# Turning to Trade Winds

## Why in news?

India last week announced the signing of a Comprehensive Economic Partnership Agreement with the United Arab Emirates (UAE).

## Why is the India-UAE trade deal significant?

- **Towards trade liberalism**- The India-UAE CEPA is the first comprehensive trade agreement signed by the current ruling government since it came to power in 2014.
- **Tariff reduction/elimination**- Although UAE's average tariffs on goods are low, the highest slab being 5 %, the fact that these tariffs will be immediately eliminated on 90% of traded goods is encouraging.
- **Edge over other countries**- This would erode the tariff advantage enjoyed by smaller economies such as Bangladesh and Vietnam in items like garments, footwear and gems & jewellery, resulting in greater market opportunities for India.
- **Market access**- The pact will also provide wider access to the much larger Arab and African markets for Indian businesses.
- **Boosts confidence**- Sealing the CEPA with the UAE in a record time of 88 days will give India greater confidence in pursuing the ongoing FTA negotiations with trade partners such as the UK, Canada, Australia and the EU.
- **Competition**- CEPA is likely to increase the competitiveness of Indian products worth an estimated 26 billion dollars that are currently subjected to 5% import duty by the UAE.
- **Boosts service sector**- The services sector could also see substantial gains.

## What are the salient features of the agreement?

- The India-UAE CEPA covers commitments in trade in goods, trade in services, technical barriers to trade, dispute settlement, telecom, customs procedures and pharmaceuticals.
- Chapters on digital trade, government procurement and IPR have been included for the first time by India in a trade agreement.
- A separate annexe on pharmaceuticals has been incorporated to facilitate access to Indian pharmaceutical products for the first time.
- 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, a global trading hub, at concessional duties.
- To protect sensitive sectors where increased competition may hurt livelihoods, India has placed 10% of tariff lines in the negative list that would not be subject to tariff cuts.
- Import duties will be brought down to 0% on 90% of India's exports to the UAE immediately on implementation of the pact and 97% of tariff lines over the next five years.

- India will bring down import duties on about 65% of tariff lines immediately and on 90% of tariff lines in 10 years.
- India has also agreed to give the UAE a tariff-rate quota of 200 tonnes on gold, where import duty will be 1% point less than the tariff charged for the rest of the world.
- Two-way investment flows and remittances is a major source of foreign exchange earnings for India given the large Indian workforce in the UAE.

*The UAE is already India's third-largest trading partner with bilateral trade in 2019-20 and the two partners now aim to leverage the free trade deal to lift bilateral merchandise trade to $100 billion over the next 5 years.*

## What can be inferred from India's approach?

- The free trade pact is a tacit acknowledgment that India needs to strengthen its trade ties with existing partners by lowering tariff walls and obtaining more favourable access for its exports in order to boost trade and economic output.
- Even as India sought to promote atmanirbharta or self-reliance, the pandemic depressed domestic consumption demand, dragging down overall economic output.
- Exports on the other hand have rebounded strongly, with growth outpacing even the pre-pandemic levels.
- The Government's renewed push to negotiate its bilateral free trade agreements is a welcome change and signals that India is keener to strengthen trade ties with individual partner countries on equitable terms rather than be tied into multilateral pacts.
- With multiple other FTAs in the pipeline, India has a fresh opportunity to reset its trade ties with the international community.

**References**

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