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Industry calls India-UAE CEPA pact game changer, but warns of bottlenecks ahead



Union Minister of Commerce and Industry Piyush Goyal in a conversation with UAE Minister of Economy Abdulla bin Touq Al Marri during a joint press conference at the signing of the India-UAE CEPA.

India and the United Arab Emirates (UAE) on February 18 inked a Comprehensive Economic Partnership Agreement ([CEPA](#)) that is being billed as a historic one in many ways. The pact is aimed at providing a major fillip to the trade of goods and services between the nations. The Gulf country is India's third-largest trading partner. The mega deal was signed during a virtual summit meeting between Prime

Minister of India Narendra Modi and Crown Prince of Abu Dhabi Sheikh Mohamed bin Zayed Al Nahyan.

"This agreement will usher in a new era in our bilateral economic relations and the bilateral trade volume will increase from \$60 billion to \$100 billion in 5 years," said PM Modi.

Commerce and Industry Minister [Piyush Goyal](#) asserted that CEPA would provide a fresh impetus to labour-intensive sectors such as gems and jewellery, textiles, leather, footwear, furniture, agriculture and food products, plastics, engineering goods, pharmaceuticals, medical devices and sports goods. Goyal added that there were many firsts in the CEPA agreement. Concluded in a record time of just 88 days, the pact had a permanent safeguard mechanism that can be resorted to in a situation of a sudden surge in imports, along with strict rules of origin that will prevent products from other countries slipping into the CEPA trade route.

Win-win

The CEPA is expected to open vistas of opportunity in trade, both goods and services, and investment between the two countries. UAE is currently India's second largest export destination, after the US. According to official estimates, the India-UAE foreign trade agreement ([FTA](#)) may benefit \$26 billion worth of domestic goods that are subjected to 5% duty.

Our bilateral trade with the UAE is expected to surpass \$60 billion in the current financial year. India is the UAE's number one trading partner for non-oil exports, accounting for nearly 14% of the Emirate's non-oil exports.

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, says the Federation of Indian Export Organisations ([FIEO](#)). While the exact tariff concessions would be known only when more specific details are released, the industry body maintains that the CEPA will be extremely beneficial for sectors such as agriculture and processed food, including meat & marine products, gems & jewellery, apparel & textiles, leather & footwear as well as sectors like engineering, organic chemicals, plastics, paper & paper products, iron & steel, electrical and electronics, automobile & auto components and pharmaceuticals.

Lots of African buyers come to Dubai and place orders from there itself. So, showcasing Indian goods in the UAE will be a very good strategy, says A Sakthivel, the industry body's chairman. "Having a large Indian diaspora, the UAE consumes a large quantity of Indian cereals, fruits & vegetables, tea, spices, sugar, etc. Indian companies will gain in services like travel & tourism, transportation, IT & ITES and construction services. The FTA will also open the market to other [GCC](#) (Gulf Cooperation Council) countries," he says, adding this may be used as a template for similar agreements with other GCC countries.

The PHD Chamber of Commerce and Industry lauds the government's move to reduce custom duties on over 1,000 products to zero through the CEPA. The export value of India to UAE in April-December 2021-22 has increased to \$20.05 billion from \$18.6 billion in 2020-21, with a growth rate of 14.46%, states the chamber. Its president Pradeep Multani calls the deal a "well-balanced, fair and comprehensive partnership agreement". The CEPA agreement will open new vistas, especially to labour-intensive Indian products, he says.

UAE's strategic location to open trade vistas

Stakeholders across industries have high hopes from the CEPA. Given the geographical location of the UAE and its proximity to Central Asia and Africa, the CEPA should open doors to numerous untapped trade opportunities for a host of Indian sectors.

India's carpet industry, known globally for its fine workmanship, is one segment that sees an obvious and immediate advantage because of the pact. Mahavir Pratap Sharma, Past Chairman, the Carpet Export Promotion Council (CEPC), says the carpet industry would benefit hugely from CEPA as its players can now operate across the Middle East and North Africa ([MENA](#)) and across Europe. "Earlier, one has to go via Istanbul to reach [CIS](#) countries and Eastern Europe, which had higher duties. Now, trading with Russia, the CIS and other east European countries will be easier through Dubai. Exporters will contemplate setting up warehouses in Dubai too," says Sharma, anticipating a quick succession of more such trade deals in the next 6 months.

Echoing similar views, MS Mani, Partner, Deloitte India, says collaboration is the buzzword in global trade today. A comprehensive economic partnership would allow India to actively collaborate and leverage its export strengths and meet its import necessities. An economic partnership will open up new markets for Indian manufacturers and [MSMEs](#) and expand the visibility of Indian products across those new markets, adds Mani.

Need for addressing bottlenecks

To capitalise effectively on the CEPA, the country needs to address some bottlenecks, say experts.

Vijay Kalantri, Chairman of trade facilitating body MVIRDC World Trade Centre-Mumbai, points out that though the UAE is the third largest destination of India's exports, our export basket has a concentration of three items — petroleum products, gems & jewellery and electrical machinery. These account for nearly 50% of our exports to the Gulf country. He suggests that the export basket be diversified with the addition of pharmaceuticals, automobiles and chemicals — areas where India has a competitive advantage. "Export of consumer goods such as footwear, carpets, umbrellas, textile, toys and game products may also get a boost. In the agro sector, we are already exporting fruits, spices and cereals. Still, there is untapped export opportunity to the UAE, especially in Geographical Indication ([GI](#))-tagged products such as jackfruit, grapes, jaggery, turmeric, honey."

However, the trade expert says, India should be careful while operationalising this agreement else it might lose more than it gains. While the agreement will be mutually beneficial for the both countries, India needs to ensure that goods originating from outside the UAE are not allowed duty-free into India under this treaty. The risk of treaty abuse arises because the UAE is a global transshipment hub and, hence, India should guard against duty-free imports of transshipped products. To ensure abuse of this treaty, our customs officials need to enforce the rules of origin strictly," he adds.

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Sribash Dasmohapatra, Executive Director of the Plastics Export Promotion Council ([PLEXCONCIL](#)), says India's annual import of plastic raw materials is valued at \$14 billion and its plastic-based imports from the UAE is just around \$800 million. On the other hand, the Emirate's global plastics import is valued at \$9 billion. But it sources plastics worth only \$400 million from India. So, with inbuilt trade concessions, this "game changing" CEPA should help the domestic plastics industry.

Dasmohapatra says if the country wants to effectively utilise this pact to become self-reliant, it needs to focus on scaling up its capacity-building on a war footing. "Availability of raw materials and the cost of polymers (a basic raw material for plastic industries) is a big issue. Its high costs make Indian products uncompetitive. Certain raw materials are still not produced in India or are not produced in enough quantities. For example, 50% of our PVC requirement is made here and the rest is imported," he says.

Underling that India's various traditional FTAs lack reciprocity benefits in terms of concessions in tariff rates, Dasmohapatra insists that some of the country's trade deals need urgent tweaks. "With the UAE-India CEPA, it is good to see that the government is addressing such policy gaps, and this should be a good template for all upcoming FTAs."

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On the same note, Deloitte's Mani adds: "While the sectoral impact would vary, it is essential to safeguard India's interests in services, which have in the past been difficult to safeguard."