



## Deepening Ties of India-UAE Relations: Role of CEPA

**Zakir Hussain\***

Indian Council of World Affairs (ICWA), New Delhi, India

E-mail: shahabzakir@gmail.com

### Abstract

India and the UAE (United Arab Emirates) have set the ground for a 'complementary' model of growth. Their respective resourcefulness and visionary leadership scripts a roadmap of 50 years' of 'shared future', and CEPA is the stepping stone to metalize that vision. Side by side, this has also increased India's footprints in the region, thus paving the way for wider market access, building exclusive trade corridors and incentivizing companies to relocate in either country. CEPA and I2U2 set good precedents, especially when the world is plunged into divisive politics (Russian-Ukraine war, growing US-Chinese tussle) and protectionism. However, there are some caveats. For instance, both countries should avoid carrying the geopolitical burden of other countries. CEPA should remain an apolitical body. It should focus on harnessing the joint potential of the two countries and remain benign to include like-minded countries of West Asia and South Asia and expand its reach.

The present paper is divided into following sections:

**Section I:** Synopsis of Bilateral Economic and Trade Relation

**Section II:** Key Features of CEPA

**Section III:** Hopes and Performances of Comprehensive Economic Partnership Agreement (CEPA)

**Section IV:** CEPA: A Gateway to Strengthening Regional Partnership-Some Caveats

**Conclusion & Way Forward**

**Key Words:** CEPA; Digital Trade; Minilateral; Middle East Quad; I2U2.

### PAPER/ARTICLE INFO

RECEIVED ON: 19/11/2022

ACCEPTED ON: 15/12/2022

Reference to this paper should be made as follows:

Hussain, Zakir (2022), "Deepening Ties of India-UAE Relations: Role of CEPA", *International Journal of Trade and Commerce-IIARTC*, Vol. 11, No. 2, pp: 258-277.

\*Corresponding Author

DOI: 10.46333/ijtc/11/2/1

## **SECTION I: SYNOPSIS OF BILATERAL ECONOMIC AND TRADE RELATION**

Historically, three factors, trade and commerce, people-to-people relations and exchange of ideas have played key roles in sustaining and deepening India and the United Arab Emirates (UAE) partnership. The two countries established their formal diplomatic relations in 1970.<sup>1</sup> During the first decade, 1970s, the volume of bilateral trade remained, approximately USD 180 million (Mn) per annum. However, in less than five decades it grew to more than USD 72 Bn (billion) (2021-2022),<sup>2</sup> becoming the third largest trade partner of India after the US and China and the second largest export destination after the US.<sup>3</sup>

Besides growing volume, side by side the bilateral India-UAE bilateral trade carries two distinctive features, first, unlike India's other energy-exporting partners, their trade gradually moved towards 'balanced trade'; second, over the period, it became more diversified, reducing the share of petroleum. This shows the changing hydrocarbon-centric nature of the UAE economy towards a more diversified one.<sup>4</sup>

On investment front too, the share of the UAE in India total investment gradually increased, reaching to around USD 18 Bn, including USD 11.7 Bn in the form of FDI (foreign direct investment) and rest in the form of portfolio investment, making the UAE the largest investor among the Arab countries and 8th largest in India. Around 30 companies, including DP World, Sharaf Group, Lulu Group, Emaar Properties, are doing businesses in India.<sup>5</sup> Their investments are focused mainly in five sectors, namely Services Sector (15.78%), Transport (8.80%), Power (8.34%) and Construction Activities (infrastructure, 7.15%) and construction development (Township, Built-up Infrastructure and Construction Development projects) (7.8%).<sup>6</sup> The UAE has also committed to invest USD 75 Bn in India's infrastructure, including building Artificial Intelligence Bridge. The partnership will generate an estimated benefit of USD 20 Bn in both the countries.<sup>7</sup>

Without mentioning the role of Indian expatriates and civil airlines, the relations between India and the UAE, including deepening trade cooperation, cannot be complete. The presence of around 3.5 million Indians who consider the UAE as their second home and remit approximately USD 17.56 Bn every year (2018), have not only uplifted millions of people out of poverty in India, but

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<sup>1</sup> For detailed discussion see Zakir Hussain, "India and the United Arab Emirates: Growing Engagements", Issue Brief, Indian Council of World Affairs, 24 June 2012, [https://www.icwa.in/showfile.php?lang=1&level=3&ls\\_id=5157&lid=878](https://www.icwa.in/showfile.php?lang=1&level=3&ls_id=5157&lid=878), accessed on 12 August 2022.

<sup>2</sup> "India UAE Relations", *InvestIndia*, <https://www.investindia.gov.in/country/united-arab-emirates>.

<sup>3</sup> "India UAE Relations", *InvestIndia*, <https://www.investindia.gov.in/country/united-arab-emirates>.

<sup>4</sup> Zakir Hussain, "India and the United Arab Emirates: Growing Engagements", Issue Brief, ICWA, [https://www.icwa.in/showfile.php?lang=1&level=3&ls\\_id=5157&lid=878](https://www.icwa.in/showfile.php?lang=1&level=3&ls_id=5157&lid=878), accessed on 14 October 2022.

<sup>5</sup> InvestIndia: UAE Desk, <https://www.investindia.gov.in/country/united-arab-emirates>,

<sup>6</sup> InvestIndia: UAE Desk, <https://www.investindia.gov.in/country/united-arab-emirates>,

<sup>7</sup> "UAE commits \$75 billion towards infrastructure development in India: Commerce Ministry", *Business Today*, 30 July 2018, <https://www.businesstoday.in/latest/economy-politics/story/uae-commits-75-billion-dollar-towards-infrastructure-development-in-india-commerce-ministry-108026-2018-07-30>, accessed on 15 October 2022.

they also work as cultural ambassadors of India in the UAE. Their diligence and non-interfering habits have often been appreciated and acknowledged, including by the royals, in converting the desert-Emirate into one of the top trade and investment destinations in the Middle East. Side by side, the liberal, cosmopolitan culture of the Emirates provided equal opportunity to everyone to grow and prosper. Hundreds of Indians who went as labourers became big business tycoons and now they are investing back in India.<sup>8</sup>

The role of cheap air connectivity between India and UAE has also contributed significantly in building and deepening a trustworthy relationship between the business communities of India and the UAE. Per week, approximately, 1050 'to and fro' flights take place between the two countries. Further, the low-cost airlines also helped small and medium class businessmen and low-paid Indian expatriates to undertake frequent 'to and fro' visits to the UAE, besides inducing the common Indians to choose Dubai as their favourite shopping venue. Dubai's air connectivity with the wider world also converted it into an air 'transit point' to faraway destinations such as the US, Europe. This promoted tourism. After Chinese, Indians are the second largest tourist in the UAE.

The regular visits of Indians to Dubai convinced them to own their own apartments there. Today, more than half of the investments in Dubai's real estate are made by the Indians. The UAE also benefited from this synergy. Dubai's Gold Souks emerged as a global gem and jewellery centre, consuming 80 per cent of India's plain and 20 per cent of studded gem and jewellery. Most of them are purchased by the transit travellers.

Looking at the UAE's territorial size, demography and its emergence as the third largest trading partner of the world's largest economy (India) and second largest export destination after the US, sets an unparalleled economic partnership in the world.

## **SECTION II: KEY FEATURES OF CEPA**

The journey to CEPA is reached by making haste slowly. After assuming office in May 2014, Prime Minister Narendra Modi visited the UAE in August 2015. This is marked as an extraordinary visit that after 34 years any Indian PM visited that country. Last time PM Mrs Indira Gandhi visited the UAE was in 1981. Thereafter the UAE became the choicest destinations of PM Modi in West Asia. He has visited the UAE four times so far. During the 2015 visit, the two countries signed the Strategic Partnership Agreement (SPA). The SPA enhanced the mutual trust and added strategic angle to their growing partnership, thus paving the way to sign the fastest FTA in 88 days on 18 February 2022. The 880-page CEPA document is the first FTA (Free Trade Agreement) signed by the Modi government.

CEPA was implemented on May 1. CEPA is a comprehensive trade document, divided into 18 exclusive chapters and 11 Annexes, dealing with trade in goods and services, investment, rules of origin, technical barriers to trade (TBT), sanitary and phytosanitary (SPS) measures, dispute settlement mechanism, movement of natural persons, customs procedures, government procurement, protection of IPR (intellectual property right). CEPA focuses on some new mode of

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<sup>8</sup> Zakir Hussain, "India's Growing Investment Relations with UAE under the New Government", View Point, 17 December 2014, Indian Council of World Affairs, accessed on 15 October 2022.

conducting trade such as digital trade, exclusive annex on pharmaceuticals, telecommunication, cooperation on climate issues, use of clean and green energy, role of SMEs in export and economic development, setting up exclusive committees for evaluating and assisting the core export sectors.<sup>9</sup>

### **Salient Features of CEAP**

- I. **Trade Target:** CEPA sets a target of USD 100 Bn merchandise trade and USD 15 Bn of trade in services by opening around 111 sub-sectors in the 11 sector in the next five years.
- II. **Trade in Services:** Chapter 8 specifically deals with legal provisions to regulate open and non-discriminatory cross border trade in services. CEPA includes 11 major service sectors include business services, communication services, construction and related engineering services, distribution services, educational services, environmental services, financial services, health related and social services, tourism and travel related services, recreational cultural and sporting services and transport services.<sup>10</sup>
- III. **Duty Concession:** The pact provides 5 per cent duty concession to the merchandise exports to each other. This is set to benefit almost 90 per cent trade, both exports and import, between the two countries;<sup>11</sup>
- IV. **Rules of Origin:** Rules of Origin are aimed at preventing the entry of third countries' goods in their respective markets. For this, CEPA fixes some 'criteria for traded goods which are eligible for tariff reduction or abolition. The rules are based on 'composite criteria for change in tariff classification (CTC) of the good plus a minimum value added'. Provision of 'certification' and 35-40 per cent value addition to the foreign products with except to gem and jewellery copper and steel are placed.<sup>12</sup>
- V. **Safeguard Mechanism:** The agreement provides adequate inbuilt safeguard mechanisms to protect the domestic industries from sudden 'surge' in import. Any side can take special measures either suspend or raise tariff on particular items affecting the domestic industries.
- VI. **Sanitary and Phytosanitary Standards:** Sanitary and phytosanitary is one of the notorious invisible tools countries use to squeeze their trade partners. To avoid any such

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<sup>9</sup> India-UAE CEAP document is available on Ministry of Trade and Commerce website. <https://commerce.gov.in/international-trade/trade-agreements/comprehensive-economic-partnership-agreement-between-the-government-of-the-republic-of-india-and-the-government-of-the-united-arab-emirates-uae/?hilit=%27CEPA%27>

<sup>10</sup> "India and UAE sign the historic CEPA aimed at boosting goods trade to US\$ 100 billion over next five years", *PIB*, 18 Feb 2022, <https://pib.gov.in/PressReleasePage.aspx?PRID=1810279>

<sup>11</sup> Sherya Nandi, "India UAE signs CEPA, deal to cover almost 90% bilateral trade", 19 February 2022, [https://www.business-standard.com/article/economy-policy/india-and-uae-sign-cepta-deal-to-cover-almost-90-bilateral-trade-122021900046\\_1.html](https://www.business-standard.com/article/economy-policy/india-and-uae-sign-cepta-deal-to-cover-almost-90-bilateral-trade-122021900046_1.html), accessed on 12 March 2022.

<sup>12</sup> "The India-UAE: Comprehensive Economic Partnership Agreement", Ministry of Economy, UAE, [https://www.moec.gov.ae/documents/20121/1347101/EN\\_Ministry+of+Economy+Handbook\\_FINAL.pdf](https://www.moec.gov.ae/documents/20121/1347101/EN_Ministry+of+Economy+Handbook_FINAL.pdf), accessed on 21 September 2022.

- 'unjustified' trade barriers, CEPA establishes a detailed mechanism of sanitary and phytosanitary measures to protect human, animals and plants, enhance transparency, developing greater understandings and using science-based international standards, recommendations and establishes clear rules on Audits, Certificate and Impact Checks.<sup>13</sup>
- VII. **Dispute Settlement:** Chapter 15 establishes a consultation mechanism to avoid disputes related to interpretations and implementations of the rules of CEPA. It sets up a Dispute Panel which would submit its report within 120 days of the date its formation. In case of non-compliance, all the liabilities and benefits would stand suspended. However, the panel establishes rules for a mutually agreed solution to be reach by the parties.(Ibid)
- VIII. **Government Procurement:** Hitherto the Indian government has been hesitant to open the government procurement to foreign entities; however, *Chapter 10* in CEPA recognises the importance of the government procurement in boosting bilateral trade and set the objectives of 'effective, reciprocal and gradual opening of their government procurement markets'. This is also viewed as a 'tool of furthering the expansion of domestic production and trade in a transparent, corruption-free and impartial manner'.
- IX. **Digital Trade:** Chapter 9 is exclusively devoted to 'digital trade', aims to develop a framework suitable for the promotion of an enabling ecosystem of facilitating digital commerce, developing consumer's confidence in digital commerce, including e-commerce amid growing global digitization. The chapter also deals with cooperation in data protection and cybersecurity in the digital age.
- X. **Protection of Intellectual Property Rights (IPR):** Chapter 11 provides mechanisms to protect the IPR. It encourages innovation, technology transfer and dissemination; and ensure that these activities are in line with current laws and regulations of both the countries and Doha-Declaration on Trade and IPR.
- XI. **Special Attention to SMEs:** Both countries have realised the dynamic role of SMEs in exporters and development. CEPA arranges a platform for the promotion of SMEs, giving SMEs access to new customers, collaboration and network, setting up dedicated SMEs centres, incubators and creating an international network for sharing best practices along with assisting the SME exporters through training, trade education, trade finance and identifying commercial partners and exploring capacity building opportunities.
- XII. **Promoting Mutual Investment:** Chapter 12 deals with promoting reciprocal investment by establishing the 'UAE-Indian Technical Council on Investment with the aim of promoting, facilitating and monitoring investment activities, as well as identifying new opportunities for investment'. However, the chapter does not include any other treaty signed dealing with either investment protection or dispute settlement but it asserts the right to dispute under the BIT (Bilateral Investment Treaty).

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<sup>13</sup> "The India-UAE: Comprehensive Economic Partnership Agreement", Ministry of Economy, UAE, [https://www.moec.gov.ae/documents/20121/1347101/EN\\_Ministry+of+Economy+Handbook\\_FINAL.pdf](https://www.moec.gov.ae/documents/20121/1347101/EN_Ministry+of+Economy+Handbook_FINAL.pdf), accessed on 21 September 2022.

- XIII. **Special Reference to Pharmaceuticals, Telecommunication:** Looking at the catastrophic impact of Covid-19 pandemic and the need to maintain a quick supply-line of essential medicines, the two countries agreed to incorporate a separate Annex (Annex-5A) on pharmaceuticals. Both sides agreed upon accessing the Indian pharmaceutical products through automatic registration and marketing authorisation in 90 days<sup>14</sup> for the products approved by developed country regulators, including the US (USFDA), the UK (UKMHRA), the EU (EMA) and Japan (PMDA).<sup>15</sup>
- XIV. **Setting up Dedicated Committees:** CEPA sets three dedicated committees/councils to promote merchandise trade, setting a technical council on investment and trade facilitation and committee to evaluate the performances of CEPA annually. The committee would submit its report to a Joint Committee, headed by ministries which would meet biennially.
- XV. **Cooperation in Sectors not Covered under CEPA:** CEPA covers those areas as well which are not covered in the agreement. These are manufacturing industries; agriculture; forestry and fisheries; human resource development; tourism; ICT; promotion of e-commerce; trade in environmental goods and services; media and energy. Cooperation in air services, competition policy, environment and proposal to establish a **Committee on Economic Cooperation (CEC)** for effective implementation and operation of the agenda, are also arranged in CEPA;
- XVI. The pact also focuses on human resource development and setting up a campus of IIT (Indian Institute of Technology) in the UAE and establishing a skill centre in maritime in Banaras in UP.

### **SECTION III: HOPES AND PERFORMANCES OF COMPREHENSIVE ECONOMIC PARTNERSHIP AGREEMENT (CEPA)**

#### **Potential and Benefits**

CEPA, based on 'simpler customs procedures, clear and transparent rules of trading, enhanced market access, creating equal opportunities to participate in government procurement bids, and sharing information and guidance for SMES'<sup>16</sup>, provides a roadmap of 50 years' of partnership between India and the UAE. Besides maximizing trade and investment potential, CEPA offers a framework to cover wider areas of both the contemporary as well as the futuristic, including trade, investment, technology, human resource development, healthcare, renewable energy (green hydrogen, solar alliance), cooperation in environment, knowledge-based economy and

<sup>14</sup> "Comprehensive Economic Partnership Agreement (CEPA) between India and the United Arab Emirates (UAE) Unveiled", *PIB*, 27 March 2022, <https://pib.gov.in/PressReleasePage.aspx?PRID=1810279>, accessed on 17 March 2022.

<sup>15</sup> Nasreen Abdullah, "UAE jobs: At least 10,000 highly skilled Indian workers to be employed by next year", *Zawaya*, 2 August 2022, <https://www.zawya.com/en/economy/gcc/uae-jobs-at-least-10-000-highly-skilled-indian-workers-to-be-employed-by-next-year-fzqncdd0>, accessed on 20 August 2022.

<sup>16</sup> "Comprehensive Economic Partnership Agreement between India and the UAE", [https://www.moec.gov.ae/cepa\\_india](https://www.moec.gov.ae/cepa_india), accessed on 15 October 2022.

building a generation of common visions and goals through deep cultural and people-to-people ties.

While speaking at Economic Times Global Business Summit (GBS) on 10 March 2022 in Mumbai, UAE's Minister of State for Foreign Trade, Thani Bin Ahmed Al Zeyoudi said CEPA is a "win-win agreement for both the countries as this will create a lot of jobs, Unicorns and enhance exports".<sup>17</sup> Built on three pillars of trust, transparency and talent, CEPA is likely to mutually both the nations.<sup>18</sup>

### **Benefits**

CEPA builds an institutional mechanism to achieve the targets of USD 100 merchandise and USD 15 Bn trade in services in the next five years. It covers almost all tariff lines of both the countries. India deals with 11,908 tariff lines, while the UAE deals in 7,581 tariff lines respectively.<sup>19</sup> The UAE eliminates duty on India's 97 per cent exports in volume and 99 per cent in value, which covers mostly the products of labour intensive industries such as gem and jewellery, textile, leatherwear, sports goods, plastics, furniture, agriculture and wood products, engineering products, healthcare and medical devices, and automobiles. (PIB, 27 March 2022)<sup>20</sup> Sector-wise, food industry, tech start-ups, Artificial Intelligence (AI), education, pharmaceuticals and medical devices, oil and gas, renewable energy and gem and jewellery are among the top beneficiaries. Increase in the export of labour intensive products under CEPA is estimated to generate around 1 million jobs in India.<sup>21</sup> The UAE has also made a commitment to grant 140,000 visas to highly skilled Indian workers by 2030.<sup>22</sup> Already, India has launched TEJAS (Training for Emirati Jobs and Skills) scheme to hone the skill competence of 10,000 strong Indian in the first phase.<sup>23</sup> Besides, it shall enable a three-year visa for intra-corporate transferees and a 90-day visa for business visitors and contractual suppliers from India (Deloitte, Sept. 2022). The elimination of 5

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<sup>17</sup> "CEPA to help new biz, create jobs in India, UAE: Zeyoudi", *Times of India*, 11 March 2022, [http://timesofindia.indiatimes.com/articleshow/90157516.cms?utm\\_source=contentofinterest&utm\\_medium=text&utm\\_campaign=cppst](http://timesofindia.indiatimes.com/articleshow/90157516.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst)

<sup>18</sup> "India-UAE Comprehensive Economic Partnership Agreement (CEPA): Overview and Potential", Deloitte, September 2022.

<sup>19</sup> "Comprehensive Economic Partnership Agreement (CEPA) between India and the United Arab Emirates (UAE) Unveiled", 27 March 2022. <https://pib.gov.in/PressReleasePage.aspx?PRID=1810279>.

<sup>20</sup> "India and UAE sign the historic CEPA aimed at boosting goods trade to US\$ 100 billion over next five years", *PIB*, 18 Feb 2022, <https://pib.gov.in/PressReleasePage.aspx?PRID=1799439>.

<sup>21</sup> Gem and Jewellery sector to benefit from India-UAE CEPA: Commerce Secretary", *Business Standard*, 19 February 2022, [https://www.business-standard.com/article/current-affairs/gem-and-jewellery-sector-to-benefit-from-india-uae-cepa-commerce-secretary-122021900542\\_1.html](https://www.business-standard.com/article/current-affairs/gem-and-jewellery-sector-to-benefit-from-india-uae-cepa-commerce-secretary-122021900542_1.html)

<sup>22</sup> Naina Bhardwaj, "India-UAE Bilateral Trade: Trends and Outlook", *Indian Briefing*, 26 September 2022, <https://www.india-briefing.com/news/india-uae-bilateral-trade-trends-and-outlook-25989.html/#:~:text=In%20FY%202021%2D22%2C%20the,in%20effect%20May%201%2C%202022>, accessed on 30 September 2022.

<sup>23</sup> Nasreen Abdullah, "UAE jobs: At least 10,000 highly skilled Indian workers to be employed by next year", *Zawya*, 2 August 2022, <https://www.zawya.com/en/economy/gcc/uae-jobs-at-least-10-000-highly-skilled-indian-workers-to-be-employed-by-next-year-fzqncdd0>, accessed on 20 August 2022.

per cent duty on Indian exports by the UAE will immediately benefit USD 26 Bn to the Indian exporters.

Correspondingly, India too allows 90 per cent of UAE's exports to India duty-free, benefitting UAE commodity exporters of petrochemicals, plastic and articles (including paper and paperboard, carpets and rugs, certain steel articles), glass and glassware, aluminium, iron and steel, polyethylene and copper certain electrical and mechanical products (Deloitte, Sept. 2022). India also allows imports of 200 tons of gold at 1 per cent duty for five years. These tariff concessions and access to Indian market is estimated to add USD 9 Bn, around 1.9 per cent, to the GDP of the UAE and create approximately 19000 jobs in UAE by 2030.

CEPA also commits to set up a world class IIT (Indian Institute of technology) campus in the UAE and encouraged the DP World to sign an MoU to establish a Skill Centre for training Indian youth in maritime in Banaras, UP. This will mutually benefit both the countries. For instance, the IIT campus in UAE will not only attract students from the countries of West Asia but also encourage the children of expatriates to enrol there than going back either to India or to the US-West universities. Similarly, the DP World will produce cheap and good quality trained workers for its maritime logistics in India.

In a tweet UAE's former Ambassador to India Dr Ahmad Al Banna said, *"The Comprehensive Economic Partnership Agreement reflects our comprehensive strategic partnership and aims to generate opportunities for our business communities. United by friendship, the UAE and India share the commitment of fostering economic innovation and growth"*.<sup>24</sup>

India's gems and jewellery is likely to benefit the most. This is because of two main reasons: first, CEPA reduces the value addition criteria to gem and jewellery to 3-7 per cent instead of 35-40 per cent; and second, instead of 12 per cent duty on gold, India offers the UAE to export 200 tonnes of gold at 1 per cent tariff in five years. This will be a win win game. Dubai would emerge as a major gateway for Indian jewellery markets in West Asia, North Africa and Central Asia<sup>25</sup>, while zero duty on gem and jewellery would attract jewellery operators to relocate their businesses in India from Singapore, Hong Kong, Turkey. India exports 80 per cent of its plain jewellery and 20 per cent studded jewellery to the UAE. The Gem and Jewellery Export Promotion Council (GJEPC) has expressed confidence that exports of plain gold jewellery and gold studded jewellery from India to the UAE would grow to USD10 Bn in 2023 (The Nation, 1 May22) and USD 52 Bn to overall target.<sup>26</sup>

CEPA offers warehouse facilities to the Indian exports to stock their products at free ports, including Jabel Ali. This will help Indian exports to ensure fast delivery of consignments, reduce

<sup>24</sup> <https://www.mofaic.gov.ae/en/missions/new-delhi/media-hub/image-gallery/cepa>, 19 Feb 2022.

<sup>25</sup> Ramola Talwar Badam, "UAE-India trade pact: Dubai's gold sector to get boost from tax cut", *The Nation*, 1 May 2022, <https://www.thenationalnews.com/uae/heritage/2022/05/01/uae-india-trade-pact-dubais-gold-sector-to-get-boost-from-tax-cut/>, accessed on 15 October 2022.

<sup>26</sup> "CEPA to help gems, jewellery sector achieve USD 52 bn exports target in FY23: GJEPC", *Times of India*, 25 Feb 2022, [http://timesofindia.indiatimes.com/articleshow/89827598.cms?utm\\_source=contentofinterest&utm\\_medium=text&utm\\_campaign=cppst](http://timesofindia.indiatimes.com/articleshow/89827598.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst), accessed on 15 October 2022.

damages and spread e-commerce network in the region. The digital trade will be of great assistance as both countries are also experimenting with **Central Bank Digital Currency (CBGC)**. Already, India has launched **UPI** (Unified Payment Interface) and **RuPay** Card in Bahrain, Saudi Arabia, Oman and the UAE.<sup>27</sup>

The UAE's unique geo-economic location, connecting West Asia, North Africa and Europe, and its extended reach to Arab world through the membership of regional economic blocs, for instance, the GCC and GAFTA (Gulf Arab Free Trade Agreement) comprising 14 Middle East countries, allows the Indian exporters to use the UAE as a 'Springboard' to establish a wide supply chain network in three continents. Besides, Dubai's connectivity with 240 global cities<sup>28</sup> offers logistics facilities to access the global market. India has set a target of USD 1 trillion exports by 2030. Dubai's wider air and sea cargo reach will help the Indian exporters to supply their goods.

India and the UAE are on a fast track of signing FTAs with around half a dozen countries and some countries are common such as Israel. India is on an early harvest of FTAs Israel, the UK, Canada and the EU, while the UAE has signed FTA with Israel and is negotiating with Turkey, Indonesia, Kenya and Colombia. A common policy to connect with all FTA partners would help create a huge trade creation; build an exclusive trade and technology corridor; dedicated logistics services for supplying raw materials and finished goods to their respective markets.

CEPA provides favourable conditions for UAE's investors who are eyeing India's sunrise industries, including retail, telecommunication, pharmaceutical, agriculture and building food parks. While launching India-UAE Start-up Bridge with the UAE's counterpart in Mumbai on 13 May 2022, India's trade minister said, "the UAE has committed investment of USD100 Bn in manufacturing, infrastructure, services" in India.<sup>29</sup>

### **How CEPA is Revolutionary or Different from India's Previous FTAs**

The CEPA signed between India and the UAE differs or includes some new features which distinct it from the previous dozens of FTAs India signed, including Japan, South Korea and ASEAN. These are:

- **Carefully Crafted the Rules of Origin:** CEPA introduced two innovative tools to prevent the entry of the products of third countries, first, provision of 'certification' of the products to be issued by the concerned departments/ministries. India has nominated 17 agencies to issue the certificates of origin, while the UAE has nominated its Ministry of Economy; the second

<sup>27</sup> "PM Narendra Modi launches RuPay card in UAE", *Business Line*, 24 August 2019, <https://www.thehindubusinessline.com/money-and-banking/pm-narendra-modi-launches-rupay-card-in-uae/article62244685.ece#:~:text=Prime%20Minister%20Narendra%20Modi%20launched,and%20multilateral%20system%20of%20payments,> accessed on 18 August 2022.

<sup>28</sup> Mediawire, "Dubai: Serving the Logistics Needs of the World", *The Economic Times*, 25 March 2022, <https://economictimes.indiatimes.com/news/international/business/dubai-serving-the-logistics-needs-of-the-world/articleshow/90443975.cms?from=mdr>, accessed on 03 April 2022.

<sup>29</sup> "UAE Committed Investment of US\$100 billion in India", *The Economic Times*, 13 May 2022, <https://economictimes.indiatimes.com/news/india/uae-committed-investments-of-100-billion-in-india-says-goyal/articleshow/91549636.cms?from=mdr>.

provision carries 40% value addition to foreign products. However, gem and jewellery carries only to 3-7 per cent.

- **Protection of Domestic Industries:** The agreement allows both countries to protect their domestic industries from sudden 'surge' in imports, either by raising tariffs or fixing quota on that particular item. CEPA divides tariff concessions into four categories, namely Immediate Elimination, Phased Elimination, Phased Reduction, including Phased Reduction with Quota (PRQ) and the Exclusion List. Phased Reduction, including PRQ and the Exclusion List give 5-7 to 10 years' time to gradually reduce 'basic custom duty to zero', while the Exclusion List does not allow trade in the listed items.<sup>30</sup>
- **Movement of Natural Person:** Annex 8D in Chapter 8 of CEPA, dealing with 'trade in services', allows the movement of natural persons between India and the UAE. CEPA sets a target of USD 15 Bn trade in services in the next five years in 11 sectors, which automatically allows the movement of professionals between the two countries. Perhaps these two clauses, protection of domestic industries and movement of natural persons, were missing in the RCEP (Regional Comprehensive Economic Partnership), forcing India to opt out of the bloc despite being one of its founding members.
- **Digital trade,** government procurement, separate annexes on Pharmaceutical (Annex 5A) Telecommunication (Annex 8C), SMEs (Chapter 13) and special "melt and pour' clause on steel, are some other new features of CEPA.

### **Performances**

Regarding the performance or the assessment of CEPA, the statement of an Indian official of the commerce department seems apt,

"India-UAE CEPA has been brought into force only recently. It's not advisable to draw any inference or conclusion about business direction or trends prematurely from one month's data, although bilateral trade has been put on a high-growth trajectory through the India-UAE CEPA. Data from many months would be necessary for a meaningful analysis. Needless to say, both sides are expected to gain from different aspects of India-UAE CEPA over a period of time".<sup>31</sup>

However, some recent studies have analyzed the trend in India-UAE trade post-CEPA and found that compared to USD 730 Mn previous year India's exports to the UAE has registered 16.22 per cent growth, around USD 837.14 Mn, during May-June 2022.<sup>32</sup> This is a breakthrough as India's exports to UAE which were in negative growth trajectory post the outbreak of Covid-19 to April

<sup>30</sup> [https://commerce.gov.in/wp-content/uploads/2022/05/FAQs-on-CEPA\\_For-Uploading-on-DoCs-website-05-May-2022.pdf](https://commerce.gov.in/wp-content/uploads/2022/05/FAQs-on-CEPA_For-Uploading-on-DoCs-website-05-May-2022.pdf)

<sup>31</sup> Dilasha Seth, "India's trade gap widens with as oil imports rise", *Mint*, 10 August 2022, <https://www.livemint.com/economy/indias-trade-gap-with-uae-widens-as-oil-imports-rise-11660070471363.html>, accessed on 12 August 2022.

<sup>32</sup> "India's exports up 16.22% during May-June to UAE after FTA implementation", *Business Standard*, 15 July 2022, [https://www.business-standard.com/article/economy-policy/india-s-exports-up-16-22-during-may-june-to-uae-after-fta-implementation-122071500774\\_1.html](https://www.business-standard.com/article/economy-policy/india-s-exports-up-16-22-during-may-june-to-uae-after-fta-implementation-122071500774_1.html).

2022 have witnessed a rebound since May 2022, that is, post the signing of the agreement. (Ibid) During this period the shipments of plain gold jewellery increased by 62 per cent and 59 per cent to USD 135.27 Mn and USD 185.78 Mn, respectively. (Ibid) The data analysed by the *Economic Times* outlines that the gem and jewellery is among the highest gainer post-CEPA. Plain gold jewellery exports surged 72 per cent year-on-year in May to around INR 1,048.40 crore (US \$134.4 Mn @\$1=INR 78)) and 68.65% in June to around INR 1,451.58 crore (around US \$186.1 Mn). Total gem and jewellery exports to the UAE in the June quarter grew 10.09 per cent to INR 9,802 crore (US \$ 1.26 Bn), from INR 8,904 crore (US\$ 1.14 Bn) a year ago.

However, in August data released by the ministry of commerce and industry underlined that India's trade gap with the UAE "ballooned" fourfold in May-June, driven by the jump in oil and gold.<sup>33</sup> India's export to the UAE rose 17.5% to USD 5.4 Bn, while imports grew 67% to USD 9.3 Bn on the spike of oil shipments, thus widening India's trade deficit with the UAE to USD 3.92 Bn in two-month period compared to USD 900 Mn the earlier year. In the month of May alone, India imported USD 4.9 Bn worth of goods from the UAE of which oil accounted for 59 per cent to USD 2.9 Bn.

Item-wise, exports of footwear from India to UAE surged 73%; gems and jewellery 33%, tea, coffee, and spices by 50%, ready-made textiles by 42% and Pharma 52% while automobiles by 192%, and vegetable 147% witnessed big jump of 192% and 147% respectively. The import of pearls and gold from the UAE increased 28% and 248% during May-June.

In September, the ministry of commerce and industry released fresh trade statistics, underlining that during June-August 2022, compared to 3 per cent of global non-oil exports, India's non-petroleum exports to the UAE grew 14 per cent, almost 5 times the global exports. The ministry noted,

"India's non-oil export growth of around 14 per cent on year-on-year basis comes in the context of significant macroeconomic headwinds such as conflict in Ukraine, COVID-19 related lockdowns in China, rising inflationary pressures, expected Policy tightening in advanced economies, global growth slowdown and consequent reduced demand, reduction in global merchandise trade (growth slowed down to 3.2% in Q1 2022 vis-a-vis 5.7% in Q4 2021) etc".<sup>34</sup>

The two sets of data, May-June and June-August, dominated by petroleum and non-petroleum items, show two distinct features of India-UAE bilateral trade. Trade comprising petroleum products tilts towards the UAE, while without petroleum products, it goes to India's favour. This shows that although bilateral trade between India and the UAE have diversified over the period, it is still dominated by petroleum products. Under CEPA, India waives off duty on petroleum products, thus benefiting the UAE exporters.

<sup>33</sup> Dilasha Seth, "India's trade gap widens with as oil imports rise", *Mint*, 10 August 2022, <https://www.livemint.com/economy/indias-trade-gap-with-uae-widens-as-oil-imports-rise-11660070471363.html>, accessed on 10 August 2022.

<sup>34</sup> "India-UAE CEPA makes significant positive impact on India-UAE trade", *PIB*, 25 September 2022, <https://pib.gov.in/PressReleasePage.aspx?PRID=1862136>, accessed on 26 Sept 2022.

### **Is India's Trade Gap with the UAE Bad?**

Experts do not count India's fall in export to the UAE as a problem. India's trade gap with the UAE has been because of the rise in the import of raw materials, especially oil and gold which is a positive sign of pushing up the Indian economy. For instance, India's gold import from the UAE rose by 248 per cent, while oil 59 per cent. Increase in oil imports is a sign of increase in economic activity, while rise in gold import at 1 per cent import duty under CEPA lowers the manufacturing cost, boost jewellery exports and incentivize other exporter to relocate in India in medium-term and finally help India to achieve the target of USD 10 Bn export to the UAE this fiscal year. Since gem and jewellery comes under labour intensive industry, its rise in export will generate more jobs, boost gold demand and contribute to the growth of both economies.

The Indian exporters are optimistic to achieve the target of USD 100 Bn even before five years. Latest data shows that India-UAE bilateral trade is set to surpass USD 88 Bn.<sup>35</sup> Ajay Sahai, director general and chief executive of the Federation of Indian Export Organisations (FIEO) said, 'the first month is very impressive despite the fact that many sectors are still preparing to exploit their potential. We should look for exports of USD 35-40 Bn this fiscal year'.<sup>36</sup> This performance can be better if the exporters of both countries are sensitized towards CEPA. The Indian side observed, 'The Indian exports are likely to increase further in the coming months with increasing use of the CEPA by the exporters and with dedicated efforts from Department of Commerce, in association with Indian Mission in the UAE, through organization of a series of trade promotion events in the UAE during the current Financial Year'.<sup>37</sup>

Some following measures may be helpful to achieve the desirable results of CEPA, including the target of USD 100 Bn: (i) sensitize the exporters through a wide media and publicity campaign of doing trade through CEPA. As pointed out by one Indian diplomat, "against the tariff lines eligible for reduced FTA tariff, only about 20-30 per cent of the Indian exports are using the FTA route because of time and costs involved in getting a certificate of origin. This is especially true for the smaller exporters". Focus on suitability of the initial benefits is critical factor and its momentum should be enhanced;<sup>38</sup> (ii) the UAE needs to pursue active economic diplomacy; engaging both the medium and small scale traders as well as the local chambers of trade and commerce, besides big trade bodies located in metro-cities like CII, FICCI. (iii) Abu Dhabi also needs to identify trade pockets in Tier II and III cities in India as well and establish active connectivity, including online. For this, Abu Dhabi may establish an IT hub at identified export-

<sup>35</sup> "India-UAE Trade to surpass \$88 billion after signing of the free trade deal", *The Hindustan Times*, 22 November 2022, <https://www.hindustantimes.com/india-news/indiauae-trade-set-to-surpass-88-billion-after-signing-of-free-trade-deal-101669122288088.html>, accessed on 28 November 2022.

<sup>36</sup> Dilasha Seth, "India's trade gap with UAE widens as oil imports rise", *The Mint*, 10 August 2022, <https://www.livemint.com/economy/indias-trade-gap-with-uae-widens-as-oil-imports-rise-11660070471363.html>, accessed on 12 August 2022.

<sup>37</sup> "India-UAE CEPA makes significant positive impact on India-UAE trade", *PIB*, 25 Sept 2022, <https://pib.gov.in/PressReleasePage.aspx?PRID=1862136>, accessed on 26 Sept 2022.

<sup>38</sup> Dilasha Seth, "India's trade gap with UAE widens as oil import rise", *The Mint*, 10 August 2022, <https://www.livemint.com/economy/indias-trade-gap-with-uae-widens-as-oil-imports-rise-11660070471363.html>, accessed on 15 August 2022.

import hubs in India and connect the potential traders as has been planned with the Indian farmers; (iv) Since the UAE is a 're-export hub', connecting three regions, West Asia, North Africa and Europe, the UAE needs to educate Indian producers to connect with UAE's online stream and sell their products to poor African countries at better prices. The facility of digital trade and use of UPI (Unified Payment Interface) will better facilitate online trade; (iv) India and the UAE need to handle their bilateral trade differently in 2023 as most of the agencies like IMF (International Monetary Fund) have predicted global recession this year. During recession, trade in 'income' sensitive goods declines, while trade in 'price' sensitive goods grows. Both countries should focus on boosting price sensitive exports. Besides, Indian currency has also declined more than 10 per cent against the US dollar this fiscal year. Thus making the price-sensitive goods more attractive and cheap in the international market; and (v) Moreover, both countries are on a binge of signing FTAs. This would create a cobweb of both 'trade creation' and 'trade diversion' as both sides are purposefully selecting their FTA partners to get raw materials from one country and supply finished goods to the other. So, these countries need a detailed cross-country study, assessing the positive and negative impacts of the multiple FTAs on their bilateral trade. However, there are some positive aspects of the multiple FTA partners as well. This will help develop an exclusive trade corridor and exclude the countries like China; help develop local supply chain networks which are in vogue in the world after the Pandemic and the Ukraine war. Rise in digital trade would increasingly support the use of digital currency and UPI payment platforms.

#### **SECTION IV: CEPA: A GATEWAY TO STRENGTHENING REGIONAL PARTNERSHIP- SOME CAVEATS**

CEPA transcends bilateralism, paving a wider spectrum of multilateral engagements in the Gulf and beyond. On 18 October 2021, the foreign ministers of four countries, India, Israel, the US and the UAE held the first virtual ministerial meeting, incentivizing the heads of the four countries to hold another virtual meeting on 14 July 2022 and issue a joint statement, asserting that it would address shared challenges through 'a particular focus on joint investments and new initiatives in the field of economy, clean energy, water, transport, space, health, and food security' and 'these are only the first steps in a long-term strategic partnership'.<sup>39</sup> However, as of now the I2U2 has focused mainly on two issues, food security and clean energy. The UAE has committed to USD 2 Bn to develop a series of integrated food parks across India, while the I2U2 will advance a hybrid renewable energy project in India's Gujarat state consisting of 300 MW of solar and wind capacity complemented by battery energy storage system.<sup>40</sup>

The idea of clubbing the four countries at one platform was to utilise their combined economic potential for the growth and welfare of the people of two Asias -West Asia and South Asia. For instance, Israel's technology and security; UAE's investment capital and wide connectivity

<sup>39</sup> Hasan Alhasan and Vijay Solanki, "The I2U2 minilateral group", IISS, 11 November 2022, <https://www.iiss.org/blogs/analysis/2022/11/the-minilateral-i2u2-group>, accessed on 13 November 2022.

<sup>40</sup> "Joint Statement of the Leaders of India, Israel, United Arab Emirates, and the United States (I2U2)", The White House Statement, released on 14 July 2022, <https://www.whitehouse.gov/briefing-room/statements-releases/2022/07/14/joint-statement-of-the-leaders-of-india-israel-united-arab-emirates-and-the-united-states-i2u2/>, accessed on 17 August 2022.

through smart logistics; India's vast market and skilled workforce and super-imposing presence of the US, have enough to set an example of cooperation and free trade in a conflicting world, heading towards protectionism. The success of the *minilateral* or the Middle East Quad (MEQ) will definitely attract more countries to join the platform, including the current focus on Jordan and Egypt. A healthy MEQ would potentially form a big regional trade corridor and companies from other regions to relocate here. This would also induce other regional economies to join the forum. The CEPA has also opened the scope of trilateral partnership. Recently, India, France and the UAE held the first trilateral ministerial meeting on the sideline of the 77th UN General Assembly meeting in Washington. All three members agreed on two major issues, first, discussing a new way of doing diplomacy through an 'active exchange' of ideas<sup>41</sup>, second, since Rafal fighter jets are the common element of trilateral strategic partnership, the three are keen to form a trilateral Rafal Forum, assigning India a key role in the manufacturing of the spare parts of Rafal jet.<sup>42</sup> However, there are some caveats. Both India and the UAE should avoid tilting towards geostrategic and political affairs of the region, including giving more preference to the I2U2 than it deserves.

Experts call the I2U2 as "the Biden administration's broader effort to elaborate its US Indo-Pacific Strategy and reframe US engagement with the Middle East/West Asia".<sup>43</sup> Obviously, this is nothing but to counter China in the Middle East. However, the geostrategic and political profile of the Middle East is quite different from the Indo-Pacific. In the Middle East region, China is not considered a regional bully. Rather, their interests, both economic and geostrategic, are diversely associated with China. For instance, the interest of the US and India though suits to counter China, Saudi Arabia which is the largest economy in the region, may not like to join the anti-China cavalcade. Saudi Arabia needs China's large oil market; their economic partnership, including trade, investment, defense and security are increasingly on a fast track. While within I2U2, the interests of the member countries are diverse. Israel and the UAE want better economic relations with China than India and the US. Thus, missing the 'unity of purpose' to form an anti-China front in the region.

The I2U2 needs to be cautiously expanded. Although, I2U2's principal objective is to utilise the potential of four countries for enhancing environment-friendly growth and welfare of West and South Asia, its tilt towards geostrategic and political factors make the forum suspicious. In fact,

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<sup>41</sup> Dipanjan Roy Chaudhart, "India-UAE-France hold their maiden trilateral meet", *The Economic Times*, 28 July 2022, [https://economictimes.indiatimes.com/news/india/india-uae-france-hold-their-maiden-trilateral-meet/articleshow/93194890.cms?utm\\_source=contentofinterest&utm\\_medium=text&utm\\_campaign=cppst](https://economictimes.indiatimes.com/news/india/india-uae-france-hold-their-maiden-trilateral-meet/articleshow/93194890.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst), accessed on 30 July 2022.

<sup>42</sup> Dipanjan Roy Chaudhary, "India, UAE, France keen on Rafale forum: key role for New Delhi", *Economic Times*, 21 September 2022, [https://economictimes.indiatimes.com/news/india/india-uae-france-keen-on-rafale-forum-key-role-for-new-delhi/articleshow/94336385.cms?utm\\_source=contentofinterest&utm\\_medium=text&utm\\_campaign=cppst](https://economictimes.indiatimes.com/news/india/india-uae-france-keen-on-rafale-forum-key-role-for-new-delhi/articleshow/94336385.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst); accessed on 12 October 2022.

<sup>43</sup> John Calabrese, "The US and the I2U2: Cross-Bracing Partnerships Across the Indo-Pacific", MEI, Washington, 27 September 2022, <https://www.mei.edu/publications/us-and-i2u2-cross-bracing-partnerships-across-indo-pacific>, accessed on 22 October 2022.

both CEPA and I2U2 are two different platforms, carrying two different objectives. For instance, the former is set to provide a roadmap of 50 years' of economic and inter-generational partnership between India and the UAE, while the latter lacks any such sustainable long-term roadmap. The acronym Middle East Quad (MEQ) for I2U2 carries more suspicion than creating confidence among the business community and more such Quads or minilaterals are likely to be formed in North Africa and other parts of African continent, especially targeted to counter China. It is in the interest of India and the UAE that the politico-strategic agenda of the CEPA should be toned down or make the forum apolitical grouping. The platform should not be used for geo-strategic and political purposes such as building exclusive trade corridors, countering China and the BRI (Belt and Road Initiative) project, dwarfing Russia in the region or intensifying anti-Iran stance.

Diversification is another reason that may not support another round of geo-strategic tussle in the region. Most of the economies, including Saudi Arabia, are aggressively diversifying their economies; promoting investment friendly-ecosystem in the neighbourhood to face the post-oil challenges. They may not like to repeat another fiasco as happened during the Gulf War I and Gulf War II. Saudi Arabia may not like to continue tussle with Iran if the US-Israel Axis fails to checkmate Iran from its nuclear ambitions. However, if the forum takes up or mixes the objectives of I2U2, this may provoke China, Russia, Iran and its asymmetric forces to form a parallel forum like I2U2 and limit the CEPA to harness its full potential.

Regarding India: CEPA and I2U2 has increased India's footprint in the Gulf and wider West Asia. However, it would not be in India's interest to juxtapose CEPA with I2U2 as its stakes are too high to join any divisive politics in the Gulf. The region is vital to India's energy security; it unfailingly remits approximately USD 40-45 Bn every year which bails out millions of families in India. Besides, the region is India's third largest trade zone after the US and Europe, while nowadays, New Delhi is looking at boosting its trade and investment partnership with major Gulf economies, including restarting the GCC FTA negotiation. The two largest economies, Saudi Arabia and the UAE are working on conducting trade in local currencies, Riyal and Dirham and Indian Rupee. The central banks of India and the UAE are 'discussing a concept paper on promoting bilateral trade in rupee and dirham'.<sup>44</sup> Both are urgently seeking to start trade in Rupee-Dirham. This will bring multiple benefits to both sides, including reducing the cost of transaction, ease to hard currency and minimizing the impact of the 'weaponsiation of dollar' on their respective economies and foreign policy independence. Digital trade will soon promote the use of central bank digital currency (CBDC) through bilateral payment platforms. Besides, security, defense, maritime, and counterterrorism are other areas where both sides share common concerns.

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<sup>44</sup> India, UAE central banks discuss rupee, dirham trade", *The Indian Express*, 26 November 2022, <https://indianexpress.com/article/business/india-uae-central-banks-rupee-dirham-trade-8289951/> , accessed on 28 November 2022.

### **CONCLUSION & WAY FORWARD**

CEAP sets a complementary model of growth; it sets the ground for mutual cooperation and growth for the next 50 years by opening the prospects of free trade, reciprocal investment, partnership in sustainable technology and innovation. The virtual summit that took place just signing the CEPA between the leaders of the two countries, underlines the areas and issues that may be relevant for cooperation in the next 50 years, including covering economic, culture, energy security, climate change and renewable energy, cooperation in emerging technologies, skill development, food security, health, education and defense. Both the countries have also agreed to work together in the international arena on common issues.<sup>45</sup>

CEAP also generates the prospects of a 'minilateral' in West Asia. The participation of four countries, Israel, India, UAE and the US and pooling of their resources can accelerate growth and development and enhance welfare in two Asias, South Asia and West Asia. However, there are some caveats that CEPA should avoid mixing its objectives with political and geostrategic ambitions of the I2U2. This will neither be sustainable nor effective to maximize CEPA. China, Russia, and regional countries like Iran, Syria, Lebanon and asymmetric forces may not take it kindly and start forming a parallel grouping to I2U2, while the regional countries too have diverse interests, mainly with China as they have their agenda of 'de-addicting' and diversify their economies from oil to meet the post-oil challenges and legitimise their regimes. They need an investment-friendly ecosystem in their neighbourhood to foster growth the development.

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<sup>45</sup> Joint Statement of the Leaders of India, Israel, United Arab Emirates, and the United States (I2U2)", *The White House Briefing Room*, 14 July 2022, <https://www.whitehouse.gov/briefing-room/statements-releases/2022/07/14/joint-statement-of-the-leaders-of-india-israel-united-arab-emirates-and-the-united-states-i2u2/>

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