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EDITORIAL ANALYSIS

How the India-UAE Gold-Trade Deal Worsened the Import Bill

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 The Indian Express

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INTERVIEW ANGLE

"Should FTAs carry built-in sunset clauses for product categories that perform structurally differently from negotiated assumptions?"

EDITORIAL SUMMARY:

The Indian Express argues that the preferential tariff treatment on gold under the India-UAE Comprehensive Economic Partnership Agreement (CEPA), in force since May 2022, has triggered a structural surge in bullion imports routed through Dubai, widening the trade deficit and pressuring the current account. The editorial calls for tighter calibration of FTA concessions on sensitive items, stricter rules-of-origin enforcement, and a recalibrated Tariff Rate Quota framework before negotiating the next round of trade agreements with the EU, UK and Oman.

A FREE TRADE AGREEMENT THAT WORKED TOO WELL FOR ONE ITEM

The India-UAE Comprehensive Economic Partnership Agreement (CEPA), signed in 2022 (specifically February 18, 2022) and in force since 2022 (specifically May 1, 2022), was India's first major bilateral trade pact in a decade. It covered 90 per cent of bilateral trade by value and was politically positioned as a template for India's new generation of FTAs. Under the agreement, India offered a Tariff Rate Quota (TRQ) on gold imports from the UAE – an initial quota of 200 tonnes annually, with a one per cent tariff concession on imports under the quota.

The provision was designed to leverage Dubai's position as a global bullion hub and to provide Indian jewellers preferential access to refined gold. The unintended consequence has been substantial. India's gold imports rose sharply in FY24 and FY25, with the UAE channel accounting for a disproportionate share. Gold has historically accounted for around 30 per cent of India's Current Account Deficit (CAD); the CEPA channel has expanded that share rather than substituted other sources.

HOW THE CONCESSION WAS ARBITRAGED

The structure invited **arbitrage**. The TRQ concession reduces the effective duty on imports through the UAE channel by one percentage point relative to non-TRQ routes. The India-Valuation Convention assigns Dubai a hub status that means refined gold of any origin – South African, Australian, Swiss – can be processed in Dubai and re-exported as UAE-origin under CEPA's rules of origin, provided the value-added threshold is met.

The result is that bullion that would otherwise have entered India under the standard 12.5 per cent Basic Customs Duty (later 15 per cent in 2022 and rationalised to 6 per cent in Budget 2024) has been rerouted to benefit from the CEPA preference. Smuggling has also intensified, with the Directorate of Revenue Intelligence (DRI) reporting record seizures in FY25.

THE MACROECONOMIC HIT

India's gold imports surged in 2024-25 even as a moderating oil import bill should have eased the trade deficit. The Current Account Deficit, which had narrowed to 0.7 per cent of GDP in FY24, faced renewed pressure. The rupee, which had been managed within a stable band by the RBI, slid past 84 to the US dollar through 2025 and crossed 94 in early 2026 amid global risk-off conditions. Higher gold imports compound that pressure by exporting demand for dollars precisely when the rupee is already stressed.

The macroeconomic concern is not gold itself – it is the channel design. A **concession** negotiated for jewellery competitiveness has become a vehicle for bullion accumulation that contributes little to value addition.

DOMESTIC ALTERNATIVES ALREADY EXIST

India has built domestic channels for gold-based finance and savings that the CEPA concession competes against rather than complements. The Sovereign Gold Bond (SGB) scheme, launched in 2015 by the RBI, offers 2.5 per cent annual interest plus capital appreciation on gold prices. The Gold Monetisation Scheme (GMS), revamped in 2021, allows individuals to deposit physical gold for interest. The International Financial Services Centre (IFSC) at GIFT City hosts the India International Bullion Exchange (IIBX), operational since 2022, which was designed to be the regulated gateway for organised bullion trade. The CEPA channel bypasses IIBX, undermining the policy intent of consolidating bullion trade under regulated infrastructure.

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Key arguments:

- The India-UAE CEPA Tariff Rate Quota on gold has expanded the share of gold in India's import bill rather than redirecting existing imports.
- Rules of origin under CEPA permit Dubai-routed re-exports, creating arbitrage that bypasses the higher Basic Customs Duty.
- The macroeconomic consequence is widening CAD and pressure on the rupee at a moment of global risk aversion.
- Domestic instruments (SGB, GMS, IIBX) designed to consolidate bullion trade are being undercut by the CEPA channel.

Counterarguments:

- The CEPA delivered broader gains – merchandise trade has grown, Indian jewellers have access to better refining, and the political signal to the Gulf was significant.
- Gold imports respond to multiple drivers (global prices, festival demand, rupee expectations) – attributing the surge to CEPA alone overstates the trade-deal effect.
- The 2024 Budget rationalised the basic customs duty on gold to 6 per cent, narrowing the CEPA arbitrage spread substantially.

Keywords: India-UAE CEPA 2022, Tariff Rate Quota (TRQ), rules of origin, Current Account Deficit, Sovereign Gold Bond, Gold Monetisation Scheme, IFSC GIFT City, India International Bullion Exchange (IIBX), Basic Customs Duty on gold, Directorate of Revenue Intelligence.

The Indian Express's view is that the gold chapter of the India-UAE CEPA offers a cautionary lesson for the FTAs still under negotiation with the EU, UK and Oman. Concessions on items with global price volatility and structural import elasticity must carry built-in review triggers – quota recalibration, sunset clauses, anti-arbitrage rules-of-origin tests. India is becoming a serious FTA partner. It must also become a more disciplined one, willing to renegotiate when assumptions break.

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