



Facilitating Gems and Jewellery Exports Through Trade Agreements: India-UAE Comprehensive Economic Partnership Agreement (CEPA)

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As India embarks on the path of signing trade agreements with its key export markets, exporters are optimistic about the benefits of tariff reduction on enhancing their export competitiveness in markets such as the United Arab Emirates (UAE). After the India-UAE Comprehensive Economic Partnership Agreement (CEPA) came into effect on May 01, 2022, there has been a surge in gems and jewellery exports to the UAE. For example, exports of 'gold jewellery' saw an increase of 17 percent, from April to June 2022, compared to a fall of 37 percent between April and June in 2021. The CEPA agreement reduced the import duty on jewellery, including 'gold jewellery' and 'cut and polished diamonds,' exported from India to the UAE, from five percent to zero. This seems to have helped the Indian exporters who have been facing a tough time due to the COVID-19

pandemic related supply chain disruption and growing competition from certain countries like the Turkey in light weight gold jewellery.

While there seems to be an immediate gain, an impact of any trade agreement must be looked in the context of rise in exports, imports, development of value chains and in attracting investment. In the case of gems and jewellery, India does not have the key raw materials, and is a net importer of gold and diamond. India is among the top global processing hubs. Under the India-UAE CEPA, India has given phased tariff elimination and specified tariff rate quota for imports from UAE. 'Gold jewellery' imports are now allowed, up to 2.5 tonnes, at one percent duty less than applicable, over 10 years. For other jewellery items such as 'cut and polished diamonds', select 'coloured

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gemstones', India has offered phased tariff reduction. Over a 10-year period, the current effective rate of 7.5 percent will be reduced to 0 percent, for these subcategories of jewellery. Being a major importer of 'unwrought gold' (HS code 71081200) and 'unset/unworked diamonds' (HS code 71023100), India reduced the tariff imposed on these goods. While for 'unwrought gold' imports, India offered tariff relief of one percent in absolute percentage terms and imposed a tariff rate quota of 200 tonnes over 5 years. The lower import duties on raw materials are expected to help in lowering the cost of production, improve the competitiveness of manufacturing and boost exports. The UAE can be used as a base to cater to third country markets like Africa. However, the overall benefits of this agreement will depend upon enhancing export competitiveness and value addition in the country.

India's Gems and Jewellery Trade and the UAE

To understand the benefits of the CEPA with the UAE for the gems and jewellery sector, it is important to examine India's global trade,

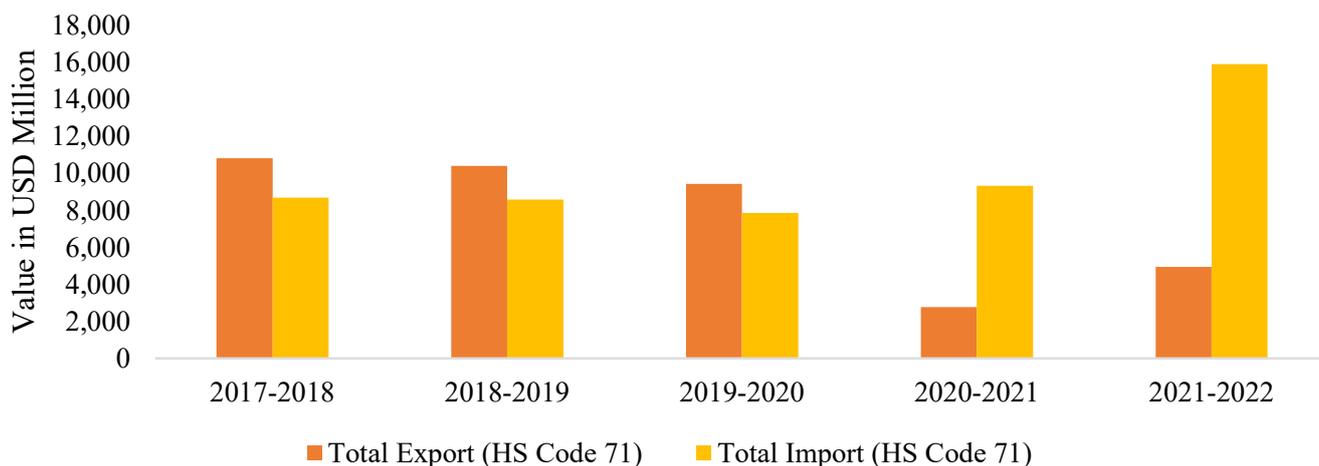


trade with the UAE, strength of our competitors, and how India can enhance its export competitiveness. India is a key player in global gems and jewellery trade. With a rank of 6 globally and exports worth USD38.16 billion in 2021, India accounted for 5.31 percent of the total global exports of gems and jewellery. By product categories, in the same year, India was the top most exporter of 'cut and polished diamonds' (HS code 710239), with a share of 35.7 percent in the global exports, second-largest exporter of 'plain and studded silver jewellery' (HS code 711311), with share of 24.7 percent, and the fourth largest exporter of 'plain and studded gold jewellery' (HS code 711319) with a share of 10.7 percent. There has been an overall increase in exports as global trade recovers from the pandemic induced disruptions - the export value increased by 50 percent between 2020-21 to 2021-22. Over 84 percent of the exports from India were accounted by five export destinations namely, the United States of America (USA), Hong Kong, UAE, Belgium and Israel. India is a net importer of gems and jewellery and had a negative trade balance of USD42395 million in 2021-22. The top five destination

for imports were Switzerland, UAE, USA, Hong Kong, and Belgium, which together accounted for 67.8 percent of the total jewellery import in 2021-22.

The share of UAE in India's gems and jewellery trade (exports and imports) is thus significant. With a share of 12.61 percent in India's jewellery exports, UAE was the third largest export destination of India in 2021-22. Exports increased from USD2773.7 million in 2020-21 to USD4953.11 million in 2021-22. Of the total jewellery exported to UAE, 'gold jewellery' (HS code 711319) accounted for over 55 percent of the exports, followed by 'cut and polished diamonds' (HS code 710239), at 33 percent. The jewellery exports to the UAE have seen a decline in 2020-21 (see Figure 1). Apart from supply chain disruptions, high import duty in the UAE, increasing competition from Turkey, in the 'light weight gold jewellery' segment, withdrawal of fiscal incentives given to SEZs and uncertainty of the SEZ policy has been cited as some of the reasons for fall in exports by Indian firms, during a survey conducted by the authors in 2021.

Figure 1: India’s Export and Import of Gems and Jewellery with UAE over 5 Years



Source: Extracted and Compiled from Export-Import Data Bank, Department of Commerce, Ministry of Commerce and Industry, Government of India. Available at <https://tradestat.commerce.gov.in/> (last accessed September 1, 2022)

Note: HS Code 71: Natural or cultured pearls, precious or semi-precious stones, precious metals, metals clad with precious metal, and articles thereof; imitation jewellery; coin



Almost 91 percent of the gems and jewellery imports from UAE comprised of raw material/intermediate goods for manufacturing jewellery. ‘Diamonds, not mounted/set, unworked (HS code 710231)’, accounted for 57 percent of the imports, and ‘gold, other unwrought forms (HS code 710812)’ accounted for 34 percent of imports from UAE in 2021-22. The ‘gold jewellery (HS code 711319)’

constituted only 1.10 percent of imports in 2021-22. Thus, the negative trade balance and rise in imports from the UAE may not be a cause for concern for policymakers as raw material and intermediate imports may facilitate more value addition in the country.

The Way Forward

While tariff reduction under the trade agreement seems to have helped to enhance the export competitiveness, there are certain concerns. First, firms located in special economic zones in countries like China, Philippines and Turkey are cushioned against the seasonality in export demand as the policy allow them to cater to the domestic tariff area (DTA). Unlike them, at present, there is no policy on reverse job work in the existing SEZ regulation in India. In reverse job work, a unit in SEZ can undertake job work for the DTA, including after sales services. The Development of Enterprise and Service Hubs (DESH) Bill 2022, which is expected to be tabled at the winter session of the Parliament,

proposes to allow reverse job work, which will benefit the industry.

Second, as India sign trade agreements, units in Indian SEZs are not in an equal position vis-à-vis the units located in our FTA partner countries as the units in FTA partner countries enjoy zero duty exports to India, while the units in SEZs have to pay autonomous tariff on sales to the DTA. This should be addressed to ensure more value addition in the country. Third, there has been significant innovation in design and use of technology in competing countries like Turkey due to which Turkey has become a dominant player in the global gold jewellery market, taking away the export competitiveness of India. Indian firms need to innovate and upgrade to meet such competition. There is need for brand-building, marketing and promotion. All these factors together will help to enhance the future exports from India.