading consumer of energy resources, and large expatriate population, making India a strategic partner to the UAE. India-UAE bilateral relations have two dominant verticals the economic symbiosis and India's expatriate community.

India and the UAE have century-old trade relations, however the nature of trade has transformed significantly after the discovery of oil in the UAE. Trade, which was earlier dominated by traditional items such as dates, pearls and fishes is now governed by mineral fuels and oils, which constitute almost half of India's trade with the UAE. The real paradigm shift happened in 1990s when the UAE positioned itself as a regional trading hub and about the same time India opened its economy and undertook trade liberalisation policies. Behind this growing economic relation, also lies the vast Indian diaspora in the region. Indian expatriate community in UAE is approximately 3.5 million[17]. It is reportedly the largest ethnic community in UAE constituting roughly about 30% of the country's population. Both

[17] as per International Migrant Stock 2020 released by the Population Division of the UN Department of Economic and Social Affairs (DESA)

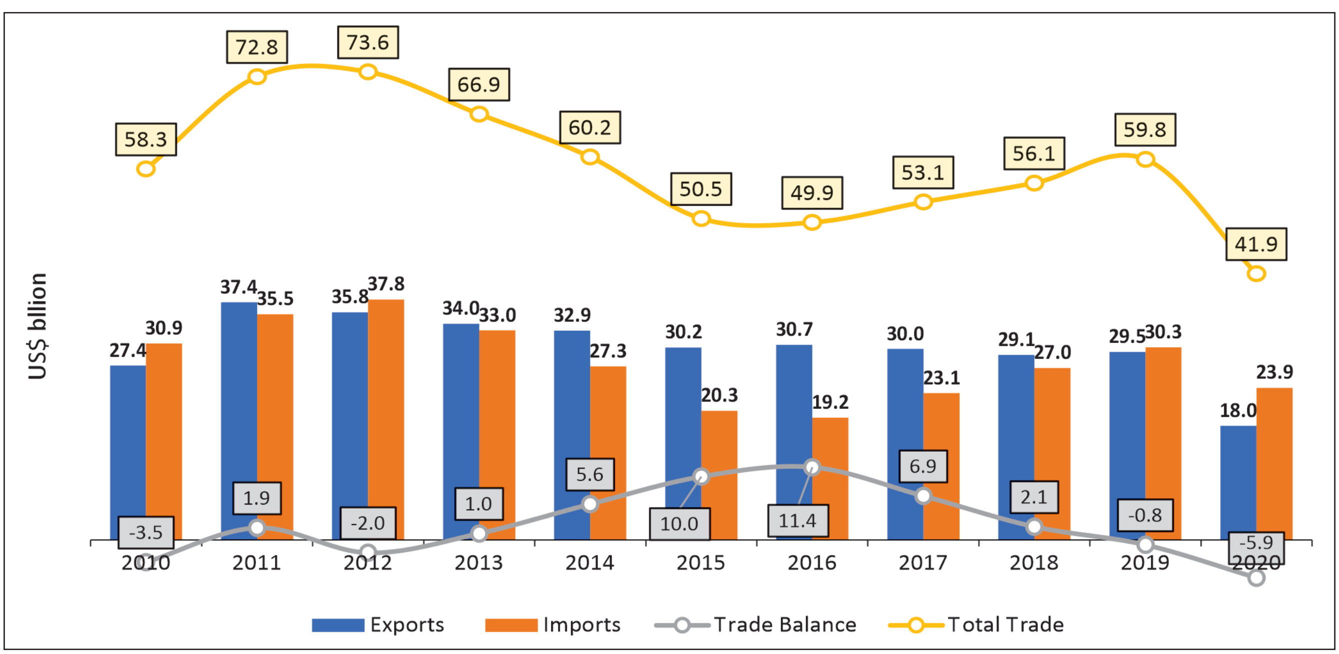
these intertwined pillars of India-UAE ties have paved the way to further expand India-UAE relations. The growing India-UAE economic relations contribute to the stability and strength of a rapidly diversifying and deepening bilateral relationship between the two countries.

India's Merchandise Trade with the UAE

India-UAE trade witnessed a cyclical trend, while increasing from US$ 58.3 billion in 2010 to US$ 59.8 billion in 2019. The total trade between the two countries peaked in 2012 to US$ 73.6 billion during 2010-20. However, in the recent times, India's total trade with the UAE has decreased to US$ 41.9 billion in 2020 **(Chart 3.1).** While exports have fallen from US$ 27.4 billion in 2010 to US$ 18.0 billion in 2020, imports have also declined from US$ 30.9 billion in 2010 to US$ 23.9 billion in 2020. However, in 2020, there has been a significant fall in the overall trade owing to the disruption caused by the pandemic and fall in oil prices level. The total trade between the two countries peaked in 2012 to US$ 73.6 billion during 2010-20. In 2010, the total deficit amounted to US$ 3.5 billion which increased to US$ 5.9 billion in 2020. It is important to mention that for a prolonged period during 2013-2018 that India maintained a sizable trade surplus which peaked at US$ 11.4 billion in 2016.

As per the estimates, with the recovery in global demand, India's trade with the UAE increased to US$ 68.5 billion in 2021, with exports of US$ 25.4 billion and imports of US$ 43.1 billion. India's trade deficit with the UAE was recorded at US$ 17.6 billion in 2021.

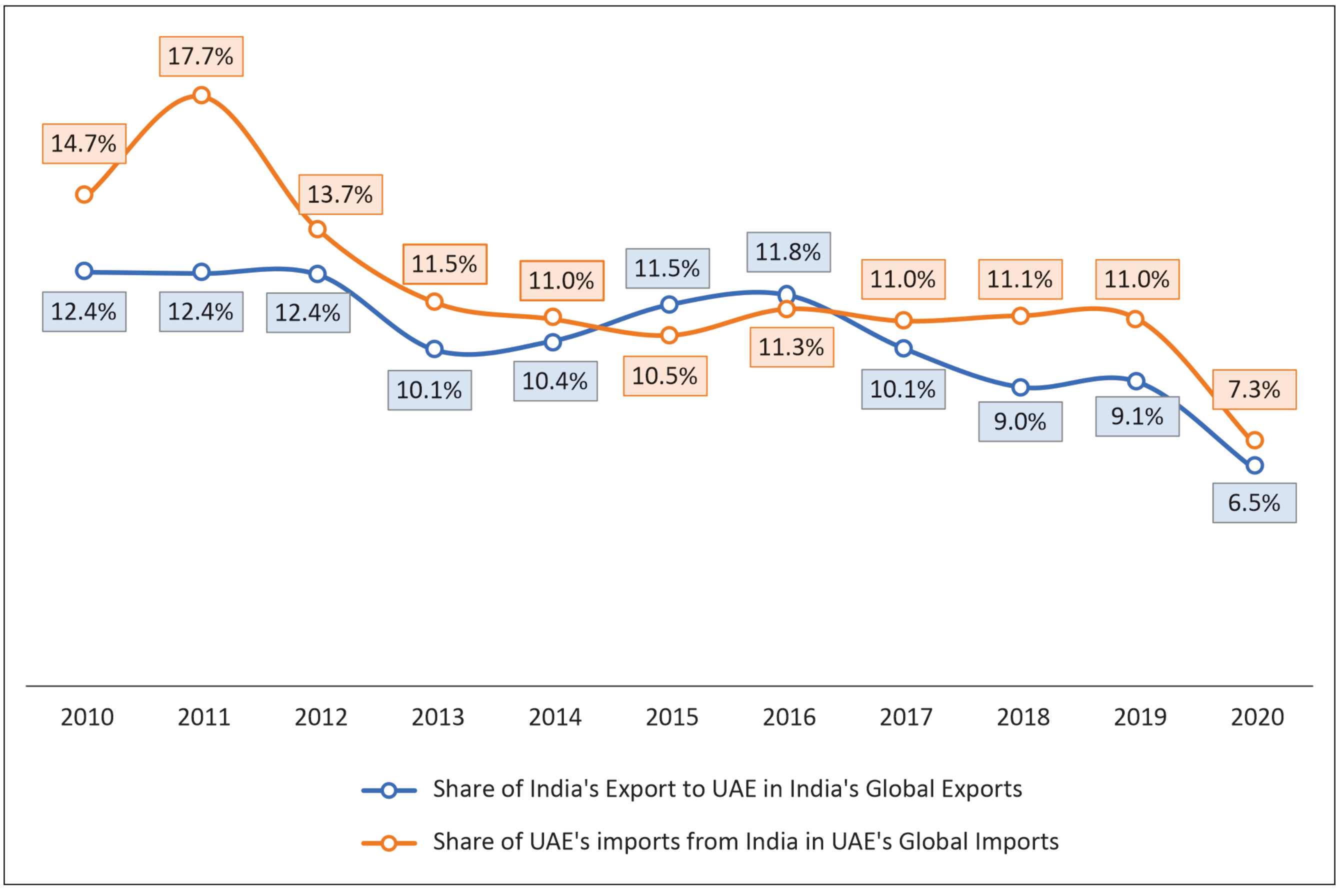
Chart 3.1: India's Merchandise Trade with the UAE



Source: ITC Trade Map and India Exim Bank Research

Moreover, the share of India's exports to the UAE in India's global exports fell to almost half from 14.7% in 2010 to 7.3% in 2020. Similarly, share of Indian imports in the UAE's overall imports decreased from 12.4% in 2010 to 6.5% in 2020 **(Chart 3.2)**. However, the share of India's exports to the UAE in India's global exports is at sizable level in 2019 at 11%, prior to the pandemic, but a downward trend is observed. It is important here to note that the global exports of India and imports of the UAE have increased over the same period, which further pulls the share down.

Chart 3.2: India's Trade with the UAE vis-à-vis Global Trade (%)



Source: ITC Trade Map and India Exim Bank Research

India's Merchandise Exports to the UAE

India's major exports to the UAE in 2020 were mineral fuels, oils and products (19% of total exports in 2020) followed by pearls, precious stones and metals (18.5%). Other major exports include electrical machinery and equipment (9%), article of apparel and clothing accessories, knitted (5.0%), iron and steel (4.5%), machinery and mechanical appliances (4.3%), among others **(Table 3.1).**

Table 3.1: India's Major Export Products to the UAE

(U$ million)

HS Code		2018	2019	2020	Share in 2020
	All products	29100.2	29539.4	17953.3	100.0%
27	Mineral fuels, oils and products	6723.5	5931.4	3408.1	19.0%
71	Pearls, precious stones and metals	9826.0	9737.9	3315.7	18.5%
85	Electrical machinery and equipment	1366.5	2629.5	1615.1	9.0%
61	Articles of apparel and clothing accessories, knitted	1099.4	1126.1	889.9	5.0%
72	Iron and steel	685.1	779.9	799.8	4.5%
84	Machinery and mechanical appliances	641.4	701.4	777.8	4.3%
89	Ships, boats and floating structures	1297.6	1143.8	690.0	3.8%
62	Articles of apparel and clothing accessories, not knitted	800.9	733.4	625.4	3.5%
10	Cereals	517.4	360.3	419.4	2.3%
73	Articles of iron or steel	428.7	445.1	333.0	1.9%
29	Organic chemicals	477.7	430.2	330.4	1.8%
87	Vehicles other than railway or tramway	410.4	500.5	315.4	1.8%
28	Inorganic chemicals	359.6	316.9	310.7	1.7%
39	Plastics and articles thereof	371.9	387.0	298.2	1.7%
8	Edible fruit and nuts	279.6	252.7	218.1	1.2%

Source: ITC Trade Map and India Exim Bank Research

As regards imports, India's top import items from the UAE in 2020 were mineral fuels, oils and products (49.8% of total imports), followed by pearls, precious stones and metals (28.5%), plastics and articles thereof (3.1%), ships, boats and floating structures (3%) and salt and sulphur (2.2%), among others **(Table 3.2).**

Table 3.2: India's Major Import Products from the UAE

(U$ million)

HS Code		2018	2019	2020	Share in 2020
	All products	27018.2	30308.9	23901.1	100.0%
27	Mineral fuels, oils and products	12908.0	14854.1	11908.1	49.8%
71	Pearls, precious stones and metals	7519.9	8739.7	6818.5	28.5%
39	Plastics and articles thereof	925.8	839.5	737.6	3.1%
89	Ships, boats and floating structures	506.5	633.1	723.6	3.0%
25	Salt and sulphur	532.7	617.5	528.6	2.2%
74	Copper and articles thereof	711.5	649.4	479.1	2.0%
72	Iron and steel	700.7	615.9	386.3	1.6%
84	Machinery and mechanical appliances	285.2	366.5	310.2	1.3%
76	Aluminium and articles thereof	477.7	310.9	284.3	1.2%
8	Edible fruit and nuts	159.3	205.1	255.5	1.1%
31	Fertilisers	167.7	306.4	252.9	1.1%
85	Electrical machinery and equipment	215.5	270.6	220.5	0.9%
29	Organic chemicals	274.4	181.1	131.8	0.6%
28	Inorganic chemicals	85.0	56.3	104.0	0.4%

Source: ITC Trade Map and India Exim Bank Research

India's Trade Balance with the UAE

India runs a trade deficit with the UAE, which has almost doubled during 2010 and 2020. However, in 2015, India had a sizable amount of trade surplus of US$ 10 billion in 2015. In 2020, the deficit mainly consists of rising imports of mineral fuels, oils and products and to a relatively lesser extent by pearls and precious stone **(Table 3.3).**

Table 3.3: India's Trade Balance with the UAE 2010-2020

(U$ million)

HS Code		2010	2015	2020
	All products	-3495.2	9952.0	-5947.8
27	Mineral fuels, oils and products	-3288.2	-4457.7	-8500.0
71	Pearls, precious stones and metals	-6412.0	4370.2	-3502.8
25	Salt and sulphur	-81.4	-230.3	-489.5
74	Copper and articles thereof	375.4	-296.9	-443.4
39	Plastics and articles thereof	18.7	-372.9	-439.4
31	Fertilisers	-18.8	-23.8	-240.7
76	Aluminium and articles thereof	-187.5	-298.2	-207.2
47	Pulp of wood	-40.3	-73.6	-51.0
26	Ores, slag and ash	80.1	1.2	-42.6
8	Edible fruit and nuts	185.9	302.4	-37.4
89	Ships, boats and floating structures	164.0	677.6	-33.5
78	Lead and articles thereof	-78.8	-46.7	-28.4
75	Nickel and articles thereof	-5.6	68.4	-12.9
91	Clocks and watches and parts thereof	4.0	7.0	-3.6
86	Railway or tramway locomotives	0.0	-1.4	-3.6
41	Raw hides and skins	0.3	-1.0	-3.3
97	Works of art, collectors' pieces and antiques	6.5	6.5	-1.2

Source: ITC Trade Map and India Exim Bank Research

India's Bilateral Investment with the UAE

This unparalleled relationship between India and the UAE has been strengthened with the closer engagement to enhance bilateral ties. Both India and the UAE have made significant investments in each other's economy thus supporting their development agenda. The Joint Task Force was established in 2013 as a key forum for promoting economic ties between the UAE and India. The 9th meeting of the 'India-UAE High-Level Joint Task Force on Investments' was held in 2021. This platform provides effective mechanisms to build on the long-standing friendship between India and the UAE. Both countries have also promoted and delivered significant investment opportunities through the comprehensive strategic partnership which was signed in January 2017. Given the UAE's philosophy of long-term investments and strong growth prospects of the Indian economy, its confidence in India's story has not deterred by periods of uncertainty. Mubadala, which is Abu Dhabi-based sovereign investor, invested over US$ 2 billion during the peak of the COVID-19 pandemic. This reflects the priority that this partnership holds for both our nations and India looks forward for the UAE investments in diverse sector of the Indian economy.

The UAE's Investments in India

During April 2000-September 2021, the UAE became the 9th largest investor in India accounting for 2.1% of the total FDI inflows of India. To get a more meaningful understanding on the trends in Indian overseas investments, this study has drawn upon the data collated by the Financial Times through its online database tracking cross-border greenfield investment, viz. fDi Markets. According to Financial Times' fDi Markets, during 2010-2020, total envisaged capital investment of the UAE stood at a cumulative amount of US$ 18.1 billion from January 2010 to December 2020 from 344 projects by 121 companies which led to creation of 91,521 jobs **(Table 3.4)**. The UAE sovereign wealth funds invested over US$ 4.1 billion in India during FY 2020-21[18]. This reflects the important contribution of the UAE companies to the Indian economy, as a key ally in India's growth story. Prominent investors include DP World, Sharaf Group (two subsidiaries operating in the shipping and logistics sector in India Hind Hind Terminals Private Limited and Samsara Shipping Private Limited), Abu Dhabi Investment Authority (ADIA), Lulu Group, Emaar Properties and Rakia[19].

In terms of capital investments, **Chart 3.3** shows that the majority of the UAE investment in India is in the real estate sector (29.6% of the total investment), followed by financial services (23%), food and beverages (16.7%), transport and warehousing (7.9%), consumer products (6%) healthcare (5.8%) and metals (2.8%), among others.

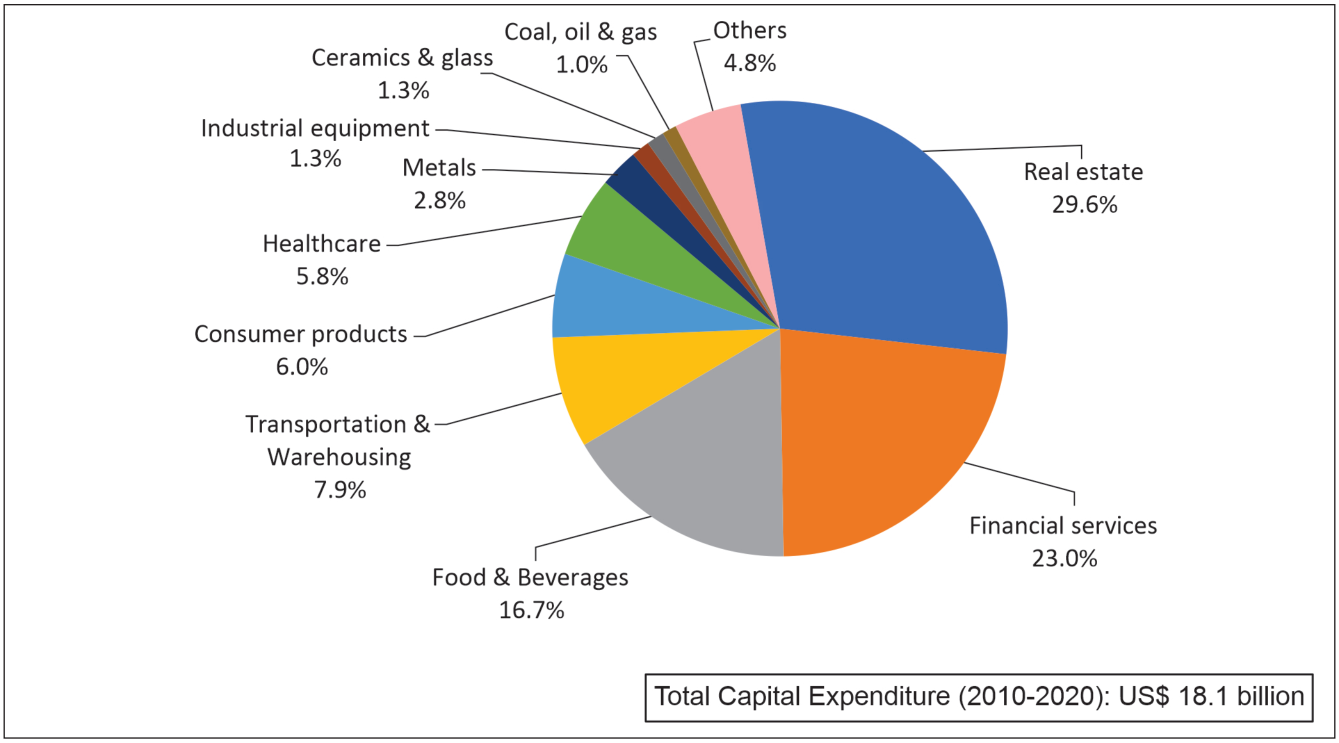
[18] Embassy of India, Abu Dhabi, UAE
[19] Investindia.gov.in and MEA

Table 3.4: Summary of Capex, Projects, and Jobs Created by the UAE in India

Year	Capex Expenditure (US$ million)	No. of Projects	No. of Jobs Created	No. of Companies
2010	932.3	27	4984	18
2011	1296.0	28	8135	21
2012	3686.6	65	20116	23
2013	1780.8	31	7825	22
2014	3642.6	79	15486	11
2015	964.5	34	5314	13
2016	1830.7	26	12034	14
2017	1382.6	16	7071	14
2018	1658.6	14	6844	11
2019	844.0	18	3517	12
2020	113.7	6	195	6
Total	**18132.3**	**344**	**91521**	**121**

Source: fDi Markets online database and India Exim Bank Research

Chart 3.3: Major Sectors Attracting FDI from the UAE to India (2010-2020)



Source: fDi Markets online database and India Exim Bank Research

India’s Investments in the UAE

During April 1996-March 2021, the UAE was India’s 6th largest destination of FDI outflows accounting for 5.2% of the total investment in the same period. According to Financial Times’ fDi Markets, during 2010-2020 envisaged investment from India to the UAE stood at a cumulative amount of US$ 15.9 billion invested in 332 projects by 270 Indian companies resulting in 37,398 jobs **(Table 3.5).** Prominent investors include ONGC and Petro Resources, Larsen and Turbo Middle East, Oberoi Group, ESSAR, Dodsal, Punj Lloyd, JK Cemnent, Hinduja Group, Taj Group, Engineers India Ltd., ILFS, TCIL and Zee Entertainment[20].

Table 3.5: Summary of Capex, Projects, and Jobs Created by India in the UAE

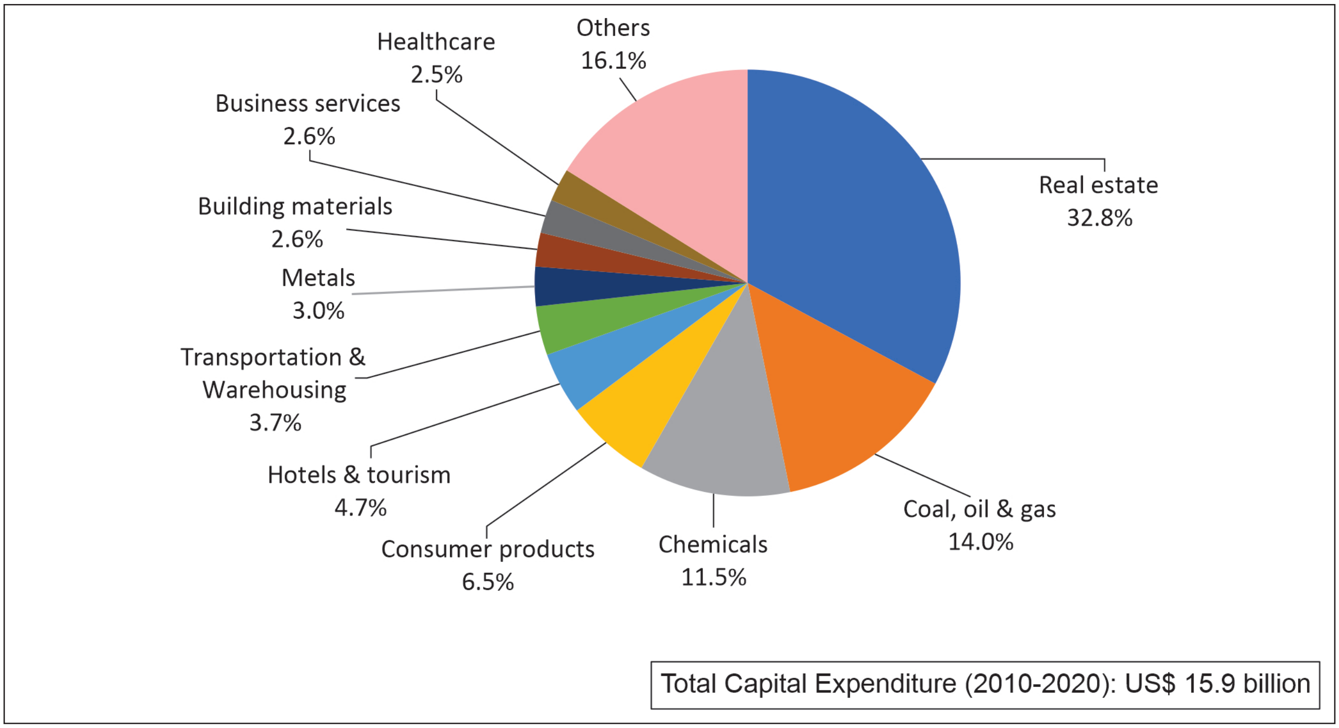
Year	Capex Expenditure (US$ million)	No. of Projects	No. of Jobs Created	No. of Companies
2010	898.1	29	3738	27
2011	866.0	45	3256	33
2012	3357.2	27	5677	26
2013	421.6	24	2092	24
2014	6819.2	31	4007	30
2015	421.4	23	3383	23
2016	602.3	34	2919	30
2017	396.5	20	1603	18
2018	992.1	36	3732	33
2019	640.0	32	4201	29
2020	501.6	31	2790	31
Total	**15915.9**	**332**	**37398**	**270**

Source: fDi Markets online database and India Exim Bank Research

In terms of capital investments, **Chart 3.4** shows that most of the India’s investment in the UAE is in the real estate sector (32.8% of the total investment), followed by coal, oil and gas (14%), chemicals (11.5%), consumer products (6.5%), hotel and tourism (4.7%), transport and warehousing (3.7%), and metals (3%), among others.

[20] Investindia.gov.in and MEA

Chart 3.4: Major Sectors Attracting FDI from India in the UAE (2010-2020)



Source: fDi Markets online database and India Exim Bank Research

Chapter 4

ALIGNING INDIA'S EXPORTS TO THE UAE

The previous chapter has established the importance in terms of trade and investment of the UAE and India for each other. The recently concluded CEPA between the countries have set the stage for enhancing future bilateral partnership. However, tariff liberalisation are beneficial only if there exists complementarity between the export supply of one country to the import demand of the other country. In other words, whatever India is exporting, the UAE should have a corresponding demand for it and vice versa. It is generally understood that complementarity in the trade structure of the countries facilitates more trade between them and there is scope for mutual benefit from this increased trade.

Tariff liberalisation between the two countries is based on the trade complementarities between the two countries. For instance, in the case of two countries, say, Country A and Country B, a tariff liberalisation agreement between Country A and Country B will only be mutually beneficial, if their exports are complimentary in nature. If Country A's exports are complimentary to the Country B while Country B's exports does not match with the import demands of Country A, then a tariff liberalisation will only be beneficial to Country A in expanding its exports. Thus, the agreement will be biased towards Country A, and Country B will not be interested in striking an agreement with Country A.

Thus, it is important to assess the level of complementarity between India and the UAE. The trade complementarity index (TCI) is a useful tool, which can provide information on feasibility and prospects for intraregional trade. A TCI between both the countries shows how well the structures of foreign trade of India and the UAE fit to understand the utility of an CEPA. To sum up, TCI measures the extent to which a country's export profile matches the import profile of the partner country, in the sense that what a country exports is in tandem with what the other country imports and provides an indication of the prospects for greater trade flows. It is a normalized index taking values between 0 and 100, with higher values denoting greater complementarity. TCI was first proposed by *Kojima Kiyoshi* and perfected by *Peter Drysdale* in 1967, and the major proponents of the TCI *(Michaely, 1996; Yeats, 1998)* argue that the higher the value of the trade complementarity index, the more favourable the outcome of a proposed FTA would be on its potential members.

The TCI between countries ‘k’ and ‘j’ is defined as:

$$\mathbf{TCI_{ij} = 100\ (1 - sum\ (|m_{ik} - x_{ij}|\ /\ 2))}$$

Where,

x_{ij}: Share of Good ‘i’ in Global Exports of Country ‘j’

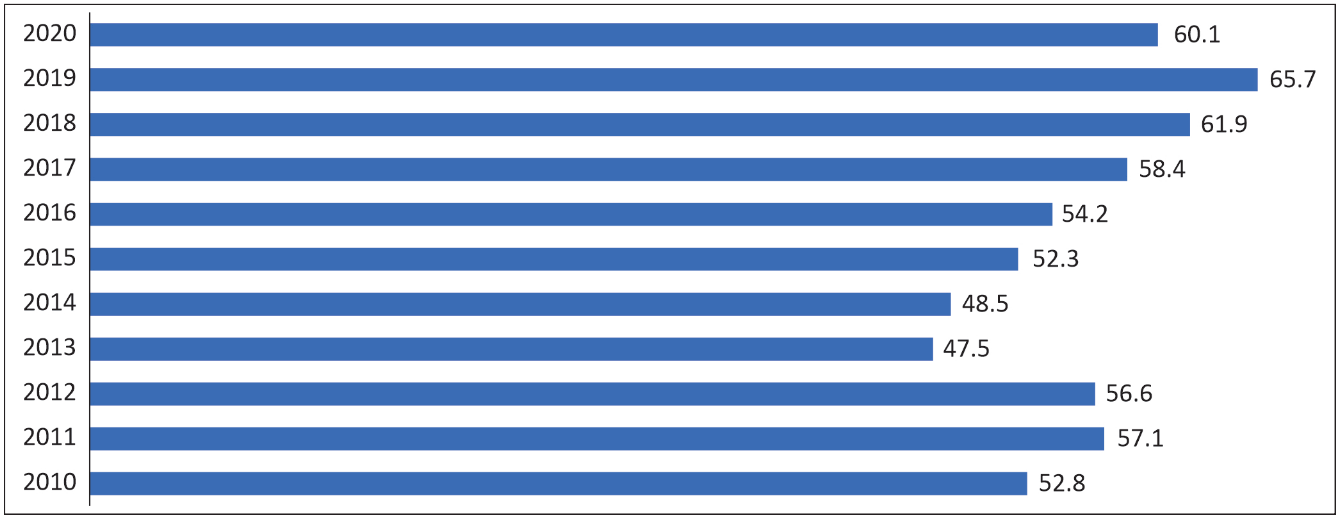
m_{ik}: Share of Good ‘i’ in all Imports of Country ‘k’

The index is zero when no goods are exported by one country or imported by the other and 100 when the export and import shares exactly match.

In the following sections, we shall analyse Trade Complementarity between the UAE and India.

During the period 2010-2020, the complementarity index for profile of Indian exports to the UAE’s imports ranges from 47.5 to 65.7. This indicates a substantial complementarity in India’s exports and the UAE’s imports. India’s export profile matches with the import profile of the UAE which indicates that India’s exports have a corresponding demand in the UAE. The index shows the highest value in 2019. Post 2013, the value of the index is rising which shows that India's export profile is converging towards the UAE’s import profile, except in 2020 where import demands have shifted towards essential items **(Chart 4.1)**.

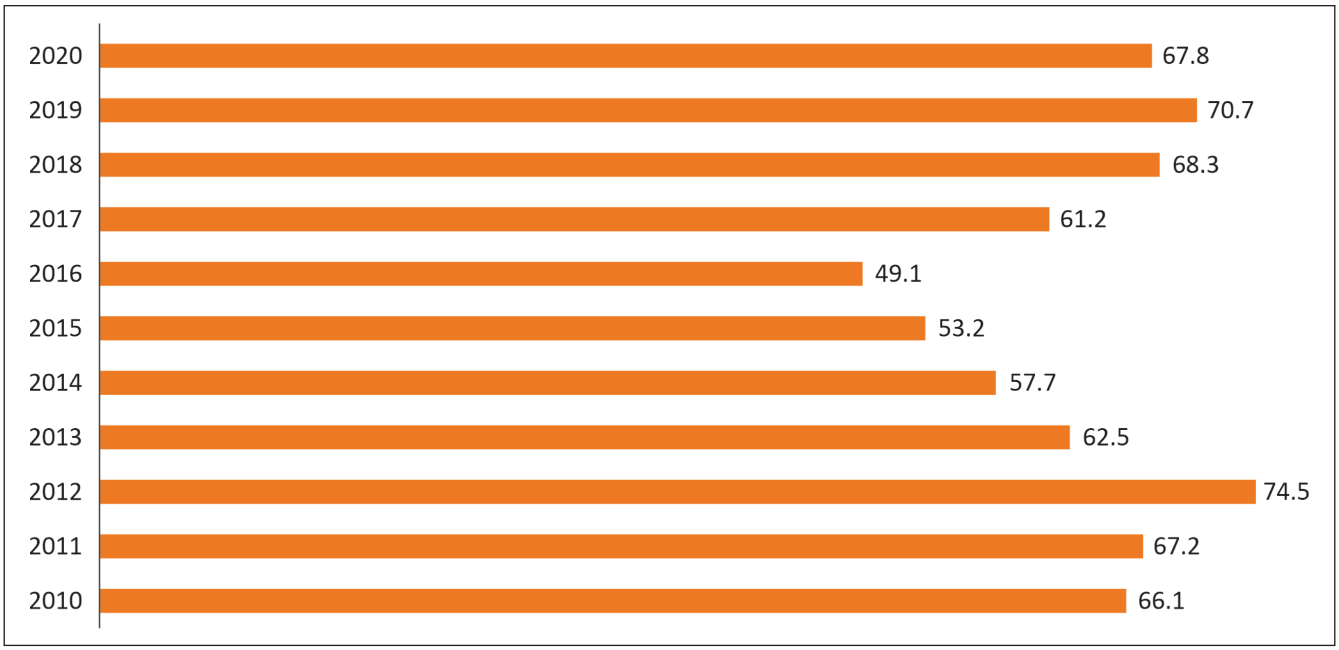
Chart 4.1: India’s Trade Complementarity with the UAE



Source: WITS Database, World Bank and India Exim Bank Research

During the period 2010-2020, the complementarity index for the UAE's exports profile to India's imports ranges from 49.1 to 74.5. The indicates a substantial complementarity in the UAE's exports and India's imports, except few years. The UAE's export profile matches with the import profile of the India which indicates that the UAE's exports have a corresponding demand in India. However, the ratio shows a V shaped trend where it is improving post 2016. The index reveals the highest value in 2012. During 2012-2016, the value of the index was falling which shows that India's import profile diverged away from the UAE's export profile **(Chart 4.2)**.

Chart 4.2: The UAE's Trade Complementarity with India



Source: WITS Database, World Bank and India Exim Bank Research

Revealed Comparative Advantage

The section analyses the key products where India has comparative advantage and match it with the UAE's import demand for these products. Quantification of comparative advantage will help in identification of products where exports from India have been performing well, as also those where success has been limited, although opportunities are significant.

Revealed Comparative Advantage (RCA) is a measure which have been used extensively to help assess a country's export potential/competitiveness. It helps in identifying categories of exports in which an economy has a comparative advantage by way of comparison of the country's trade scenario with the world scenario. It can also provide useful information about potential trade prospects with new partners. The basic assumption underlying the concept of revealed comparative advantage is that the trade profile reflects the inter-country differences in terms of relative costs as well as non-price aspects.

As per Balassa's (1965) measure, RCA index for country i for commodity j is:

$$\mathbf{RCA_{ij} = (x_{ji}/X_i) \ / \ (x_{jw}/X_w)}$$

Where,

x_{ji}: Exports of Commodity 'j' from Country 'i'

X_i: Total Exports from Country 'i'

x_{jw}: Total Exports of Commodity 'j' from World

X_w: Total Exports from World

The RCA index ranges from 0 to infinity, with 1 as the break-even point. That is, an RCA value of less than 1 means that the product does not have a comparative advantage, while a value above 1 indicates that product has a comparative advantage.

Since the RCA analysis is used in regard to one country's exports profile with reference to the world, the above formula of revealed comparative advantage has been modified to assess India's competitiveness in bilateral trade relations with the UAE.

$$\mathbf{RCA_{iju} = (x_{iju}/X_{iu}) \ / \ (x_{wju}/X_{wu})}$$

Where,

x_{iju}: India's Exports of Commodity 'j' to the UAE

X_{iu}: India's Total Exports to the UAE

x_{wju}: Global Exports of Commodity 'j' to the UAE

X_{wu}: World Total Exports to the UAE

The Normalized Revealed Comparative Advantage (NRCA) index demonstrates the capability of revealing the extent of comparative advantage that a country has in a commodity with more precision and consistency. NRCA can be defined in the following manner.

$$\mathbf{NRCA_{iju} = (RCA_{iju}\text{-}1/ \ RCA_{iju}\text{+}1)}$$

NRCA ranges from -1 to 1, with 0 as the breakeven point. That is, an NRCA value of less than 0 and greater than -1, means that the product has no export comparative advantage, while a value above 0 and less than 1, indicates that the product has a comparative advantage.

The extent of comparative advantage/disadvantage can be gauged from the proximity of the NRCA values to the extreme data points, viz. +1 and -1.

The export competitiveness of India has been mapped with respect to the UAE's demand. This has been undertaken with a view to outline a market specific approach for exporters. An overarching analysis has been attempted to identify products from the industries for which India has existing capabilities in exporting to the UAE. These products are the potential export growth drivers from India to the UAE and could be suitably targeted. The section also attempts to identify the products where India could focus on, to realize potentially higher values of exports to the UAE, especially when considering that India already possesses manufacturing capabilities for these products. The objective of the exercise is to construct a product market matrix for products in demand in the UAE, so that necessary actions and policies can be formulated in the direction to enhance exports of these potential products from India to the UAE.

Following are the considerations in the analysis:

- **Time Period:** The time considered for the analysis is 2015-2019, as 2020 remains an anomaly or outlier data point due to the COVID-19 pandemic induced disruptions, resulting in erratic movements in trade patterns globally.
- **Product Limit:** Only those products at 6-digit HS code level with a minimum export value of US$ 1 million from India to the UAE is considered in the analysis.
- **Parameters in Consideration:** The analysis in this section considers two major determinants of the India's performance in the UAE, namely, the **NRCA for products**, and **Average Annual Growth Rate (AAGR)** of world imports to the UAE.

Based on these three considerations, a four-quadrant matrix is prepared for product identification. The four quadrants imply the following:

Product Champions (Product Import AAGR of the UAE > World Import AAGR of the UAE; Positive NRCA): These products have the maximum potential, as the UAE's import demand for these products has shown robust AAGR over the period 2015-19, while India's exports of these products to the UAE are also competitive, reflected in positive NRCA values for such products. These are the products with maximum export potential to the UAE and India needs to further expand its exports of these products in order to take to advantage of its competitive position and achieve a greater market share in the UAE.

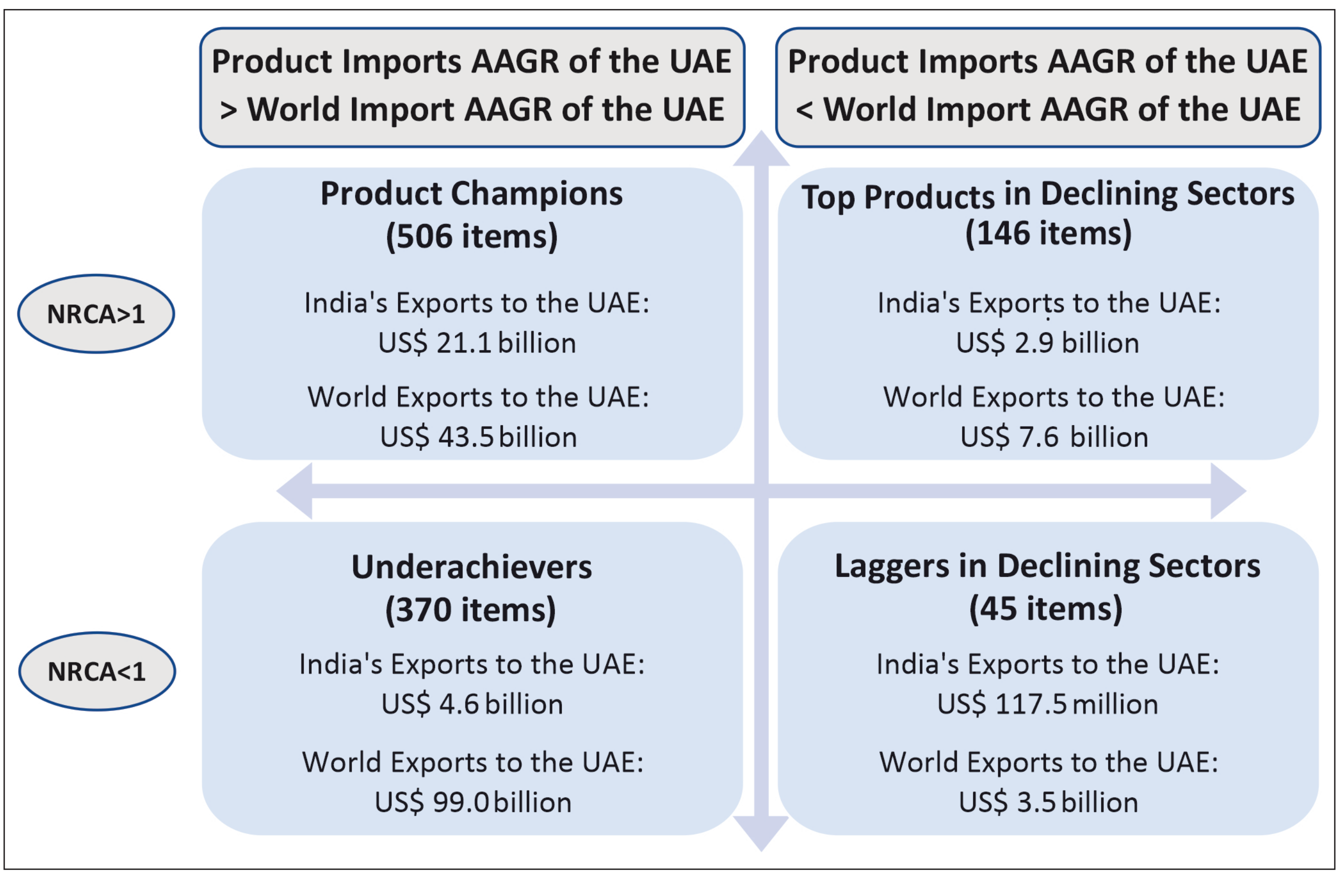
Underachievers (Product Import AAGR of the UAE > World Import AAGR of the UAE; Negative NRCA): India does not have competitiveness in these products although their import demand has grown in the UAE significantly over the period under consideration. India can strive towards building capacities and capabilities in these identified products. These are the products in which India can diversify in the medium to long term to continue being a strategic trade partner to the UAE and further expand its bilateral ties with the UAE.

Top Products in Declining Sectors (Product Import AAGR of the UAE < World Import AAGR of the UAE; Positive NRCA): India has competitiveness in these products, even though the UAE's import AAGR for these products has been declining. These products may not have much demand in the future, and hence, scarce resources from these sectors could be diverted to other sectors where demand expectations are positive.

Laggers in Declining Sectors (Product Import AAGR of the UAE < World Import AAGR of the UAE; Negative NRCA): India does not have competitiveness in these products, and these sectors have also registered weak import demand in the UAE during the period under consideration.

Product Identification Based on Competitiveness

Chart 4.3: Product Identification for Exports from India to the UAE



Source: ITC Trade Map and India Exim Bank Research

To identify the products based on their export competitiveness in the UAE, the four-quadrant analysis has been undertaken based on the HS Code classifications at 6-digit level, whilst calculating their NRCA and mapping them against the AAGR of global imports of the UAE of all products. The quadrants are drawn by comparing the overall AAGR of global imports of the UAE for all products during 2015-2019 (which was -2.1%), to the NRCA of India's exports to the UAE of products during the same period. This exercise aims to identify products whose imports in the UAE over the period 2015-2019 have performed better than the overall average of the UAE for all products during this period, implying that the share of such products in the UAE's import basket has witnessed an increase, a reflection of their rising demand and dynamism. At 6-digit HS Code, with minimum exports of US$ 1 million from India to the UAE, 1067 products have been identified with the total exports from India to the UAE amounting to US$ 28.7 billion while the total world imports to the UAE in the same products stood at US$ 153.6 billion in 2019.

Out of the 1067 items at the HS 6-digit level, 506 items fell into the category of the product champions (PCs). The combined exports of these items from India to the UAE were US$ 21.1 billion in 2019, representing approximately 72% of India's exports to the UAE in 2019. Major product champions are provided in **Table 4.1.**

The total number of products in declining sectors category is 146, with India's exports amounting to US$ 2.9 billion and constitute a share of 9.8% of India's exports to the UAE in 2019. These are the product items in which India has attained a significant share in the UAE's import basket, but the UAE's import demand for these products has been falling in the last decade **(Table 4.2)**.

This was followed by underachievers with 370 items with India's exports worth US$ 4.6 billion from India to the UAE. These products constitute a share of 15.6% in India's total exports to the UAE. These are the product items in which import demand in the UAE market is rising, but India does not have the required competitiveness in the export of these items **(Table 4.3)**.

Table 4.1: List of Top Product Champions from India to the UAE (HS 6-digit level)

HS Code	Product Label	India's Exports to the UAE (US$ million)	Share in India's Total Exports to the UAE (%)	Global Imports of the UAE (in US$ million)	Share in Global Imports of the UAE (%)
711319	Articles of jewellery and parts thereof, of precious metal other than silver	8237.2	27.9	14800.6	5.5
271012	Light oils and preparations, of petroleum or bituminous minerals which >= 90% by volume	4596.8	15.6	11422.6	4.3
271019	Medium oils and preparations, of petroleum or bituminous minerals	1149.2	3.9	1006.7	0.4
890590	Light-vessels, fire-floats, floating cranes and other vessels	351.7	1.2	86.4	0.0
890520	Floating or submersible drilling or production platforms	339.4	1.1	174.1	0.1
610910	T-shirts, singlets and other vests of cotton, knitted or crocheted	282.1	1.0	464.8	0.2
870322	Motor cars and other motor vehicles principally designed for the transport of persons	198.4	0.7	759.1	0.3
030617	Frozen shrimps and prawns, even smoked, whether in shell or not, incl. shrimps and prawns	160.8	0.5	231.1	0.1
890400	Tugs and pusher craft	157.7	0.5	5.7	0.0
610990	T-shirts, singlets and other vests of textile materials, knitted or crocheted (excluding cotton)	150.9	0.5	132.6	0.0
270799	Oils and other products of the distillation of high temperature coal tars	139.2	0.5	3.5	0.0
080132	Fresh or dried cashew nuts, shelled	120.9	0.4	139.3	0.1
290930	Aromatic ethers and their halogenated, sulphonated, nitrated or nitrosated derivatives	117.3	0.4	1.6	0.0
720839	Flat-rolled products of iron or non-alloy steel, of a width of >= 600 mm, in coils	115.6	0.4	521.3	0.2
620349	Men's or boys' trousers, bib and brace overalls, breeches and shorts of textile materials	115.0	0.4	26.7	0.0

Source: ITC Trade Map and India Exim Bank Research

Table 4.2: List of Top Products in Declining Sectors from India to the UAE (HS 6-digit level)

HS Code	Product Label	India's Exports to UAE (US$ million)	Share in India's Total Exports to UAE (%)	Global Imports of UAE (in US$ million)	Share in Global Imports of the UAE (%)
710239	Diamonds, worked, but not mounted or set (excluding industrial diamonds)	1138.6	3.9	4651.6	1.7
100630	Semi-milled or wholly milled rice, whether or not polished or glazed	349.1	1.2	528.6	0.2
890110	Cruise ships, excursion boats and similar vessels principally designed for the transport	145.4	0.5	1.7	0.0
720211	Ferro-manganese, containing by weight > 2% of carbon	98.4	0.3	12.8	0.0
610520	Men's or boys' shirts of man-made fibres, knitted or crocheted	82.3	0.3	10.7	0.0
481420	Wallpaper and similar wallcoverings of paper, consisting of paper coated or covered	63.3	0.2	11.6	0.0
870600	Chassis fitted with engines, for tractors, motor vehicles for the transport of ten or more	63.2	0.2	32.5	0.0
621490	Shawls, scarves, mufflers, mantillas, veils and similar articles of textile materials	59.1	0.2	19.1	0.0
481490	Wallpaper and similar wallcoverings of paper, and window transparencies of paper	57.5	0.2	4.2	0.0
680223	Granite and articles thereof, simply cut or sawn, with a flat or even surface	34.4	0.1	46.1	0.0
732393	Table, kitchen or other household articles, and parts thereof, of stainless steel	31.3	0.1	90.7	0.0
610323	Men's or boys' ensembles of synthetic fibres, knitted or crocheted	31.1	0.1	2.1	0.0
551511	Woven fabrics containing predominantly, but < 85% polyester staple fibres by weight	29.9	0.1	75.3	0.0
170199	Cane or beet sugar and chemically pure sucrose, in solid form	25.9	0.1	72.2	0.0
80450	Fresh or dried guavas, mangoes and mangosteens	24.8	0.1	86.5	0.0

Source: ITC Trade Map and India Exim Bank Research

Table 4.3: List of Top Underachievers from India to the UAE (HS 6-digit level)

HS Code	Product Label	India's Exports to UAE (US$ million)	Share in India's Total Exports to UAE (%)	Global Imports of UAE (in US$ million)	Share in Global Imports of the UAE (%)
851712	Telephones for cellular networks "mobile telephones" or for other wireless networks	1909.2	6.5	18219.6	6.8
710231	Non-industrial diamonds unworked or simply sawn, cleaved or bruted (excluding industrial diamonds)	260.5	0.9	6093.9	2.3
281820	Aluminium oxide (excluding artificial corundum)	211.7	0.7	2278.2	0.9
300490	Medicaments consisting of mixed or unmixed products for therapeutic or prophylactic purposes	140.6	0.5	2496.0	0.9
848180	Appliances for pipes, boiler shells, tanks, vats or the like	71.2	0.2	970.4	0.4
20230	Frozen, boneless meat of bovine animals	68.1	0.2	624.4	0.2
870899	Parts and accessories, for tractors, motor vehicles for the transport of ten or more persons	65.8	0.2	1432.0	0.5
854449	Electric conductors, for a voltage <= 1.000 V, insulated, not fitted with connectors, n.e.s.	57.3	0.2	547.8	0.2
210690	Food preparations, n.e.s.	48.0	0.2	481.5	0.2
841112	Turbojets of a thrust > 25 kN	44.6	0.2	3068.8	1.1
870323	Motor cars and other motor vehicles principally designed for the transport of persons	37.5	0.1	6377.0	2.4
847989	Machines and mechanical appliances, n.e.s.	29.9	0.1	292.8	0.1
392690	Articles of plastics and articles of other materials of heading 3901 to 3914, n.e.s	29.6	0.1	390.4	0.1
732690	Articles of iron or steel, n.e.s. (excluding cast articles or articles of iron or steel wire)	28.9	0.1	297.9	0.1
850440	Static converters	28.7	0.1	453.5	0.2

Source: ITC Trade Map and India Exim Bank Research

The high range of exports under the category of declining sectors highlight the need for diversification to other sectors as well as industries which have greater scope for exports in the future. If the scarce resources are not diverted, then excess of supply to these sectors facing limited demand in the UAE market would result in further fall in the prices in the future. Thus, a significant shift needs to be made from the declining sectors to the product champions in the short run and underachievers in the medium to the long run, in order to make efficient utilization of resources and further enhance exports from India to the UAE.

Further, the analysis suggests strengthening the existing products in the category of product champions in order to exploit the full potential of these products which are already showing a robust growth in the UAE market, whilst India's exports also hold a comparative advantage in them. The 506 product champions identified at 6-digit HS code level can be further aggregated to 20 product groups at 2-digit HS code level **(Table 4.4)**.

Table 4.4: Broad Industry Classification of Identified Product Champions from India to the UAE (HS 2-digit level)

Broad Industry	HS Code	India's Exports to the UAE in 2019 (US$ million)	Share in India's Total Exports (%)
Pearls and Precious Stones	71	8314.4	28.1
Mineral fuels and oils	27	5913.4	20.0
Apparels	61-62	1445	4.9
Railway locomotives and other vehicles	86-89	1236.4	4.2
Agriculture and allied	1 to 24	999.9	3.4
Iron & Steel and their articles	72-73	851.1	2.9
Chemicals and allied	28-29; 31 to 38	627.5	2.1
Machinery; Electrical equipment etc.	84-85	375.9	1.3
Textiles	50-60, 63	312.5	1.1
Plastics; rubber and their articles	39-40	228.7	0.8
Other Base metals and their articles	74-83	202.6	0.7
Wood; pulp of wood and other articles	44-49	177.7	0.6
Articles of stone, plaster etc.	68-70	155.5	0.5
Footwear; Headgear etc.	64-67	77.1	0.3
Leather articles etc.	41-43	74.1	0.3
Toys; games; sports requisites and other articles	94-97	53.5	0.2
Salt and Sulphur	25	31.1	0.1
Ores slag and ashes	26	21.9	0.1
Optical; photographic; medical instruments and clocks	90-92	18.5	0.1
Pharmaceutical	30	5.3	0.0

Source: ITC Trade Map and India Exim Bank Research

The above table also highlights the share of those sectors in India's exports to the UAE in 2019. It may be noted that the data given in the **Table 4.4** is not the total exports for the same sectors from India to the UAE, but a simple aggregation of exports from India to the UAE, for the identified product champions at HS 6-digit level. The sectors such as pearls and precious stones, mineral fuels and oils, apparel and railway locomotive are the top sectors holding the largest share in the product champion sectors of India to the UAE.

Chapter 5

INDIA'S BILATERAL AGREEMENT WITH THE UAE

India and the UAE established diplomatic relations in 1972. While the UAE opened its Embassy in India in 1972, Indian Embassy in the UAE was opened in 1973. After withdrawing from the membership of mega trade deal under Regional Comprehensive Economic Partnership (RCEP), India is increasingly focussing on concluding FTA on bilateral terms, by weighing each agreement against its merits unlike the *one size fits all formula*.

General Issue in India's FTA

In many instances of India's trade agreements especially with those of Southeast Asia, India's trade deficits has in fact increased after the FTAs came to effect. The major reason being the rise in demand for imported commodities with decline or complete elimination of tariffs and non-tariff barriers, thereby, making these products cheaper for the Indian consumer, when compared with similar Indian products. Like in the case of palm oil, where liberalised tariff regime resulted in a massive spurt in palm oil imports from Malaysia and Indonesia. And with the dominance of these cheap imported oil in the consumption basket, the processing margins diminished substantially thereby, posing a significant threat to the very existence of the domestic oil processing industry.

Need for an FTA

Many have perceived India's withdrawal from RCEP as 'protectionist' and 'conservative' as opposed to its liberalised trade regime. Therefore, India's active participation in concluding bilateral trade agreement will help in shedding off this conservative protectionist picture. The India-UAE CEPA can be construed as the UAE's post pandemic recovery plans by taking advantage of the burgeoning factor market of India and South Asia. This also provides India with the bandwidth to develop closer ties with the western neighbours. Further, the India-UAE CEPA can be a step towards having an India-Gulf Cooperation Council (GCC) FTA that will also have its geoeconomic implications. These FTAs are emerging as important tools for economic diplomacy in the Indo-Pacific for deeper levels of engagement. India-UAE CEPA also has geopolitical implications from the perspective of the western QUAD (consisting of Israel, India, UAE, and US) as this deal reinforces India's support to the group in becoming a powerful regional force.

India- UAE CEPA

On February 18, 2022, India and the UAE signed a comprehensive economic partnership agreement (CEPA). The agreement is slated to open a host of opportunities for both the economies at a time when the UAE is marking the 50th anniversary of its foundation and India is celebrating 75 years of its independence. The two countries had been working towards this deal since 2015. The first round of CEPA negotiations were held on September 23-24, 2021. The pact was concluded in a record time of just 88 days, which makes it the fastest FTA negotiated between any two countries. The CEPA is also India's first bilateral trade agreement in the Middle East and North Africa (MENA) region. This is only the second free-trade agreement (FTA) that has been signed under the present Indian dispensation, the first one being with Mauritius in February 2021.

The term 'comprehensive' connotes not just trade and investments, but also technical barriers to trade, dispute settlement, telecommunications, customs procedures, pharmaceuticals, intellectual property rights, digital trade, and cooperation in other areas. It is for the first time that the chapters on digital trade, government procurement and IPR have been included by India in a trade agreement.

Trade Benefits

The trade pact is envisaged to increase the bilateral trade in goods from the present levels of US$ 60 billion to US$ 100 billion over the next five years, and also achieve services trade worth US$ 15 billion. The CEPA is likely to increase the competitiveness of Indian products worth an estimated US$ 26 billion that are currently subjected to 5% import duty by the UAE.

The CEPA will provide a fresh impetus to labour intensive sectors, gems and jewellery, textiles, leather, footwear, sports goods, plastics, furniture, agricultural and wood products, engineering products, pharmaceuticals, medical devices and automobiles. To facilitate the access of Indian pharmaceuticals products, separate annexure on pharmaceuticals is also included in the deal. In the area of trade in services, the pact has provided Indian service providers market access to 11 broad service sectors like business services, communications services, construction and related engineering services, educational services, financial services, and tourism and travel related services.

Further, the CEPA can become a gateway for India into the Middle East and North Africa (MENA) region in terms of trade and economic relations. The UAE is a major global redistribution centre and much of exports to Africa is routed through Dubai. The FTA will encourage the setting up of warehousing or distribution centres in the UAE for exports to Africa.

The CEPA is likely to be particularly beneficial to the pharmaceutical, food and beverages sector, as companies and products which have received prior approval certificates will now gain faster approvals from the authorities in the UAE, thereby, saving time that is spent in acquiring these. Like in the case of Indian generic medicines, the CEPA will provide automatic registration and marketing authorisation in 90 days upon their approval in developed countries such as the USA, EU, UK and Japan. In the gold and jewellery sector, India will benefit from easier access to the UAE, helped by changes to the customs duty. It will mean that India-made jewellery can be brought by the UAE at competitive rates. India's carpet industry, known globally for its fine workmanship, is another segment to be benefited from the pact as its players can now operate across the MENA region and across Europe. It was earlier transported via Istanbul to reach CIS countries and Eastern Europe, which had higher duties. Now, Russia, the CIS and other east European countries are easily accessible through Dubai. The deal also provides for both countries to set up a technical council on investment, trade promotion and facilitation led by representatives of both governments that would promote and monitor trade and investment flows between the two countries.

Tariff Concessions

After CEPA come into effect, it will bring down the tariff to zero for 90% of Indian exports to the UAE. While this comprises almost 80% of the tariff lines, the list however will entail around 97% of the tariff lines over the next five years. Notably, the import duty on jewellery exports to the UAE from India has been reduced from 5% to 0%. Additional 9% of trade value will also be duty free in 5-10 years for products in electronic goods, chemicals and petrochemicals, articles of stone, cement, ceramics, machinery.

For the UAE exports to India, there will be an immediate relief on import duties on about 65% of tariff lines that is slated to increase to 90% of tariff lines in 10 years. India is allowed to import up to 120 tonnes of gold from the UAE at 1% duty less than the applicable duty in the first year. The volume will increase to 200 tonnes in five years.

Safeguards

To protect sensitive sectors where increased competition may hurt domestic livelihoods, India has placed 10% of tariff lines in the negative list that would not be subject to tariff cuts. The items include dairy, fruits, vegetables, cereals, tea, coffee, sugar, food preparation, tobacco, petroleum waxes, auto and auto components, coke, dyes, soaps, natural rubber, tyres, footwear, processed marbles, toys, plastics, and medical devices. The agreement has stringent rules of origin and value addition norms to prevent third-country imports for making their way into India from the UAE, which is a global trading hub, for taking the advantage of concessional duties given to the UAE under CEPA. The pact also has a permanent safeguard mechanism that can be resorted to in a scenario of sudden surge in imports. This is a standard WTO approved prescription. For instance, in India's trade agreement with Singapore, another similarly placed country like the UAE, Article 2.9.1 of the Comprehensive Economic Cooperation Agreement (CECA) permits the imposition of bilateral safeguard measures.

Impact of the Agreement

While 'gains from trade' are easily perceptible, the CEPA envisages a creation of 10 lakh jobs in India in labour-intensive sectors such as textiles, pharmaceuticals, gems and jewellery, plastic products, auto and leather, processed agriculture and dairy products, handicrafts, furniture, food and beverages, engineering, etc. The UAE hosts large number of African buyers, thus showcasing Indian products will be a good strategy to take advantage by expanding visibility and promote Indian products not only in the UAE but also in Africa. This CEPA will provide a right opportunity to diversify the export basket with the addition of pharmaceuticals, automobiles and chemical where India has a competitive advantage. The CEPA will provide a boost to small and medium enterprises in both the countries to expand internationally by easing the access to new customers, networks and avenues of collaboration. This agreement will create additional jobs and improve the working environment for the large Indian workforce working in the UAE.

Chapter 6

POLICY RECOMMENDATIONS TO ENHANCE INDIA-UAE PARTNERSHIP

The growth in India-UAE trading partnership discussed in the earlier chapters reiterates the significance of bilateral partnership between India and the UAE for each other. The bilateral relationship between them is also characterised with a vast Indian diaspora, shared cultural heritage and strong ties rooted in history. The two countries have been meticulously working to promote their engagement. The signing of India-UAE CEPA is an acknowledgment of these economic synergies and shared vision and destined to usher stronger economic relations between the two countries and open new avenues for trade and investment. However, in order to further enhance this partnership, there are certain hindrances which are to be addressed and a careful assessment and resolution could help boost this bilateral cooperation.

Expanding Trade based on Potential

India needs to expand its production and trade in products in which it has comparative advantage with the UAE. This would help in further expansion of trade and further reduce trade deficit with the UAE. The study has already identified potential items of exports which could be targeted by Indian exporters. According to the analysis, in the short term, it is suggested to strengthen the existing products in the category of Product Champions to exploit the full potential for the products which are already showing a robust growth in the UAE market, where India's exports also hold a comparative advantage. In the medium to long run, efforts and investments are to be enhanced in the Underachievers category products to develop capacities in these products which will help in the coping the demands of the UAE market in a more competitive manner. The products in the respective categories have been discussed elaborately in Chapter 4.

Rules of Origin

An important pillar of a free trade agreements is the Rules of Origin (RoO). RoO are the rules that prescribe the criteria to determine the national source of a product. Since, in an

FTA, the benefit is to be extended only to the goods originating from the partner country, these rules are of critical importance. India needs to ensure that goods originating from outside the UAE are not allowed duty-free into India under this agreement. Stringent rules reflecting requirements for substantial processing of up to 40% value addition for most of the products and wholly obtained criteria for agricultural products is essential. Since, the UAE is a global transhipment hub, the agreement bears the burden of abuse. Hence, India should guard against duty-free imports of transhipped products. To ensure abuse of this treaty, our customs have to enforce the rules of origin strictly.

Given the large-scale concerns about the misuse of RoO, it is important to note that the Central Board of Indirect Taxes and Customs (CBIC) had in 2020 amended certain provisions of the Customs Act and introduced The Customs (Administration of Rules of Origin under Trade Agreements) Rules (CAROTAR). This was done primarily to strengthen the certification procedure and ensure benefits are extended to eligible FTA imports only. However, it is of great importance these provisions are strictly implemented in practice too.

Enhancing Maritime Security

The Indian Ocean has emerged as a critical conduit for trade, commerce, and energy. The waters of the Indian Ocean Region (IOR) have become a home for economic developments, and competition for regional influence by regional powers. There exists huge inter-dependence among the Indian ocean economies, this is evident from the large degree of trade that takes place within the region. The India Ocean remains a pivot, being the world's busiest trade route. Around 80% of the world's maritime oil trade passes through the IOR[21]. Being the two major economies India and the UAE are responsible for ensuring peace, security, stability and prosperity in the Indian Ocean region, they share similar concerns regarding the strategic and security challenges. The UAE is one of the major countries near the Strait of Hormuz. This choke point is of immense importance to India and the UAE, as huge volumes of trade pass through them. To ward off any possible disruption and maintain a strong foothold in the resource rich region, India and the UAE can come together in ensuring maritime security as access to Indian ocean region comes with a plenty of economic opportunities for both India and the UAE. A smooth movement in the region will surely increase trade for both the countries. Moreover, the upkeeping of the Indian ocean region is not only important for developing commerce but also for the geopolitics and geo-strategy.

[21] Journal of Indo-Pacific Affairs, Air University Press

Bilateralism to Minilateralism

The UAE is currently negotiating Comprehensive Economic Partnership Agreements with Britain, South Korea, Ethiopia, Indonesia, Israel, Kenya, and Turkey while India too is negotiating free trade agreements with UK, EU, Australia, Israel, Canada. With multilateralism yielding limited results, perhaps it is time for minilateralism. Minilateral agreements are more task-oriented to address problems with fewer countries sharing the same interest.

It is in the same spirit that the UAE-Israel-India trilateral agreement was signed in May 2021 with an Israeli company producing an innovative water-free robotic solar cleaning technology in India for a project in the UAE. Other trilateral partnership like the UAE, India, and France which are joining together to spearhead the International Solar Alliance and are conducting joint naval exercises. Similarly, the new grouping of Israel, UAE, India, and the US has gained importance. The group has been referred to as the “New Quad.” It is these minilateral agreement that can promote partnership in infrastructure project, economic cooperation, maritime security, R&D, technology and innovation which are beyond the capacity of bilateral agreements. Thus, India and UAE partnership at these platforms could clear existing trade and regulation bottlenecks and substantially enlarge trade volumes that are already growing among the two partners.

Promote Exports of GI tagged products

Their lies a huge untapped opportunity to the UAE especially in Geographical Indication (GI) tagged products. As on date[22], there are 417 registered GI products and of them, around 150 GI tagged products are agricultural and food products, out of which more than 100 registered GI products fall under the category of APEDA scheduled products (Cereals, Fresh Fruits and vegetables, processed products, etc)[23]. While Darjeeling Tea and Basmati Rice are the two popular GI-tagged agricultural products of India, which have welcoming markets across the globe, there is a host of GI-tagged products in various corners of the country which needs to market properly to reach its potential customers. It is these products that should be promoted for exports to the UAE as these are unique to India thus placing India at a an advantageous position.

[22] March 17, 2022
[23] PIB

Supportive Logistical Infrastructure

A robust logistics sector can go a long way in boosting India's exports to the UAE. Efforts are to be made to reduce transaction and transport costs. With better infrastructure planning, increased coordination among stakeholders and improved operational efficiencies, India can unlock its potential in the UAE, thus promoting economic growth. The recent shortage of containers poses a significant risk to the Indian exports as it leads to rise in the containers and the subsequent hike in the freight rates. These container shortages directly impact the low value export items that are exported in high volumes as well as the items that are exported via ship or ship to air. Thus, in the short term, it is suggested that there should be immediate release of ideal container capacity at different ports while in the long run additional container capacity should be added along with speedy clearance by the customs and swift unloading to effectively respond to its demand to support the Indian exports.

CEPA for a Self-Reliant India

In the context of dependence on global supply chain and disruptions experienced in the last half a decade due to range of issues like the US-China trade war, pandemic and now the Ukraine Crisis, India needs to diversify its supply chains to reduce its dependence on any single source. Indian products are experiencing rising price due to the high cost of inputs which are often imported. High costs make Indian products uncompetitive in the export market. Thereafter, any turbulences in the global economy seeps into the inflation of the domestic economy, which makes India as a price-taker.

This CEPA should be used to advance its goal of Atmanirbhar Bharat. Atmanirbhar Bharat is neither protectionist nor isolationist, but it refers to a self-reliant India dealing with the world on its terms. Certain raw materials are still not produced in India or are not produced in enough quantities. Post-CEPA, India should utilize this FTA effectively, so that the UAE market can act in complementarity to India's needs thus diversifying India's import sources as well as create new capability and capacities together. This will help India in becoming a contributor to the world than being only a consumer.

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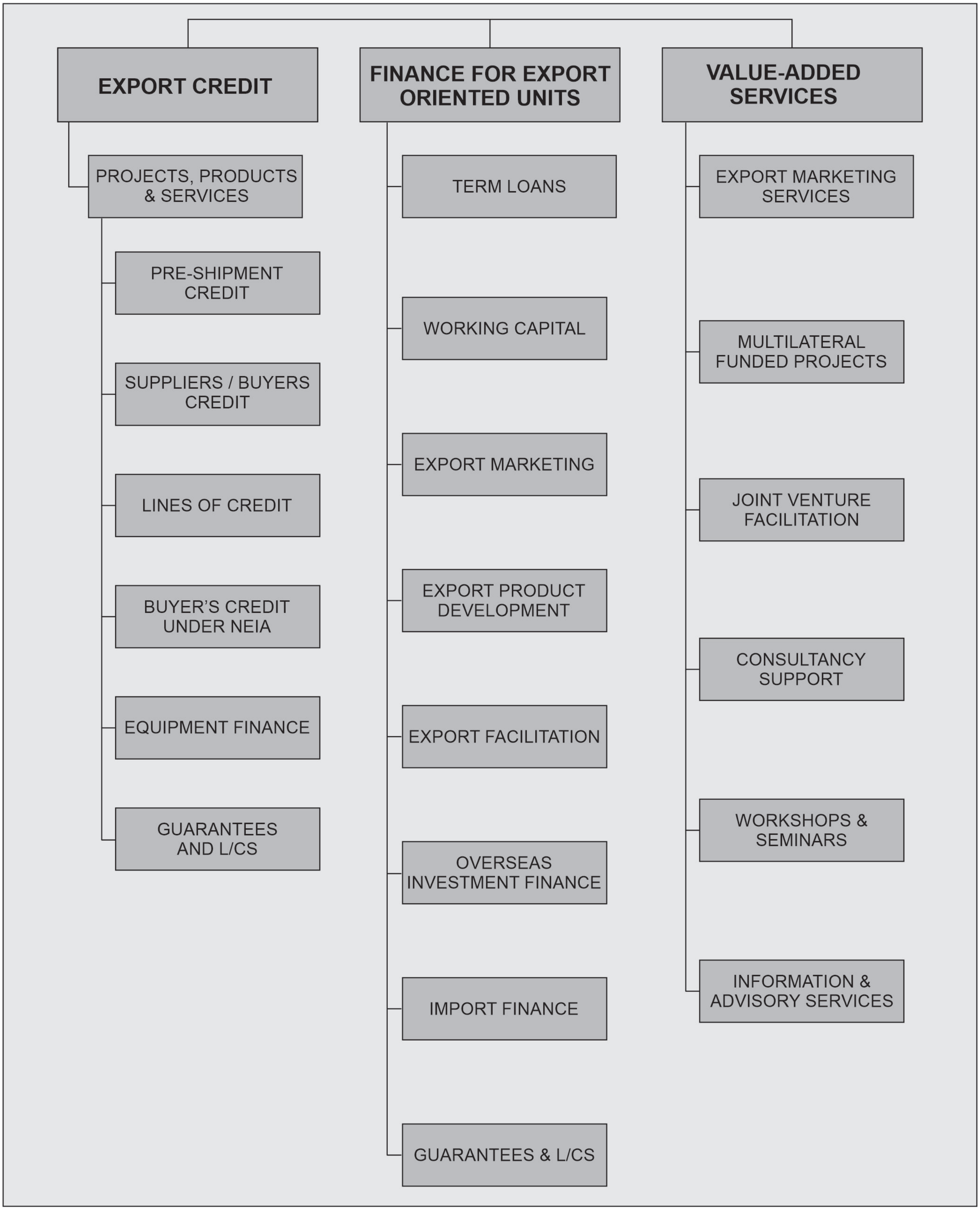

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