

# A Case Study On: Impact of Liberalization on Trade between India and UAE

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**Abstract:** India and United Arab Emirates have shared a strong trade and cultural links over a period of time. Trade between India and UAE started long back when these two countries traded some of the traditional items with each other. However, India and UAE trade relation took speed when H.H. Sheikh Zayed Bin Sultan Al Nahyan came to power in 1966 and a federation was formed in 1971. The very foundation of INDO-UAE trade tie's can be traced to the fact that since 1975 INDIA has signed Twenty-FIVE agreement's and MoU's with UAE including some of the important agreements like Cultural cooperation agreement (1975), civil aviation agreement(1989, revised in 2014), Double Tax Avoidance agreement DTAA(1992), Anti-Trafficking(1994) , Information Cooperation agreements(2000) and the most recent MoU in the field of renewable energy cooperation. These Bi-Lateral agreements and MoU's have cemented the trade ties between both the countries. Also INDIA and UAE are now inching towards an all weather friendship which would help India to secure it's interest in the region. And INDIA-UAE friendship would provide a good adhesive for this cohesion. The case study will also talk about the areas where there is a desperate need of improvement and what are the steps taken by the India Government in various fields including the tax policies, balance of payments, modes of payments etc. And how, UAE can prove to be the largest trade partner of India in the next decade.

**Keywords:** MoU's, DTAA, Anti-Trafficking, Bi-Lateral Agreements, TAX policies.

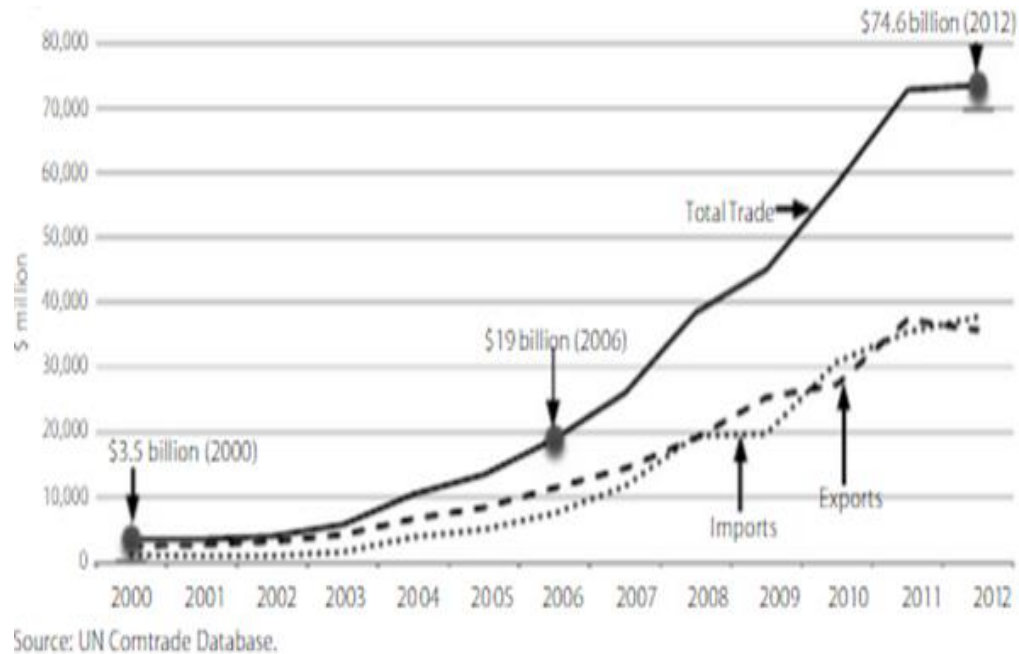
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## 1. REVIEW OF LITERATURE

The post Liberalization, Privatization and Globalization era in INDIA which started in early 90's has witnessed a strong and miracle boom in the economy of INDIA. In the later part of the 90's the thirst for new technologies led to the finding of new countries in the region. The Indian business community has been able to spread its tentacles to different parts of the world. With this vision in mind UAE has provided a great platform for the Indian business's to flourish in UAE and vice-versa. One of the main reason for India to establish a strong footprint in UAE is the country's dependence on Crude Oil and Natural Gas. Similarly, for UAE its major man-power source is from India.

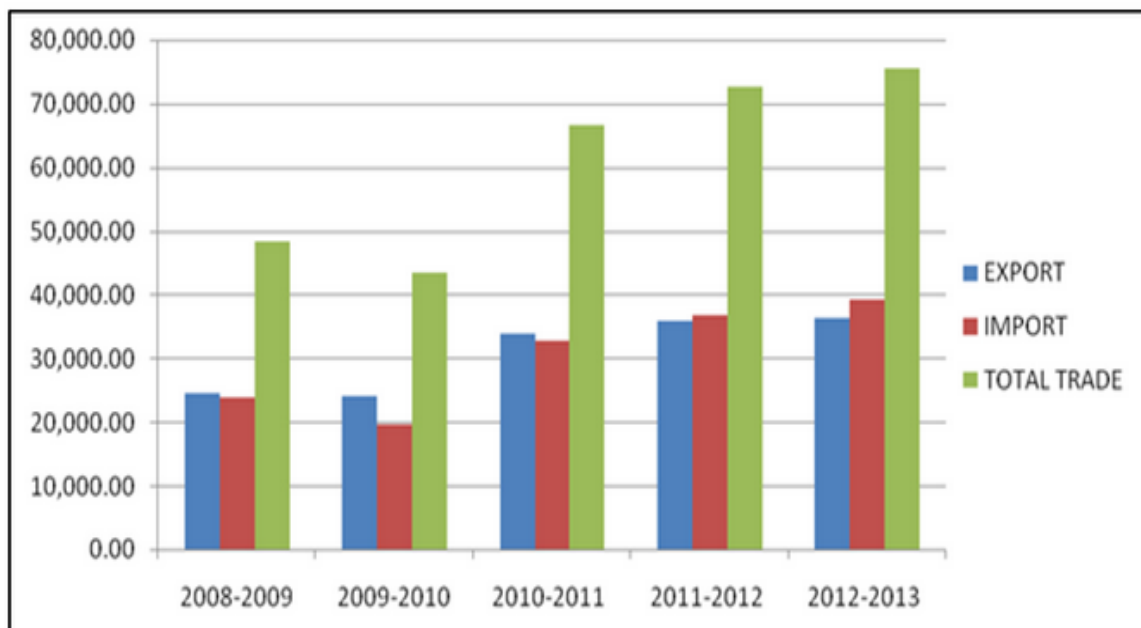
UAE in home to 2.5 million India expatriate community which has helped and is playing a pivotal role in building the new UAE and has filled the voids in the country at various levels starting from unskilled and semi-skilled labor to high end jobs like Doctor's, Engineer's and Business man's etc. Indian business community has created a strong base in UAE. The annual remittances from large India community in UAE as per UAE sources is US \$15 billion as of (2013). The very bi-lateral bonding between the two nations can be seen by the fact that the trade has increased from US \$180 million per annum in 1970's to \$36.3 billion in (2012-2013) according to Directorate General of Commercial Intelligence and Statistics (DGI&S) of the Ministry of Commerce and Industry. Dr. Bharat Butaney, President, IBPC, Dubai said in 2012 "Our great nation has indeed taken many significant giant strides and achieved unparalleled milestones by crossing virtually insurmountable barriers". Similarly Khalfan Saeed Al Kaabi, first vice-chairman of the Abu Dhabi Chamber of Commerce and Industry quoted his views about bilateral ties with India in an interview given to the gulf new in

December 2013 “Any formal agreement to protect the investments will boost the business relations and I am sure this will pave the way for more investments to both sides”. India’s newly appointed Ambassador to UAE T P SEETHRAM recently led a high level business delegation to UAE quoted “The UAE is now the largest trade partner of India in the Gulf and the Middle East region. Most of our exports in the entire region are routed through Dubai and Jafza. Further strengthening of bilateral trade and commerce relations will boost our overall presence in the region”. The following graph shows the increase in two way trade between India and UAE.



**FIGURE: 1: Total Trade between India and UAE**

As we can deduce from the graph given above that the trade between INDIA and UAE has increased steadily from \$3.5 billion in 2000 to up to \$74.6 billion in 2012 with India exporting more to UAE in comparison (non-oil exports).



Source: <http://indembassyuae.org/>

**FIGURE: 2 BAR CHART OF INDIA’S TRADE WITH UAE**

This bar chart shows that the export to import ratio between India and UAE is considerably equal. Due to import of crude oil the balance of trade is on UAE side. But India is catching up by re exporting the refined oil back to UAE.

## 2. DIMENSION'S OF INDIA'S TRADE WITH UAE

India became member of WTO on 1<sup>st</sup> January 1995. While UAE became part of WTO in 1996. Since then INDIA is one of the leading partner of UAE. While UAE also serves as a leading trading partner with INDIA since the beginning of 21<sup>st</sup> century.

India's export's to UAE are diversified and cover a huge number of sectors. India's major exporting items to UAE are: Petroleum products, Precious metals, Stones, Gems and Jeweler, Minerals, Food items (cereals, sugar, fruits and vegetables, tea meat, seafood), Textiles(garments, apparels, synthetic fibers, cotton, yarn) and Engineering & Machinery Products and chemicals.

India's imports from UAE includes: Petroleum and Petroleum products, Precious metals, stones, gems and jeweler, Minerals, Chemicals, Wood and WOOD products.

UAE being a emirate of 7 small emirates. Dubai accounts for the largest share of imports and exports to INDIA. More than 80% of the trade is being done with Dubai. Dubai is best known for its "Re-Export". Dubai re-exports to India is 68% of the total of its total exports to India. Indian companies have also emerged as an important investors in various "FREE TRADE ZONES" of UAE.

### STATISTICS OF IMPORT'S and EXPORT'S:

#### India-UAE bilateral trade for the last five years

(Value in US\$ Million)

S. No.	Year	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014
1	Export	23,970.40	33,822.39	35,925.52	36,316.65	30,497.93
2	%Growth	-2.07	41.10	6.22	1.09	-16.02
3	Import	19,499.10	32,753.16	36,756.32	39,138.36	29,114.18
4	%Growth	-18.04	67.97	12.22	6.48	-25.61
5	Total Trade	43,469.50	66,575.55	72,681.84	75,455.01	59,612.11
6	%Growth	-9.94	53.15	9.17	3.82	-21
7	Trade balance	4,471.30	1,069.22	-830.80	-2,821.71	1,383.75

Source: DGCIIS, Kolkata

FIGURE: 3

As we can see the statistics given above that the import and export of merchandise goods is been growing slowly between the two nations. The only reason why we have seen a negative growth rate from 2013-2014 is due to the sluggish growth of India manufacturing sectors and due the wholesome growth rate of our economy which came down from 8% in 2008 to 4.5% in 2014. But the current sentiments in the country shows that there would be a considerable change in the scenario as the ruling government has pushed the manufacturing sector to perform more by different projects like "MAKE IN INDIA".

**Table 1: India's Imports from UAE**

1	India's Imports from UAE				Share of Imports from UAE in Total Indian Imports (%)	
	2000-01		2012-13		2000-01	2012-13
	\$ mn	% of Total	\$ mn	% of Total		
2	3	4	5	6	7	
Mineral fuels and oils, etc (27)	162	24.6	14,985	38.3	0.9	8.1
Pearls and precious stones and metals (71)	249	37.7	20,377	52.1	2.6	24.3
Iron and steel (72)	32	4.9	560	1.4	3.4	4.1
Non-ferrous metals and articles (74-80)	39	6.0	964	2.5	5.3	11.8
Engineering goods (84-89)	30	4.6	582	1.5	0.4	0.7
Import 5 top groups (UAE)	512	77.7	37,468	95.7	1.4	10.1
Total imports (India)	659	100.0	39,138	100.0	1.3	8.0

Figures in brackets are HS codes.

Source: Department of Commerce, Government of India.

**Table 2: India's Exports to UAE**

1	India's Exports to UAE				Share of Exports to the UAE in India's Total Exports (%)	
	2000-01		2012-13		2000-01	2012-13
	\$ mn	% of Total	\$ mn	% of Total		
2	3	4	5	6	7	
Food and beverages items (1-10)	321	12.4	1,387	3.8	7.5	6.3
Mineral fuels and oils, etc (27)	31	1.2	6,964	19.2	1.6	11.4
Textiles (50-63)	852	32.8	2,189	6.0	7.3	15.7
Pearls and precious stones and metals (71)	444	17.1	18,891	52.0	6.0	43.2
Engineering goods (84-89)	152	5.8	2,754	7.6	4.0	6.7
Import 5 top groups (UAE)	1,970	75.8	32,882	90.5	5.9	15.4
Total exports (India)	2,598	100.0	36,317	100.0	5.8	12.1

Figures in brackets are HS codes.

Source: Department of Commerce, Government of India.

This table of contents tells us about the top five active goods which are been exported or imported from UAE to INDIA. The top of the list is food and beverages items followed by mineral fuels, textiles, pearls and precious stones and engineering products. Likewise we import Crude oil, unpolished precious stones, iron and steel and non ferrous metals from UAE.

### 3. UAE INVESTMENTS IN INDIA

UAE investments in India are basically divided into two parts. Large share of the investments are through Foreign direct investments (FDI) which accounts to \$2.3 billion of \$8 billion the rest is the Portfolio investments. UAE investments in INDIA are basically in five sectors: Power (15%), Metallurgical Industries (12%), Construction development (11%),

Service sector (10%), Computer software and hardware (5%). To attract further investments a high level task force was formed in 2012 with the head of ABU DHABI INVESTMENT AUTHORITY H.H Sheikh Zayed Bin Sultan Al Nahyan crown prince of Abu Dhabi. The first meeting of high level task force was done on 18/02/2013, where the sketch for further investments in specific sectors like Infrastructure, Energy, Investments and Trade, manufacturing technology, aviation and transport was drawn. The first of these investments came in infrastructure sector where US \$2 billion were allocated for development of infrastructure and development of strategic oil reserve in INDIA.

In the same financial year another break-through came when Eithad airlines decided to buy 24% stake in Jet Airways. UAE has also emerged as a large investor in aviation and logistic sector. They have developed two world class airports and a seaport and numerous hotels as a part of there investment portfolio in INDIA. The major companies who have invested in INDIA are: DP WORLD, EMAAR GROUP, AL NAKHEEL, ETA STAR GROUP, DAMAS JEWELLER etc.

#### **4. INDIAN INVESTMENT'S IN UAE**

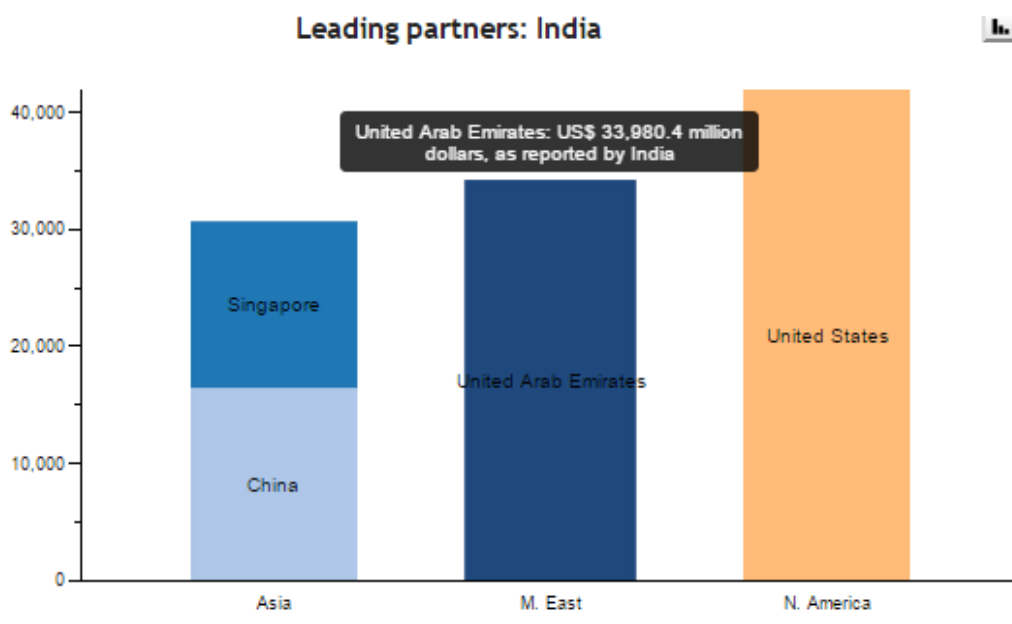
A lot of Indian business houses have also invested in booming economy of UAE. Many Indian companies have started either Joint venture or in Special economic zone for production of cement, textiles, engineering products, consumer electronics etc. For instance, HINDUJA Group has installed its manufacturing units in Ras-al-khaimah. Taj Hotels Group has also invested in hospitality, tourism, catering, health, retail and education sectors. Indian cement giant JK cement's have invested \$14.97 million to set up a production plant to produce white cement in Fujariah Free Trade Zone. Indian companies like Ashok Leyland, Dabur, Mahindra etc also operates in Ras Al Khaimah business park. ESAAR Steel has also opened a processing and distribution unit in Dubai. India's Infrastructure leasing and financial services limited (IL&FS) and UAE-based Prime terminal have joined hands to install an oil storage capacity at Fujairah. Many educational institutions like BITS Pilani, AMITY UNVERSITY, Pune universities etc have also opened some of the world class institutes in UAE.

#### **5. FREE TRADE AGREEMENT**

Since, UAE is a part of a bigger organization known as GCC (GULF COOPERATION COUNCIL). So INDIA has signed a free trade agreement with GCC. The first round of conference took place in Riyadh on 21-22 March 2006. The progress has been slow during the GCC members which is giving problems for their Indian counterpart's to get good access of petroleum products.

#### **6. AGREEMENTS AND POLICIES BETWEEN INDIA AND UAE**

1. Agreement to Combat Trafficking in Narcotic Drugs and Psychotropic substance.
2. Double Taxation Avoidance Agreement.
3. Cultural Cooperation Agreement.
4. Juridical and Judicial Cooperation in Civil and Commercial Matters for the service of Summons, Judicial Documents, Judicial Commissions, Execution of Judgments and Arbitral Awards
5. MoU for cooperation between ICWA and Emirates Center for Strategic Studies and Research (ECSSR) Extradition Treaty.
6. Agreement between Press Trust of India and Emirates News Agency (WAM) for mutual professional cooperation
7. MoU on Manpower Sourcing
8. Defense cooperation agreements.
9. Agreement on Mutual Legal Assistance in Civil and Criminal Matters Emirates.



SOURCE: WORLD TRADE ORGANIZATION

FIGURE: 4

UAE has sprung up to the top position beating CHINA, SAUDI ARABIA, SINGAPORE. Only USA is above UAE from the sources of world trade organization and would become the leading trade partner with India in the next decade.

## 7. ANALYSIS OF INDO-UAE TRADE RELATIONS

INDIA and UAE are now inching towards a good relation which includes not only trade relation but also include the culture & social aspects. To achieve this milestone INDIA and UAE have signed some special agreements which include a “BILATERAL INVESTMENT PROTECTION AGREEMENT” or BIPA.

The current BIPA agreement which was signed on 12<sup>th</sup> December 2013 will prove to be the crown jewel to the existing BIPA’s between the two countries. The BIPA agreement is signed under the “RIGHT TO INFORMATION ACT” by the Ministry of Finance. The agreement is recently been made public. The new BIPA agreement is signed despite the ongoing BIPA agreement between the two countries. This agreement was signed in the wake of public outcry for the alleged compensation which the INDIAN companies had to pay to their UAE counterpart’s due the terms and conditions of the existing BIPA agreements. There are more problems which the foreign investors face when they enter into the India markets.

### **OBLIGATION’s IN INVESTMENTS:**

INDIA-UAE investment agreements are been defined in the BIPA contract in its broadest form. Which means every kind of investments which the UAE government or their companies would do in INDIA which includes “every kind of assets” such as movable, Immovable property, shares, monetary claims, other interests in companies, intellectual property rights, technical know-how and goodwill. Now this contract does not include any limitations or exceptions of any kind. Which mean that in any case Indian government cannot disapprove certain kind of investments in India. Unlike many other developing nations which have limited or narrow forms of contracts with foreign nations which allow them to keep a tap on the investments which are coming to invest in their nation. In Indian context also a narrow agreement with UAE would have been more fruitful than a full fledged agreement with no boundaries.

### **EXPANSIVE OBLIGATION:**

The agreement between India and UAE has some off the standalone clause which are been interpreted by the foreign investors in a very expansive manner that is the BIPA agreement contains some of the binding and worrisome clauses like Most Favored Nation which means treatment of all nations equally plus this clause also incorporate National Treatment which says that foreign and local investors would be treated equally which can be a disadvantage for local investor. When

we take the international scenario's we see that the governments are adding some of the restrictive obligations in order to protect their local interest. While this kind of effort is not seen in the agreement with UAE. But the positive side of this agreement is that the double taxation laws have been removed so that mergers and acquisition can be held easily.

#### **TRANSFER OF PAYMENTS:**

The current BIPA agreement provides an instrument for unrestricted payment option (including initial capital, returns, earnings, royalties, fees) without any exception. This creates problem for India because it promotes black money and corruption because black money is taken out of India in form of capital gains, royalties and then this money is parked in foreign accounts and because UAE has low tax rates this money is then again sent to India in form of investments which is known as round tripping. This round tripping actually hides the identity of actual investor and then these investments get tax benefits from India government which promotes "hawala" in India. This creates a huge loss of tax money to the India exchequer. The Indian government should negotiate with UAE government in order to curb this illegal transfer of money. The government of India is now also proposing to set limit on royalties paid by the Indian subsidiaries to their parent companies in UAE. This move was triggered after the limits were taken in 2009 and there was a sudden reverse outflow of FDI in form of technology transfer, know how, usage of brand names. These outflow constituted 16-33% of the total inflow of FDI from UAE from 2010-2013.

### **8. IMPROVEMENT IN DISPUTE SETTLEMENT SYSTEM**

The India government under the BIPA agreement with UAE provides an explicit choice for the foreign investor for dispute settlement. The investor has two options whether to go with INDIAN courts for settlement or they can choose International courts like (uncitral or icsid). But if the investor files his petition in either forum than that choice would be final and binding for him. For eg. If the investor has filed his case in International court of arbitration then he cannot file his case in any local court or visa a versa. One more advantage for Indians is that the investor can only challenge any executive decision he is not eligible to challenge any action made by Judiciary of India and that to within 5 years.

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