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The Impact of the UAE-India CEPA Deal on Trade and Investment Flows: A Comparative and Econometric Analysis

Ankit Kanojia[1*], Naveen Linda[1], N. M. P. Verma[2]

[1]Research Scholar, BBAU Central University Lucknow, Vidya Vihar Raibareli Road, Babasaheb Bhim Rao Ambedkar University, Lucknow, Uttar Pradesh 226025, India
[2]Professor, Vice Chancellor, BBAU Central University Lucknow, Vidya Vihar Raibareli Road, Babasaheb Bhim Rao Ambedkar University, Lucknow, Uttar Pradesh 226025, India

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***Corresponding author:** Ankit Kanojia
Research Scholar, BBAU Central University Lucknow, Vidya Vihar Raibareli Road, Babasaheb Bhim Rao Ambedkar University, Lucknow, Uttar Pradesh 226025, India

Abstract

This study analyses the impact of the Comprehensive Economic Partnership Agreement (CEPA) between the United Arab Emirates (UAE) and India on their trade and investment connections. The CEPA is a bilateral trade agreement that encompasses discussions on the exchange of services and investments, as well as other aspects of economic collaboration. This trade deal is India's inaugural bilateral trade pact in the Middle East and North Africa (MENA) area. The article employs several data sources and analytical techniques, including trade statistics, economic indicators, qualitative data, and econometric models, to examine and differentiate the trade and investment trends between India and the UAE prior to and following the CEPA agreement. The article also examines the potential variables that impacted the changes, including the tariff and non-tariff obstacles, market access and possibilities, political and diplomatic connections, and the regional and global context. The study reveals that the CEPA agreement has notably augmented the two-way trade and investment between India and the UAE, particularly in crucial industries such as mineral fuels, electrical machinery, gems and jewellery, vehicles, essential oils, cereals, and chemical products. The study also offers policy suggestions for strengthening their bilateral collaboration in the post-pandemic period.

Keywords: CEPA, WTO, Trade, Investment, Globalisation, COVID-19, Sustainable Development.

INTRODUCTION

Trade is an important factor contributing to the growth of the economy. According to the 2030 Agenda for Sustainable Development, trade internationally is a key strategy for achieving the Sustainable Development Goals (SDGs) and a driver of inclusive economic growth and poverty reduction [1]. It supports the environment, the economy, and society at large is referred to as environmentally conscious trade. It also mitigate the adverse consequences of trade, such as resource depletion, pollution, and inequality and additionally attempts to strengthen beneficial outcomes, such as money, work, and education. Basically, Trade sustainably advances the following objectives: social capital, environmental preservation, and economic progress. International trade influences the scale, composition, and the production techniques of domestic industry. It impacts the economic incidence of environmental policy already in place. International trade also impacts voter preferences, the propensity of forming lobbies, corruption, and other informal institutions that influence policy (Gulati *et al.*, 2013).

Globalisation has not only brought the whole world into a global village, but it has also paved the way for various countries to trade with each other (Fathipour *et al.*, 2014). Globalisation in India began in the early 1990s, when the government opened all of the country's marketplaces to foreign investment. It has increased India's average annual growth rate from 3.5 percent (1980 to 1990) to 7.7 percent (2002–2012), and in trade,

[1] https://unctad.org/publication/trading-sustainable-development-trade-market-access-and-sustainable-development-goals

India's share of manufacturing in exports increased from 78% in 1992–93 to 84% in 2015–16. Exports increased from $18 billion in 1991 to $178 billion. During the post-economic reform period, India's exports rose at a quicker rate than global exports. The rate of export growth accelerated dramatically, notably in the 2000s. India was one of the top exporting countries after China between 2000 and 2008 (Babu, V. R., 2016). According to WTO data released in April 2019, India's percentage of world goods exports was 1.7% in 2018, while its share of global imports was 2.6%. In 2018, India's proportion of global service sector exports was 3.5%, and imports were 3.2% [2]. India has increased their trade relation with countries and in recent time it has implement many foreign policy to attract the countries. India has signed thirteen free trade agreements (FTAs) with its trading partners in the last five years, including the Comprehensive Economic Corporation and Partnership Agreement (CECPA) between India and Mauritius, the India-UAE Comprehensive Partnership Agreement (CEPA), which will go into effect in May 2022, and the India-Australia Economic Cooperation and Trade Agreement (IndAus ECTA), which will go into effect on December 29, 2022) [3].

On the other side, Foreign direct investments (FDI) are still one of the most significant sources of funding for economic growth and competitiveness in both rising and developing nations (Vukmirović *et al*., 2021). In recent time, many developing nations view foreign direct investment as the preferred source of private capital inflow due to its durability during financial crises (Loungani *et al*., 2001). The significance and benefits of foreign direct investment (FDI) attracted the interest of all governments, which led to a competitive struggle for foreign capital. The macroeconomic and microeconomic levels of the host nation are affected by foreign direct investment inflows (Nistor, 2014).

India-UAE trade relations are effective in the West Asia Region. Approximately 3.5 million Indians live in the United Arab Emirates, making up roughly 25% of the country's largest diaspora globally. Recognised as a major contributor to the UAE's economy, the Indian community is a fundamental tenet of the close relationship. India's greatest business partner among the GCC countries is the United Arab Emirates. Additionally, it is India's top export destination. Since the UAE's Federation in 1971, when trade served as the main foundation for their relationship, India and the UAE have enjoyed prosperous relations. India is one of the world's developing and expanding economies, and the UAE has demonstrated interest in preserving its relationship with it from the outset. The increased frequency of trips by Indian ministers to the UAE, Israel, Saudi Arabia, and Palestine is a result of their efforts to reclaim international dominance over the entirety of West Asia. Despite having ties to several West Asian nations, India has forged a strong strategic alliance with the United Arab Emirates (Anjum, F., 2017).

In investment side, the United Arab Emirates (UAE) is a significant investor in India, having made an estimated $20–21 billion in total investments. Foreign direct investment (FDI) accounts for $15.18 billion of this total, with portfolio investments making up the remaining portion. The UAE is India's seventh-largest source of foreign direct investment. One of the biggest sovereign wealth funds in the world, the Abu Dhabi Investment Authority (ADIA) is the primary fund for the United Arab Emirates. ADIA pledged to put US $75 billion into India's second infrastructure sector. The Indian government made a number of announcements in 2020 to help ADIA and other sovereign funds from the UAE with their investments.

On February 18, 2022, at the India-UAE Virtual Summit, the Comprehensive Economic Partnership Agreement (CEPA) between the UAE and India was signed. The accord becomes operative on May 1, 2022. The CEPA intends to increase non-oil commerce between the two nations from $60 billion to $100 billion in five years. By lowering or eliminating tariffs on over 80% of items, the deal gives UAE exporters better access to the Indian market. Additionally, it opens up a nondiscriminatory and open environment for cross-border commerce with India and improves market access for service providers in the United Arab Emirates in 11 sectors and over 100 sub-sectors. International standards serve as the foundation for technical rules in the CEPA, which also eliminates needless technical barriers (TBT) for exporters from the UAE and India. Additionally, it gives UAE enterprises a 10% pricing advantage in UAE government procurement contracts and improves their access to Indian government procurement possibilities.

REVIEW OF LITERATURE

Trade and Economic growth relation

Busse, M., & Königer, J. (2012) - They contend that the trade specification plays a critical role in determining the impact of trade in dynamic panel estimates. One formulation is recommended, both theoretically and empirically: the amount of imports and exports as a percentage of the total GDP that lags behind. There is a positive and statistically significant influence on economic growth for this trade metric.

[2] https://pib.gov.in/PressReleasePage.aspx?PRID=1593704

[3] https://www.india-briefing.com/doing-business-guide/india/why-india/india-s-international-free-trade-and-tax-agreements#:~:text=India%20has%20signed%2013%20FTAs,Economic%20Cooperation%20and%20Trade%20Agreement%20(

Singh, T. (2010). - The majority of research ignores the general equilibrium components of macroeconomic policy in favour of partial equilibrium analysis of trade policy. It is challenging to definitively understand the observed relationships between trade policies and economic growth and to separate the impacts of trade policies from those of other macroeconomic policies. As one of the many drivers of growth and productivity, trade's contribution is based on how much it contributes to overall economic activity.

Goyal *et al*., (2016) - An essential and significant component of international relations is trade. India and the United Arab Emirates have close trade relations. India and the UAE's bilateral commerce has increased dramatically in recent years. The UAE has grown to be the second-largest market for Indian goods globally, demonstrating the strong economic collaboration that has developed between these two nations. In addition, Indians are now significant investors in the UAE and a major market for UAE-made items sent to India.

Prashath, R. T. (2021) - They investigate and evaluate the bilateral commercial and economic ties between India and the United Arab Emirates, particularly in light of India's 1991 liberalisation policy, which is regarded as the cornerstone of our nation's explosive industrial and economic growth. With the exception of two years, the United Arab Emirates (UAE) is India's third-largest importer and its second-largest export destination. The trade balance between the UAE and India has been favourable or positive for the whole 23-year period under consideration.

Ismail *et al*., (2022) - Using the SMART Model, their study investigates the possible trade implications of a 100% tariff reduction by India and the UAE on imports from one another at the UNCTAD-SOP classification and HS 6-digit level. According to the modelling results, the India-UAE CEPA will lead to about 70% increase in trade and 30% decrease in trade. The report contends that trade diversion from many developed nations and other GCC members, among others, will arise from the India-UAE CEPA.

Shahzeb *et al*., (2021) - India is the second-biggest provider of goods to the United Arab Emirates, however a sizable amount of export earnings originates from a small number of lines. 30% or more of export revenue is made up of jewellery and precious stones. According to our estimates, India has a bilaterally disclosed comparative advantage with the United Arab Emirates in 228 items, whereas worldwide, it has a revealed comparative advantage in 558 products.

Foreign direct investment and economic growth relation -

Obwona, M. B. (2001) - The analysis of the Ugandan experience reveals that such incentive programmes are not nearly as significant as macroeconomic and political stability and policy coherence in luring foreign direct investment. They talk about institutional and infrastructure impediments that discourage foreign direct investment. They look at the relationship between FDI and growth using time series data. The empirical findings show that foreign direct investment (FDI) positively affects GDP growth in Uganda.

Mehic *et al*., (2013) - They study the effects of foreign direct investment (FDI) on economic expansion in southeast European transitioning nations. The empirical analysis covers the years 1998–2007 and seven countries in southeast Europe. FDI has a positive and statistically significant impact on economic growth, which is the major finding of the research. Including data on domestic investments demonstrates the statistical significance and robustness of the impact of FDI.

Makki, S. S., & Somwaru, A. (2004) - Trade and foreign direct investment (FDI) are frequently cited as significant drivers of economic expansion in emerging nations. One significant means of transferring technology from industrialised to poor nations is foreign direct investment (FDI). Additionally, FDI encourages domestic investment and helps the host nations' institutions and people resources to advance.We discover a robustly favourable correlation between trade and foreign direct investment in promoting economic growth. Additionally, our findings demonstrate that FDI encourages domestic investment. Positive interactions between foreign direct investment (FDI) and human capital, as well as strong macroeconomic policies and institutional stability, all contribute to economic growth.

Ciobanu, A. M. (2021) - The information provided in this paper advances our understanding of FDI as a mechanism in the market transition, the variations in FDI-assisted development strategies among CEE countries, the influence of FDI inflows on productivity convergence in CEE, and the current deceleration of growth in emerging Europe.

Ayanwale, A. B. (2007) - They examined the factors that influence FDI into the Nigerian economy and the empirical link between non-extractive FDI and economic growth in Nigeria. According to their findings, Nigeria's market size, the growth of its infrastructure, and a stable macroeconomic environment all influence foreign direct investment (FDI). Nonetheless, commercial openness and the availability of human capital do not encourage FDI. In Nigeria, foreign direct investment (FDI) boosts economic expansion.

Research Gap

According to our review of literature, we find that all previous study found that international trade and FDI has positive impacted on the economic growth of the countries and increased the productivity of the economy.

But in recent time. UAE and India signed CEPA Deal and not much study has been done under this so our objective is based on this research gap.

Objective

- To trend analysis of trade and FDI between India and UAE
- To analysis the impact of CEPA deal on trade between India and UAE

Hypothesis

HO: There is an insignificant impact of CEPA deal on trade between India and UAE.

Research methodology –

Study area –

The present study focuses on the UAE-India trade relationship. Recently, India and the UAE signed a CEPA deal that boosted their trade performance and the economy. In the Gulf region, UAE-India relations are very strong compared to other nations in the region, so our analysis is to know the impact of the CEPA deal on trade between India and the UAE.

Data

We have used secondary data in our analysis where we have taken time series data from post – independence. Data are monthly and annually. The sources where we have taken secondary data that is:

1. Ministry of trade and commerce
2. World integrated trade solution
3. Ministry of commerce and industry

Variables

To analysis of our objective these variables we have taken –

- Import and export of India
- Foreign direct Investment between India and UAE

METHODS

To our objective, we have used descriptive statistics, tables, trend analysis, and a dummy model. In the dummy model, the study has been divided into two parts: before and after the CEPA deal of the UAE and India trade situation.

Table-1: Total time period divided into two period

Before CEPA, UAE and India Trade (Jan-2016 to April 2022)	After CEPA, UAE and India Trade (May-2022 to September 2023)

In order to investigate empirically the link between CEPA deal on trade. We have construct a regression model based on our data.

In first model, we have taken Before CEPA deal as dummy variable, where we have defined 0 = before CEPA deal and 1= after CEPA deal and regress export on CEPA deal to determine the explanatory variables influence on the explained variable.

In second model, we have taken Before CEPA deal as dummy variable, where we have defined 0 = before CEPA deal and 1= after CEPA deal and regress import on CEPA deal to determine the explanatory variables influence on the explained variable.

Functional form of model

Frist model – Export = f (CEPA deal)

Second model – Import = f (CEPA deal)

Econometric model

First model – Export = $\beta 0 + \beta 1D1 + Ui$ …………..1

D1= CEPA deal, 0 = before CEPA deal 1= After CEPA deal

Second model – Import = $\beta 0 + \beta 1D1 + Ui$…………….2

D1= CEPA deal, 0 = before CEPA deal 1= After CEPA deal

RESULTS

India –UAE trade relation

In the figure, we show that the GCC region has gotten the third position in India exports. It means that after America and the EU, India will export 11.4 percent of the GCC region from 2022–23. This region is important for India. As shown in Figure 2, India imported 18.7 percent of the GCC region from 2022–23. These two figures indicate that the GCC region is a very important region for India.

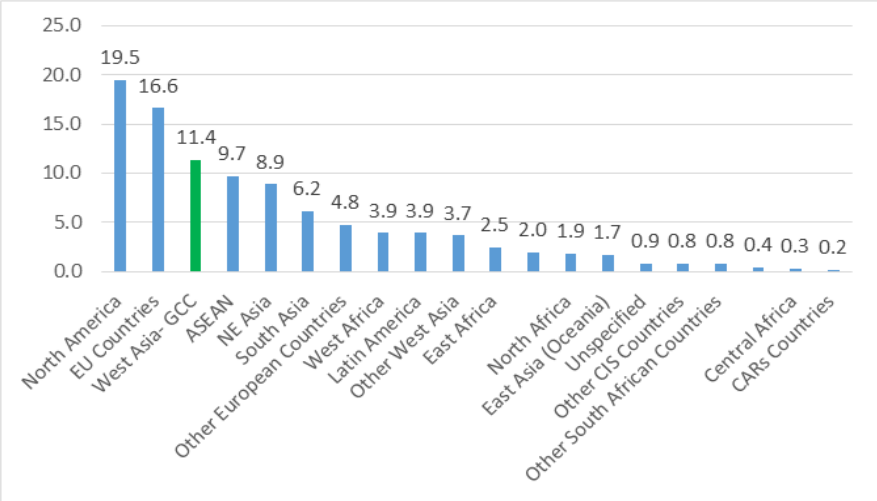

Figure 1: India Export share region wise (2022-23)

Sources: Ministry of trade and commerce

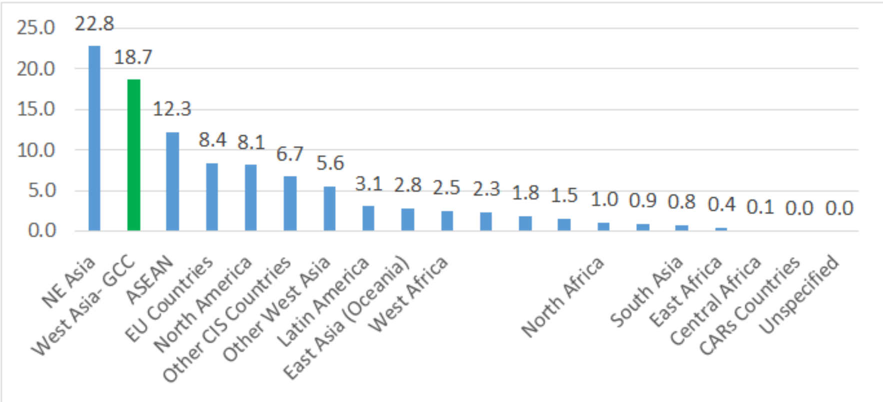

Figure 2: India import share region wise (2022-23)

Sources: Ministry of trade and commerce

In figure 3, we show that in the GCC region, India does a maximum trade with UAE countries. On the export side, 61 percent of total GCC region exports happen with the UAE, and on the import side, 41 percent of total GCC region imports happen with the UAE, so this gives us a clear picture that in the GCC region, India does a maximum trade with the UAE.

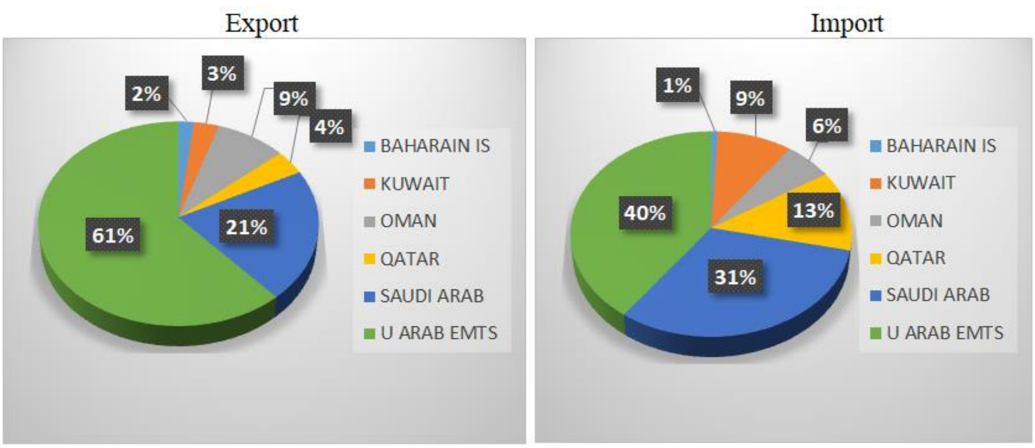

Figure 3: Countries wise share in import and export in GCC region (2022-23)

Sources: Ministry of trade and commerce

In Figure 4, we show that in the GCC region, India's share of trade with the UAE in imports and exports is higher than that of any other nation. More than half of the trade in the GCC region of India is done by the UAE. It is lowering, but still, in recent times, India and UAE trade has been the highest among other GCC nations.

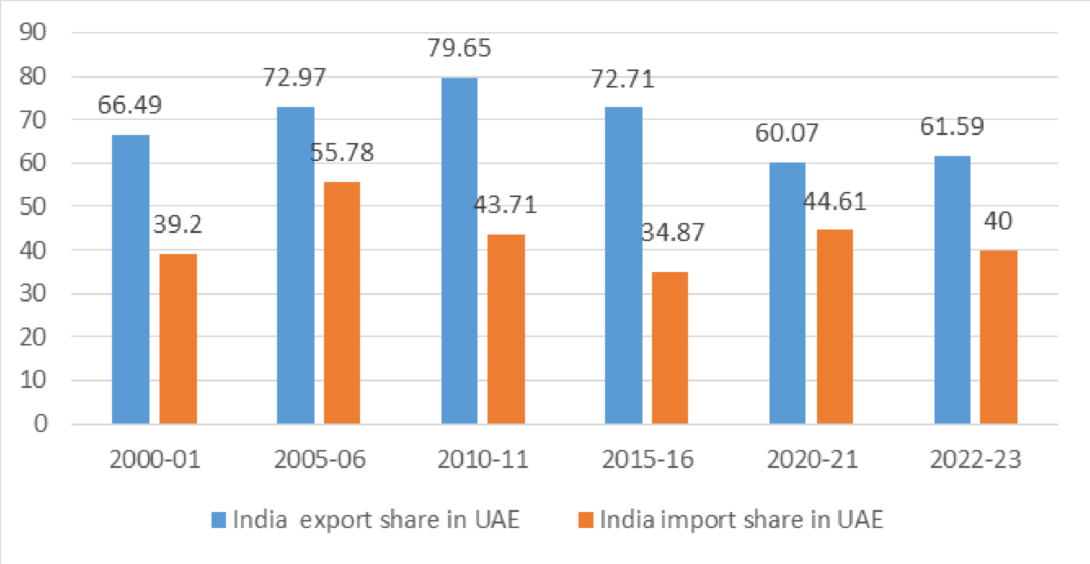

Figure 4: India trade share with UAE
Sources: Ministry of trade and commerce

UAE share in foreign direct investment

In recent times, the UAE has become the top FDI-inflow nation in India. UAE has come under 4 positions in FDI. In Figure 5, we show that on the top side, the UAE invests in India at 8 percent.

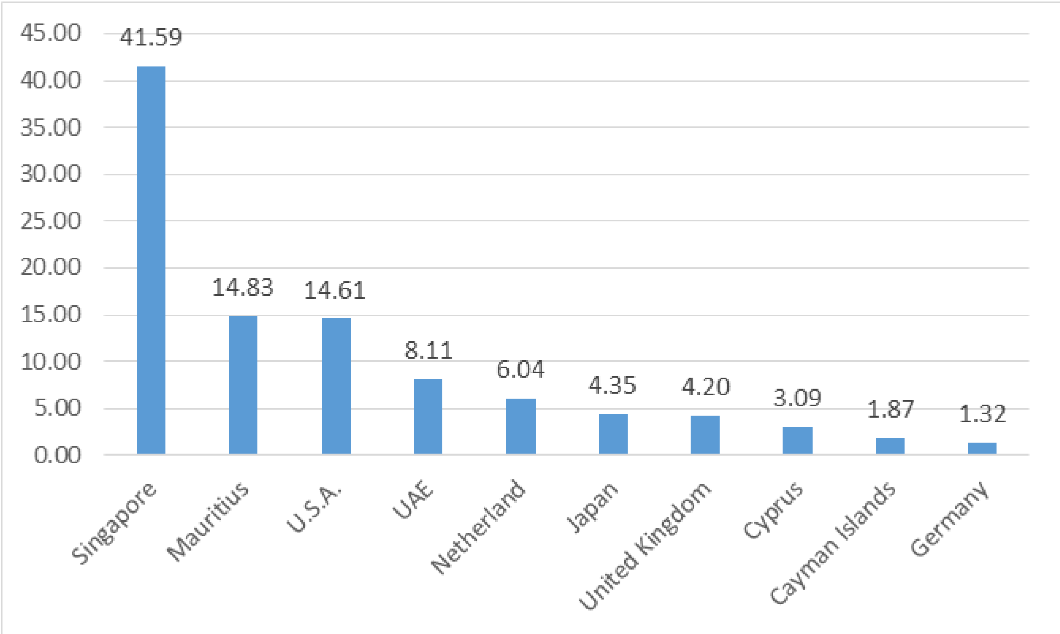

Figure 5: Top 10 FDI inflow countries share in India (2022-23)
Sources: Ministry of commerce and industry, DPIIT

In Figure 6, we show that India's FDI has increased, and most of the nations are now investing in India. This figure shows us a clear picture that, on the FDI side, India is getting huge investments from other nations. The UAE share of FDI has also increased in India.

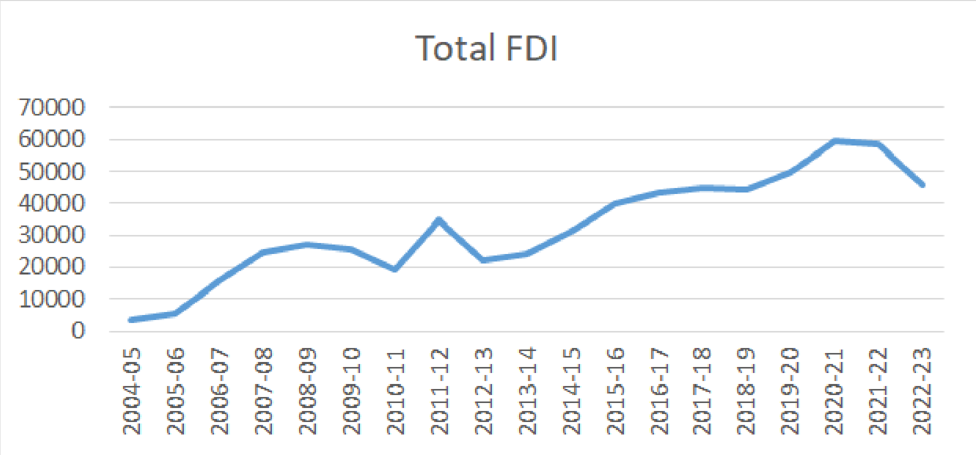

Figure 6: Total FDI in India
Sources: Ministry of commerce and industry, DPIIT

In Figure 7, we show that the UAE has made the highest investment after the CEPA deal; before that, UAE investment was only 1 to 2 percent. But in 2022–23, the UAE contributed 7.28 percent of investment, which is the highest in history.

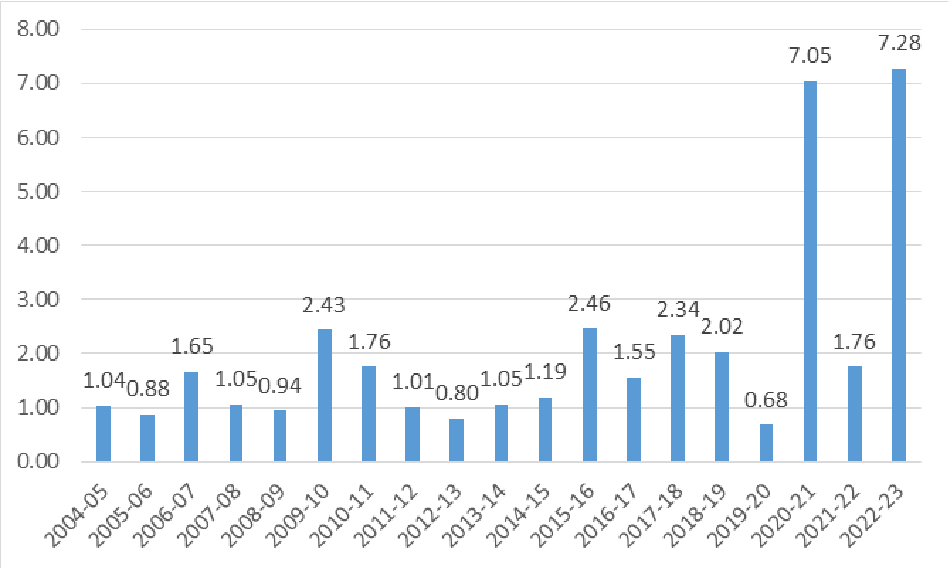

Figure 7: UAE share in Total FDI
Sources: Ministry of commerce and industry, DPIIT

Impact of CEPA on trade in India

First model

In this model, we have explained that CEPA deal has impact on export of India to UAE. Where we have taken 0 as before CEPA deal of export situation between India and UAE and 1 as after CEPA deal of export situation between India and UAE.

$$Y = \beta 0 + \beta 1 + Ui$$

Where Y = export India to UAE β0= Constant β1 = dummy where 0 = before CEPA export of India to UAE and 1 = after CEPA export of India to UAE

Stationary test

Our dependent variable (Y) is time series data so we check that this variable is stationary or not. A stationarity test determines if the stationarity attribute exists in a time series. A time series is said to be stationarity if its statistical characteristics remain constant across time. Table 1 show that our export data is satisfy the stationary condition under Dickey–Fuller test for unit root.

Dickey–Fuller test for unit root

Number of observation = 91
Variable: Export Number of lags = 0
H0: Random walk without drift, d = 0

Table 1: Dickey–Fuller Test

Critical Value			
Test statistic (Z(t))	1%	5%	10%
-4.78	-3.52	-2.89	-2.58

MacKinnon approximate p-value for Z(t) = 0.0001.

Interpretation of ANOVA

Table 2: Distribution of interpretation ANOVA

Sources	Degree of freedom	Sum of square	Mean of square	F test	Significance of F test
Regression	1	1409322.22	1409322.22	5.36	0.02*
Residual	90	23654696.1	262829.957		
Total	92	25064018.3	275428.773		

The ANOVA (analysis of Co-variance) table splits the sum of squares into its components

Total sum of square = Residual (error term) sum of square + Regression (Export) sum of square

The table 2, column labelled F gives the overall F test of H0: β1 = 0 versus Ha: at least one of β1 does not equal to 0.

Significance F has associated p value, Since 0.05 > 0.02*, we reject H0 at significance level 0.05.

Analysis of Regression Coefficient

Variable	Coefficient	Standard error	t statistic	P- value	Lower 95	Upper 95
Constant	2287.86	58.42411	39.16	0.000	2171.79	2403.93
Dummy (CEPA deal)	335.0488	144.6906	2.32	0.023	47.59565	622.502

Export = 2287.7 + 335.05 D1

Se = (58.42) (144.7)

t = (39.16) (2.32)

(0.00)* (0.02)*

Where * denotes the p values

In the regression, which category is the benchmark category? It is CEPA deal happen category and CEPA not happen category. Therefore, all comparisons are made in relation to this group. The mean export in benchmark is about 2287.7, compared with this average export in CEPA happen period is higher by about 335.04, for an actual average export of (2287.7 + 335.04 = 2622.74). This mean that after CEPA deal India- UAE average export is increased by 335.04.

Second Model

In this model, we have explained that CEPA deal has impact on import of India to UAE. Where we have taken 0 as before CEPA deal of import situation between India and UAE and 1 as after CEPA deal of import situation between India and UAE.

$$Y = \beta 0 + \beta 1 + Ui$$

Where Y = import India to UAE β0= Constant β1 = dummy where 0 = before CEPA import of India to UAE and 1 = after CEPA import of India to UAE

Stationary test

Our dependent variable (Y) is time series data so we check that this variable is stationary or not. A stationarity test determines if the stationarity attribute exists in a time series. A time series is said to be stationarity if its statistical characteristics remain constant across time. Table 3 show that our export data is satisfy the stationary condition under Dickey–Fuller test for unit root where our stationary condition satisfy at 10 percent level.

Dickey–Fuller test for unit root
Number of observation = 91
Variable: Import Number of lags = 0
H0: Random walk without drift, d = 0

Table 3: Dickey–Fuller Test

Critical Value			
Test statistic (Z(t))	1%	5%	10%
-2.75	-3.52	-2.90	-2.58

MacKinnon approximate p-value for Z(t) = 0.07.

Interpretation of ANOVA

Table 4: Distribution of interpretation ANOVA

Sources	Degree of freedom	Sum of square	Mean of square	F test	Significance of F test
Regression	1	37163919.9	37163919.9	49.08	0.00*
Residual	90	68151922.6	757243.58		
Total	92	25064018.3	1157316.95		

The ANOVA (analysis of Co-variance) table splits the sum of squares into its components.

Total sum of square = Residual (error term) sum of square + Regression (Export) sum of square.

The table 2, column labelled F gives the overall F test of H0: β1 = 0 versus Ha: at least one of β1 does not equal to 0.

Significance F has associated p value, Since 0.01> 0.00*, we reject H0 at significance level 0.01.

Analysis of Regression Coefficient

Variable	Coefficient	Standard error	t statistic	P- value	Lower 95	Upper 95
Constant	2419.20	99.81	24.24	0.000	2220.89	2617.51
Dummy (CEPA deal)	1676.83	239.35	7.01	0.000	1201.30	2152.35

Export = 2419.20 + 1676.82 D1
Se = (99.81) (239.35)
t = (24.24) (7.01)
(0.00)* (0.00)*
Where * denotes the p values

In the regression, which category is the benchmark category? It is CEPA deal happen category and CEPA not happen category. Therefore, all comparisons are made in relation to this group. The mean import in benchmark is about 2419.20, compared with this average import in CEPA happen period is higher by about 1676.82, for an actual average import of (2419.200+1676.82= 4096.02). This mean that after CEPA deal India- UAE average import is increased by 1676.82.

CONCLUSION

The analysis and discussion above clearly show that India and UAE trade have been highly impacted by the CEPA deal. In the early 1990s, the India-UAE relationship was not highly effective, but after 2000, they boosted their relationship, and now, in 2023, the UAE has become our top trade and FDI country. Empirical evidence suggests that the CEPA deal has increased UAE and India trade and FDI. In FDI, the UAE has become our top investment nation, which is highly effective after CEPA, so on the trade and FDI sides, both nations boost their economic relations, and it has not only boosted trade and FDI but also effective sectoral growth and the economy of our nation. It is anticipated that CEPA would open up new avenues for bilateral commerce, bringing goods trade to US$ 100 billion in five years and services trade to US$ 15 billion. On the other side The United Arab Emirates (UAE) is a significant investor in India, having made an estimated $20–21 billion in total investments. Foreign direct investment (FDI) accounts for $15.18 billion of this total, with portfolio investments making up the remaining portion. The UAE is India's seventh-largest source of foreign direct investment.

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