INDIA’S TRADE RELATIONSHIP WITH UNITED ARAB EMIRATES (UAE) AFTER LIBERALIZATION

SYNOPSIS

Introduction

India’s relationship with Arab countries has been high on promise and is sustained on the possibility of one day fulfilling that promise. Geographically, West Asia is regarded as an “extended neighborhood” of India. Despite cultural confluence and commercial exchanges between the two regions dating as far back as third millennium BC, the evolutions of India-Arab relationship has been a progression of shifting perceptions that was not always positive. Thus, strategic economic and cultural gains on both sides are compromised when the states involved are unsure of each other’s attitude and intentions and instead invest their good will and capital on a more trustworthy ally. This is what stands in the way of durable, multifaceted India-Arab ties.

India shares a special relationship with the gulf region both in terms of culture and Trade. UAE is a country in our own backyard. The Middle East people have the Asian mentality and India shares the cultural affinity with the gulf. Language is another factor that connects the two nations.

The India-UAE trade, commerce and tourism relations have been gaining momentum and there is no negative effect of the
global financial meltdown on the bilateral ties that have been seen so far. The area of globalization has created fresh opportunities and new challenges which India and the UAE can jointly face through enhanced co-operation for mutual benefit.

**Trade Dimensions and Growth Trends**

Poised for exponential growth India and the UAE’s are rediscovering each other as valued economic partners. Indian companies are arriving in the UAE in droves as the country has already positioned itself as a major global destination of trade investments and services. As India develops at feverish pace, its appetite for energy is also growing dramatically. This has begun to show in the rapidly evolving relationship between New Delhi and Abu Dhabi; according to the information provided by the UAE Ministry of Information and Culture, India is now ahead of Japan as “the leading export market for Abu Dhabi’s refined products, absorbing over half of its gas-oil exports as well as substantial volumes of Kerosene and LPG”.

India’s trade with UAE is expanding at an astounding pace. Non-oil trade routed through Dubai has risen by 336 per cent over the last 5 years. Total trade between Dubai and India covering a period of 5 years from 2002 to 2006 soared from $2.5 billion to a high of $10.9 billion. Total non-oil trade between India and the UAE is now estimated at $ 18 billion.
Exports Composition from INDIA to UAE and Imports Composition of India from UAE

The areas in which India’s exports to the UAE are well diversified, includes

- Gems jewellery
- Vegetables
- Fruits
- Spices
- Engineering goods
- Tea
- Meat and its preparations
- Rice
- Textiles
- Apparel and chemicals
- Raw cotton and RMG cotton
- Accessories
- Manmade yarn
- Manufacture of metals
- Fabrics and made ups
- Marine products
- Machinery and instrument
- Plastic products.

Imports composition of India from UAE. Major items of Imports excluding oil imports comprise of
 Pearls, precious/semi precious stones, gold
 Pulp and wastepaper
 Sulphur and unroasted iron pyrites
 Metalifer ore and metal scrap
 Organic/inorganic chemicals etc.

**Growth Trends India - UAE Trade**

The following table provides details about the growth trends of India-UAE trade between 2004-05 and 2008-09.

**INDIA’S TRADE WITH UAE (US $ Million)**

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>EXPORT</td>
<td>7,347.88</td>
<td>8,591.79</td>
<td>12,021.77</td>
<td>15,636.91</td>
</tr>
<tr>
<td>2.</td>
<td>%Growth</td>
<td>16.93</td>
<td>39.92</td>
<td>30.07</td>
<td>56.54</td>
</tr>
<tr>
<td>3.</td>
<td>India's Total Export</td>
<td>83,535.94</td>
<td>103,090.53</td>
<td>163,132.18</td>
<td>185,295.36</td>
</tr>
<tr>
<td>4.</td>
<td>%Growth</td>
<td>23.41</td>
<td>22.62</td>
<td>29.05</td>
<td>13.59</td>
</tr>
<tr>
<td>5.</td>
<td>%Share</td>
<td>8.80</td>
<td>8.33</td>
<td>9.51</td>
<td>9.59</td>
</tr>
<tr>
<td>6.</td>
<td>IMPORT</td>
<td>4,641.10</td>
<td>4,354.08</td>
<td>8,655.28</td>
<td>13,482.61</td>
</tr>
<tr>
<td>7.</td>
<td>%Growth</td>
<td>-6.18</td>
<td>98.79</td>
<td>55.77</td>
<td>76.46</td>
</tr>
<tr>
<td>8.</td>
<td>India’s Total Import</td>
<td>111,517.43</td>
<td>149,165.73</td>
<td>251,654.01</td>
<td>303,696.31</td>
</tr>
<tr>
<td>9.</td>
<td>%Growth</td>
<td>33.76</td>
<td>24.52</td>
<td>35.49</td>
<td>20.68</td>
</tr>
<tr>
<td>10.</td>
<td>%Share</td>
<td>4.16</td>
<td>2.92</td>
<td>4.66</td>
<td>5.36</td>
</tr>
<tr>
<td>11.</td>
<td>TOTAL TRADE</td>
<td>11,988.98</td>
<td>12,945.87</td>
<td>20,677.05</td>
<td>29,119.52</td>
</tr>
<tr>
<td>12.</td>
<td>%Growth</td>
<td>7.98</td>
<td>59.72</td>
<td>40.83</td>
<td>65.76</td>
</tr>
<tr>
<td>13.</td>
<td>India’s Total Trade</td>
<td>195,053.37</td>
<td>252,256.26</td>
<td>414,786.19</td>
<td>488,991.67</td>
</tr>
<tr>
<td>14.</td>
<td>%Growth</td>
<td>29.33</td>
<td>23.74</td>
<td>32.88</td>
<td>17.89</td>
</tr>
<tr>
<td>15.</td>
<td>%Share</td>
<td>6.15</td>
<td>5.13</td>
<td>6.62</td>
<td>7.02</td>
</tr>
<tr>
<td>16.</td>
<td>TRADE BALANCE</td>
<td>2,706.78</td>
<td>4,237.71</td>
<td>3,366.50</td>
<td>2,154.30</td>
</tr>
<tr>
<td>17.</td>
<td>India’s Trade Balance</td>
<td>-27,981.49</td>
<td>-46,075.20</td>
<td>-59,321.19</td>
<td>-88,521.83</td>
</tr>
</tbody>
</table>

Source: FIEO News, May 2010

There has been a substantial increase in India’s trade with UAE during the 5 years from 2004-05 to 2008-09. Exports from
India to UAE rose from USD 7347.88 million in 2004-05 to USD 24477.48 million. Imports from UAE rose from USD 4641.10 million in 2004-05 to USD 23791.25 million in 2008-09. India’s total trade with UAE rose from USD 11988.98 million in 2004-05 to USD 48268.72 million in 2008-09. India’s trade balance shows a decline from USD 2706.78 million in 2004-05 to USD 686.23 million in 2008-09.

**Scope of the Study and Need for Research**

United Arab Emirates is India’s top most trading partner in the entire WANA region Indian exports to UAE accounts for 6 per cent of India’s global exports. Approximately 50 per cent of India’s oil resources are derived from the Gulf Countries. There is thus a high degree of trade and economic complementarity and interdependence between India and UAE. The two way trade between India and the United Arab Emirates (UAE) is expected to exceed $ 25 billion from the current level of $ 19 billion with trade balance remaining in India’s favour. The trend would continue and even intensify in future as close linkages are established both bilaterally and diplomatically.

There has been good achievements in terms of trade diversification - both export and import composition - between India and UAE. These trends indicate vast possibilities of further growth in trade and economic cooperation between the two countries. Hence, the study tries to analyse all the aspects between these two
countries and the areas of further growth in this vital trade sector in the wake of the globalized and liberalized world economic scenario.

Despite some very useful benefits of the mutual trade relations between India and UAE there are some areas of concern which needs to be improved and addressed so that suitable policies could be devised to promote the mutual trade of India and UAE. The problem of severe competition from the Asian and advanced countries of the west is a matter of concern. There are also the problems of infrastructure and logistics as major hindrances to exports. International trade is an extremely competitive and dynamic arena. It is therefore essential that Indian traders need to be more concerned about the quality aspects of our exports trade with UAE. The researcher has chosen the research work to analyze the entire spectrum of Indo-UAE trade relations keeping in view of the prospects and possibilities of future trade relationship with the UAE in the post liberalization context. Hence the research problem is stated as under “India’s Trade Relationship with United Arab Emirates (UAE) after Liberalization”.

**Review of Literature**

Sujitha Beevi Karayil (2007) in the article “Does Migration Matter in Trade – A Study of India’s Exports to the GCC Countries” has examined India’s exports to the Gulf Cooperation Council (GCC) countries with special focus on the influence of migration. The author has analysed the demand pattern of GCC as represented by
its important structure with a view to explain the growing orientation of India’s exports towards the Gulf countries, import structure reveals the influence of the Indian Diaspora and the possible migration trade link. The author has verified the hypothesis of migration trade nexus using a longitudinal gravity type model. The econometric evidence also illustrates the strong immigrant preference effect for their home country products. The author has thus concluded that the preference similarity mechanism is seen to work in India – GCC context despite violation of its crucial assumption of income similarity. Overall the study brings out the importance of migrant population as a unique source of advantage for India’s exports to the region.

Atul Aneja (2008) in his article “India’s Trade with UAE on High Growth Path” has indicated that poised for exponential growth of India and the United Arab Emirates (UAE) are rediscovering each other as valued economic partners. Indian companies are arriving in the UAE in droves as the country has already positioned itself as a major global destination of trade, investments and services. The author has tried to link up the fast growing Indian economy with greater need for energy which UAE is in a position to meet with its rich oil deposits. The author has referred to the information provided by the UAE Government. He has mentioned that India is now ahead of Japan as the leading export market for Abu Dhabi’s refined products, substantial volumes of Kerosene and LPG.
Covering a period of 5 years from 2002 to 2006 total trade between Dubai and India soared from $2.5 billion to a high of $10.9 billion. Indian firms have moved a big way to the free zones set up in the UAE in order to take advantage of the liberalized business environment that prevails there.

Azhar Muhammad (2003) in his analysis of “Economic Cooperation between India and the United Arab Emirates in the 1990s” has observed that trade and other forms of economic cooperation between India and the United Arab Emirates are sizeable. The author has mentioned that empirically it has been observed that Indo-UAE trade during the period of analysis increased faster than the increase in both UAE and Indian trade with the world. Further Indian exports during the period to UAE grew rapidly compared with the growth in Indian global exports. Despite these positive trends India has had a persistent balance of trade deficit with the UAE. However UAE is a host to over 0.4 million Indian expatriates who are an important source of foreign exchange earnings for India. UAE is important as far as remittances inflow is concerned. UAE extended financial aid to India during massive oil revenue in 1970s and 1980s though financial aid ceased when oil revenues declined. India and the UAE have excelled in establishing joint ventures. The overall performance of Indo-UAE economic cooperation during the study period has been found satisfactory according to the author. However the author perceives that India
has to make further efforts to enhance its exports and other areas of trade to improve economic cooperation between the two countries.

A.K. Pasha (2005) in his article “Trade Energy and Labour Dominate GCC – India Ties” has observed that GCC – India relations have continued to expand in new areas, while the consolidation process in other areas accelerated. India’s largest trading partner in the GCC has been the UAE. In order to expand the range of products that India can export the second Amazing India – 2005 exhibition – a show case of products and services from India opened in Dubai. The author has further observed that the earlier trade exhibitions have been quite successful in strengthening trade and economic ties between the two countries. It is interesting to note that growth in the field of information technology exports has also been significant. The author has predicted great strides in the growth of trade in services like shipping, air services and in gas supply from Qatar to India and in banking, etc.

Samir Ranjan Pradhan (2006) in his report “India’s Export Potential to the Gulf Cooperation Council (GCC) Countries : A Gravity Model Analysis” has provided some significant trends regarding India’s export potentials in the GCC countries. The author says that his workhorse (augmented) gravity model shows that the magnitude of export potential is highest with Oman followed by Qatar, Bahrain and Kuwait. He further says that all the model
specifications consistently show no export potential with UAE and Saudi Arabia. This implies that currently India is overtraded with UAE and Saudi Arabia and they are the largest two trading partners of India in the GCC and India’s export trade is not diversified and confined to limited number of items. Moreover the results show sharp increase in the magnitude of India’s export potentials in Oman, Qatar, Bahrain and Kuwait. In addition the study shows similar trends of India’s export potentials to the GCC countries.

**Objectives**

The study is conducted with the following objectives,

1. To study India’s trade relationship with the United Arab Emirates during the post liberalization period.
2. To examine the socio-economic profile of United Arab Emirates and India as a backdrop for the growing trade dimensions between the two countries.
3. To analyse the structural dimensions of India’s export trade with the United Arab Emirates during the post liberalization period and to assess the future growth trends during the coming decade.
4. To appraise structural dimensions of India’s import trade with United Arab Emirates during the post liberalization period and to estimate the future import growth from United Arab Emirates.
5. To identify the areas of concern and to suggest suitable measures for promoting India-UAE trade relationship.
Hypotheses

The following hypotheses have been verified in the light of research findings.

1. There is greater deeper of concentration rather than diversification in exports and imports trade between India and United Arab Emirates.

2. Re-exports from United Arab Emirates were lower than its non-oil exports to India.

3. India’s unfavourable trade balance with United Arab Emirates has been due to heavy oil imports from the latter.

Limitations of the Study

The study is conducted with the following limitations.

1. The study covers two countries India and UAE only.

2. The data relates to a period from 1995-96 to 2010-11 only.

3. The analysis of export, import trade between India and UAE covers only major commodities traded between the two countries.

Methodology

The present study is a macro analysis of India’s Trade Relations with United Arab Emirates – The study is obviously based on secondary data.

Choice of Study Units

The study covers two trading countries India and UAE. The choice of UAE for the analysis of its trade relations with India is made on the existing complementarity in trade and economy
between UAE and India. Hence this important oil rich gulf country is selected for the study.

**Data Base**

The data for the analysis of trade statistics is obtained from the official sources like Directorate General of Commercial Intelligence and Statistics, Government of India, the Trade Associations, Ministry of Foreign Trade, Govt. of India, and the UAE etc. The data pertaining to the exports and imports to and from UAE is analysed from 1995-96 to 2010-11.

**Data Analysis**

The data obtained from the published sources shall be compiled in suitable tables so as to arrive at appropriate inferences and conclusions. Simple statistical tools like percentages, averages, growth rates etc. shall be used for drawing conclusions. Other statistical tools like Chi-square ANOVA etc. shall be used if necessary to arrive at precise conclusions.

**Organization of the Study**

The research study is presented in the following six chapters.

*Chapter-I : Introduction and Research Design*

The discussion in this chapter is focused on highlighting the significance of trade and economic relationship between India and the United Arab Emirates. The trade potentials between the two countries have been analysed in brief as a backdrop for a detailed analysis in the core chapters of the present study. The research
design adopted for the analysis and data interpretation has been provided along with the objectives of the study, hypotheses, methodology of data collection, data analysis, etc.

Chapter-II : Review of Literature

A comprehensive review of the contemporary literature relevant to the topic of research has been made in this chapter. Research articles published in journals and a few studies made on the trade relationship of United Arab Emirates with India and other countries have been reviewed here.

Chapter-III : Socio-economic Profile of the Study Area

The discussion in this chapter is devoted for providing a background of the socio-economic environment of the two trading partners viz., United Arab Emirates and India. The discussion provides a good backdrop for analysis of the research topic.

Chapter-IV : Dimensions of India’s Export Trade with United Arab Emirates – An Analysis

The analysis in this chapter pertaining to quantitative growth of India’s exports trade with the United Arab Emirates during the second half of 90s and the first decade of the new millennium. The second part of the analysis is related to the significance of the position of UAE in relation to the other major trade partners of India in its export trade. UAE’s rank in the export trade of India during the last 15 years along with other major trade partners of India has
been highlighted. The third part of this chapter relates to the commodity composition of India’s export to UAE.

Chapter-V : Dimensions of India’s Import Trade with United Arab Emirates – An Analysis

The main thrust of this second core chapter is related to an in-depth analysis of India’s growing import trade with UAE during the last 15 years. The analysis is both quantitative and commodity wise growth of India’s import trade with UAE.

Chapter-VI : Summary of Conclusions and Suggestions

This last part of the thesis contains a summary of conclusions and suggestions based on the findings of the research study.

**Major Findings of the Study**

The following major findings have been revealed by the study.

- A continuous uptrend in India’s exports to UAE is observed during a decade and a half from 1996-97 to 2010-11.
- India’s export trade with UAE, during the post liberalization period is indicated both in terms of the share of UAEs in India’s total exports and also in terms of the growth rate of India’s exports to UAEs.
- The growth rate of UAEs share in India’s total exports has been higher than the growth rate of India’s total exports during the same period.
- The significance of India’s exports trade with UAEs is clear from the fact that UAE has emerged as the largest market for India’s
exports since 2008-09. It is significant to note that UAE ranked 6\textsuperscript{th} in terms of export market for India in 1997-98 after USA, UK, Hong Kong, Germany and Japan. However UAE improved its position to 3\textsuperscript{rd} rank in 1998-99 and rose further to 2\textsuperscript{nd} rank in 2001-02 ultimately UAE occupied the first rank since 2008-09 till today.

- Major commodities of exports from India to UAE include gems and jewellery, chemicals and allied products, engineering goods, cotton yarn fabrics and made ups, readymade garments, cashew including cashew nuts and shell and liquid, marine products, tea, rice, tobacco and spices.

- The commodity composition of India’s exports to UAE indicate a mixture of traditional and non-traditional goods. This reflects the trend of product diversification of India’s export trade with UAE. Such diversified export trade ensures stability of export earnings and a sustained trade relationship.

- The fast growing economy of India has led to increased demand for its energy needs which UAE is in a position to meet. The industrial development initiated in UAE has enlarged the scope for increased demand for industrial inputs which India can meet from various manufacturing units in the country. This has led to increased complementarity in trade and economic cooperation between two countries.
India’s imports from UAE in total imports rose from 1.30 percent in 2000-01 to 7.91 percent in 2010-11. Growth of UAEs share in India’s imports has fluctuated from -67.10 percent in 2000-01 to 125.31 percent in 2004-05 and decline to -18.04 percent in 2009-10.

UAE was not an important source of imports for India till 2003-04. However UAE became the 4th important source of India’s imports in 2004-05. Further it was relegated to 5th position in 2006-07. The increased oil imports enhanced its rank to 4th place in 2007-08. UAE has become the second largest source of imports for India since 2008-09 and holds the same place next only to China.

Commodity composition of India’s imports from UAE comprises of mineral fuels, mineral oils and products of their distillation, etc., natural or cultural pearls, precious or semi-precious stones, imitation jewellery, iron and steel, aluminium and articles thereof, electrical machinery and equipment, sound recorders, copper and articles thereof, ships, boats and floating structures, fertilizers, plastic and articles, etc.

The commodity composition of imports from UAE to India indicates that the imports trade with UAE has been widely diversified.

Oil imports from UAE constitute the single largest item imported by India. UAE is the fourth important source of oil imports for
India after Saudi Arabia, Iran and Kuwait. Oil imports from UAE rose from 153 thousand barrel per day in 2001-02 to 295 thousand barrel per day in 2010-11.

- India’s imports from UAE in the form of re-exports have been increasing fast. UAE is emerging as the third important centre of re-exports after Hong Kong and Singapore. UAE’s re-exports to India have been more than the non-oil imports from UAE in recent years.

**Suggestions**

India is one of the important trade partners with United Arab Emirates. UAE is one of the top export destinations for India next to USA and China. Similarly UAE’s happens to be one of the most important sources of imports for India particularly for her energy requirements of petroleum crude and products. In view of these important considerations there is an urgent need for further enhancement of India’s trade relations with the UAE’s. The study has revealed some areas of vital importance in this context and the following suggestions have been offered for further improvement of India-UAE’s trade and economic relationship.

A Free Trade Agreement (FTA) with UAE’s will boost the economic ties between the two countries. FTA could help to boost the bilateral investment that will unlock greater growth opportunities for both the countries. FTA between the countries would bring about the following benefits to the two countries.
The FTA will eliminate tariff and non-tariff barriers in the trade of goods as well as simplifying customs procedures.

Provision of clear guidelines will be imposed on the rules of origin.

Ease of entry of financial services institutions in each others jurisdiction.

Favourable arrangements for both foreign direct investment and portfolio investment.

Protection of intellectual property and commitments that go beyond existing TRIPS obligations.

Promote an improved business environment with greater competition.

The creation of appropriate mechanisms of dispute resolution.

In the proposal FTA India can seek greater safeguards for its chemicals and petrochemicals industry. This can be done with a view to protect domestic players who would find it difficult to handle competition as the cost of crude oil is extremely low in GCC.

India is known to have considerable expertise in the renewable energy sector, UAE wants collaboration in this sector, if both the countries working together in the renewable energy sector will bring India and UAE much closer and also new business opportunities for India in the future.

As far as UAE is concerned there are many opportunities for investment in the entire value chain for petroleum, including
refining, product pipelines, storage and retail as well as for natural gas. This can be utilized by India that will help to improve the India-UAE bilateral trade further.

- India’s liberal economic policies and its growing middle class over the next decade India would need around 500 billion in the infrastructure sector alone and UAE investors should look at becoming major players in this area. If Dubai can provide world class facilities and training in film making, many Indian producers and film makers would like to come there for producing their films by using available sophisticated facilities.

- India’s trade between the UAE and other Arab nations is expected to grow in the coming years with the enforcement of the GCC customs union and wider implementation of the Arab free trade zone.

- India and UAE reinforce, bilateral relations between them by exploring opportunities in aviation, investment and growth industries. By improving the communications between the business communities of both the countries can strengthen the trade relationship between the two countries. The cross investments of UAE and Indian companies cover various and diverse vital sectors such as industry, energy, finance and communications. Indian companies have to take advantage of the benefits offered by the UAE to achieve their respective organizational goals. The importance of good communications
between the private sectors of both countries as well as constant participation in fairs and forums hosted by the UAE, have been attracting strong international attendance. That events hosted by the emirates provide the perfect platform for establishing solid economic and trade partnerships between the two countries in particular and between the two countries and the world in general.

- India and the UAE can boost economic and trade ties by harnessing each others potentials in new economy sectors like Information and Communications Technology (ICT) Dubai governments initiatives to boost “the development of the knowledge economy in the region”. India is one of the key target markets for Dubai media and Internet city, and it shares a special relationship with the Indian ICT and media industry.

- Trade investment between UAE and India will get a boost upon signing of the new investment protection and double taxes agreement between the two countries.

- The food security for Gulf and energy security for India are the opportunities for both sides, which can be leveraged, to mutual advantage. Energy security and infrastructure are the main foundations on which the relations between India and UAE will forward.

- The future expansion of trade and economic relations between India and UAE’s should take into considerations the mutual
complementarity and comparative advantages in their export and import trade. In this context tourism sector in India is one of the areas that has good potentials for future growth especially medical tourism. Another area with considerable scope for cooperation in tourism is construction and maintenance of hotels. There is good scope for UAE to invest in the overall tourism sector in India which would help to pull tourists visiting UAE to India as well.

➢ UAE is focusing on knowledge based industries and with India emerging as world leaders in space, agriculture, pharmaceuticals and bio-technology there is a considerable scope for cooperation in technology transfer, R&D and for joint ventures. Both countries can cooperate with each other in bilaterally and regionally in defence and security issues and become partners in the global fight against terrorism and extremism.

References


Research Scholar

Research Guide
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