

A natural partnership

“India and UAE are natural partners with several complementarities and hardly any elements of competition. The CEPA (trade agreement between the two nations) is a milestone in the bilateral relationship and aspires to establish a new era of progress and prosperity for both nations.”

- UAE's Minister of Economy, Abdulla bin Touq Al Marri

In February 2022, several months of escalating tensions culminated with Russian forces invading Ukraine in the largest attack on a European nation since World War II. The US and EU (the ‘Western bloc’) were quick to condemn this provocation and impose a barrage of sanctions on Russia. These ranged from a ‘SWIFT’ ban on energy imports to ordering Western businesses to exit the country.

Sanctions have resulted in squeals of outrage from Russia and its allies (the ‘Eastern bloc’). The Chinese foreign minister immediately reaffirmed that China’s relationship with Russia is “rock solid.” He elaborated, “No matter how sinister the international situation is, both China and Russia will maintain their strategic determination and continuously push forward the comprehensive strategic partnership of coordination in the new era.”

Global leaders have been compelled to react at short notice, keeping foreign policy and economic compulsions in mind. In a bold display of decisiveness, Imran Khan flew to Moscow on the day of the invasion, displaying solidarity with the Russian czar. Little did he realize that the move would later cost him his seat as Prime Minister of Pakistan.

Perhaps counterintuitively, Narendra Modi remained nonplussed and carried on with his urgent business of finalizing a trade agreement with the UAE (an economy one-sixth the size of India’s). One might imagine that India may instead have chosen to prioritize either military purchases from its biggest defense supplier (Russia) or commercial agreements with its largest trading partner (the US). In the backdrop of the possible incipience of World War III, why did India focus on this partnership with such determination, alacrity and haste?

CEPA – A path-breaking trade agreement between India and the UAE

On February 18th, India and the UAE signed a historic trade agreement, the Comprehensive Economic Partnership Agreement (‘CEPA’), negotiated in 88 days – a record for the fastest trade deal!

The CEPA is structured to facilitate investment flows and enable access to a larger pact with other Gulf Cooperation Council (GCC) nations. Under the agreement, 97% of Indian products and 90% of the UAE’s will get zero-duty access to one another’s markets.

UAE is already India’s third-largest trading partner (after the US and EU) and second-largest export partner. Leveraging CEPA, India intends to increase non-oil trade with the UAE from the current ~\$43 billion to \$100 billion by 2030. Since India is a dominant producer of many items, duty-free access is clearly beneficial to India’s industrial base and export story. India expects this deal to generate 1 million jobs across sectors including textiles, footwear, pharmaceuticals, agriculture products, medical devices, sports goods, and automobiles.

With a solid manufacturing base and a 430 million-strong labor force (around 20% larger than the US and EU’s combined workforce and available at 1/10th the cost), Modi aspires to dethrone China as the world’s factory. India, however, lacks the infrastructural might of the Chinese juggernaut. While 7 of the 10 largest ports (by capacity) are Chinese, the largest Indian port does not even make it to the top 30!

Aside from sharing a common heritage and longstanding friendship, the UAE perfectly complements India’s shortcomings. Jebel Ali, the world’s 10th largest port located 30 minutes outside Dubai, already serves as India’s export engine. Smaller ships and barges sail into Jebel Ali from numerous ports on India’s western coastline in as little as 5 days. Goods are then loaded onto the Ultra Large Container Vessels that traverse the world’s waterways, delivering products with efficiency, volume, and frequency.

The obvious question then is: What’s in it for the UAE?

The not-so-obvious answer: The UAE needs India as much. The CEPA is UAE’s first-ever free trade agreement with any country, emphasizing India’s critical role in the UAE’s economic development. India is the UAE’s second-largest trading partner and plays an integral role in Jebel Ali’s existence. Despite its economic might, the UAE lacks the workforce, technical expertise, and manufacturing capacities that India boasts.

Aside from trade relations, 40% of the UAE's population is Indian and Hindi/Urdu is spoken by ~70% of the population (including most locals and all resident Pakistanis). Considering ~50% of India's outbound air passengers are headed to the Middle East, there is definite truth to the jokes about Emirates Airlines being India's national carrier and Dubai being India's cleanest city.

Through CEPA, UAE companies will have frictionless access to the fifth-largest economy globally, investment opportunities across sectors, and access to government procurement for the first time. The UAE will benefit from greater trade volumes and 140,000 jobs created in priority sectors.

In the context of the Russia-Ukraine war, the importance of CEPA has been amplified. In addition to furthering mutual and complementary economic agendas, India and UAE, by maintaining neutrality across the ideological spectrum, have positioned themselves as a conduit straddling the Eastern and Western blocs. The economic and political unity of the two allows their combination to become the perfect supplier (manufacturing + distribution) to countries irrespective of political alliances.

India-UAE: A natural partnership

Today, Indian businesses consider the UAE an extended base of operations, leveraging the ease of doing business and proximity to world markets. 26,000 Indian companies have a major presence in the UAE, with 42,000 companies registered in the UAE being owned and operated by non-resident Indian nationals. Non-resident Indians in the UAE annually remit \$15 billion home, 17% of India's \$87 billion annual remittance receipts.

To the UAE, India offers a lucrative opportunity set, as evidenced by recent landmark investments. In June 2020, Mubadala (the UAE's sovereign fund) invested \$1.2 billion in Indian telecom and digital services firm Jio Platforms (a Reliance group company). This year, it has led an investment round of over \$0.5 billion in Tata Power, India's largest power generation company. DP World, Jebel Ali's parent company, has invested \$1.2 billion into six terminals across several Indian ports. As part of the UAE's National Strategy for Food Security, UAE companies have committed to invest \$7 billion in a food corridor with India.

In an acceleration of investments since the announcement of CEPA, Sheikh Tahnoun bin Zayed Al Nahyan, the brother of the Crown Prince of Abu Dhabi, announced a \$2 billion personal investment into the Adani Group. Not one to be outdone, Reliance Industries countered by announcing a \$2 billion joint venture with the Abu Dhabi Government, which will manufacture PVC¹ in Abu Dhabi using inexpensive power and feedstock and then import the entire output into India, avoiding all duties.

Rejuvenating the bond

The India-UAE trading relationship stretches back centuries to the days of the barter system. In the days of British rule, the administrative territory of the 'Bombay Presidency' extended as far as Yemen. From the 19th century all the way till 1966, the official currency of numerous Middle Eastern countries, including the UAE, Oman, Yemen, Kuwait, Qatar, and Bahrain, was the Indian Rupee and its RBI-issued successor, the 'Gulf Rupee.'

Notwithstanding the long history, recent Indian governments had treated the UAE with suspicion - as a mere trading outpost for cheap electronics or a tax haven at best. When Modi visited the UAE soon after his election, it marked the first visit by any Indian Prime Minister in 34 years!

Conversely, India was viewed with disdain and simply as a source of cheap unskilled labor, whereas American and British executives were courted by the UAE for their technical skills, management acumen, and vision. Foreign policies were previously guided by the politics of oil, particularly when the US was an energy importer. Today, however, the UAE's focus is on developing technical and manufacturing capabilities and moving away from energy dependence. India has reciprocated by announcing that the first international campus of IIT² will be in the UAE!

The tides are changing. There is now newfound mutual respect between the nations amidst the realization that our fortunes are inextricably intertwined. Together, India and the UAE hope to stand for neutrality and free trade in an otherwise bipolar world. CEPA has solidified the relationship at the government level, and we now expect Indian businesses to treat Dubai as a core part of their expansion strategy.

In the years to come, perhaps we shall see a new metaphor develop in the India-UAE lexicon: DIFC³ is the nicest business district in Mumbai!

¹ PVC is poly vinyl chloride, the critical material used to make plastic pipes essential for the construction industry.

² IIT refers to the Indian Institute of Technology which is credited with the training of generations of India's technical talent.

³ DIFC refers to the Dubai International Financial Centre, the key business district at the heart of downtown Dubai.