United Nations
Economic Commission for Africa

ATPC African Trade Policy Centre

CII Confederation of Indian Industry

Joint Economic Commission for Africa-Confederation of Indian Industry report on *"Deepening Africa-India Trade and Investment Partnership"*

Executive summary

Africa and India are increasingly becoming more prominent partners in each other's trade with significant growth in the market shares of their respective imports and exports. The advent of globalization and increased trade integration has strengthened trade between the two partners. There is recognition on both sides of the importance of the other as a market and as a long-term trade partner, especially with regard to global value chains.

Trade and investment between India and Africa is hampered by structural and institutional problems ranging from bureaucratic hurdles to limited infrastructure. In multiple reports, various bottlenecks that Indian investors face in Africa and vice versa have been identified. Those obstacles, however, have not stood in the way of efforts to keep up the momentum for strengthened India-Africa trade and investment partnerships. India has become one of the largest investors on the African continent, as a result of the country's efforts to make trade and investment an integral part of diplomatic policies that guide relations between the two partners.

Data indicate that there is a concentration of exports from both sides to the other in particular sectors. Whereas exports from India to Africa are dominated by manufactured goods and to a lesser extent by refined petroleum products, African exports to India are essentially primary products.

Precisely, the latter are largely concentrated in fuels (particularly crude oil), which also had been the case throughout the period 1995-2015, with the trend becoming more pronounced after 2005 and even more so following the economic and financial crisis of 2008. The share of exports of fuels from Africa of total exports to India averaged 45 per cent annually for the period 1995-2005 and jumped to an average of 77 per cent for the period 2006-2015 on the back of a strong increase in crude oil prices and the dramatic growth in fuel demand in India.

India has introduced the Duty Free Tariff Preference Scheme, a comprehensive scheme for African least developed countries, which, as shown in this report is underutilized. This is not to say that it has not had a positive impact,

but there are hurdles that are preventing the countries specified under the scheme to take full advantage of it. Notably, non-tariff barriers, such as technical standards, constitute important constraints. As such, there is an identified need to increase capacities in those countries so they can meet international standards and therefore access these markets more successfully.

In the present report, the effects of mega-regional trade agreements, particularly the Regional Comprehensive Economic Partnership (RCEP) – a proposed free trade agreement involving India – on Africa-India trade relations, are examined. There is a legitimate concern about market loss and trade diversion. RCEP, is expected to erode preferences and increase competition for African countries in the Indian market, which in turn, could undermine the benefits for them stemming from the Duty Free Tariff Preference Scheme.

Meanwhile, our analysis clearly demonstrates that the establishment of the African Continental Free Trade Area (CFTA) would be critical to mitigate the negative effects expected to be brought about by RCEP on African economies. Moreover, CFTA would provide a strong basis for the industrialization and structural transformation efforts in Africa as it would boost intra-African trade and the continent's industrial content. The establishment of CFTA also offers important opportunities for Indian firms and investors, as it would provide a potentially larger, unified, simplified and more robust African market to tap into.

As a matter of fact, only after the establishment of CFTA, would Africa and India be in a position to effectively enter into an economic integration partnership implying market access reciprocity. It is explicitly illustrated in the report that deepening integration between Africa and India would generate significant benefits for both partners. Such gains could even help to rebalance the composition of traded products by presenting opportunities to exploit value chains and enhance the structural transformation.

Also, in the report, disablers and enablers to India's trade and investment with Africa are further elaborated. Notably, it has been found that Indian forays into the African market have been aided and abetted by the country's private sector. While the presence of Indian industries in Africa is not new, some issues have persisted over time. Lack of information is recognized as one of the chief issues followed by lack of basic infrastructure. To overcome those bottlenecks, a few large-scale enablers of Africa–India trade have been identified. African regional integration and the Asia Africa Growth Corridor are the non-traditional enablers noted in addition to the Export-Import Bank of India lines of credit and development assistance extended by the country.

Some of the serious issues that Indian industries face in Africa have been identified based on an internal survey conducted by the Confederation of Indian Industry of more than 200 Indian companies. Some of the companies have identified poor regional market integration in Africa as a problem. In particular, poor integration has made it difficult to move products across borders. Based on this, India would likely be supportive of any integration efforts on the African continent, as they would result in various advantages, especially with regards to trade facilitation and the development and upgrading of value chains. Integration would facilitate movement of goods no matter what stage of production the industries are at. In the long run, this would also result in greater value addition

within the Africa and lower transaction costs. as moving products across borders would become cheaper.

The non-traditional enablers are particularly significant because they have political backing at the highest level on both sides. The Asia-Africa Growth Corridor is noteworthy as India and Africa are not the only players involved in the initiative, Japan is also a partner country. In addition, the initiative is open ended in that other interested countries can also participate in it. Under this initiative, there is greater focus on domestic accountability and ownership of projects. Furthermore, the risks are spread across at least three government entities and any other business players involved, making investment in Africa more attractive. It should be noted that as the initiative is supported by the Governments of Japan and India, the adverse effects associated with political risk are alleviated, which have been identified by Indian companies as a hindrance to trading in Africa. Under the Asia-Africa Growth Corridor, risk is spread out and therefore shared, thus the burden of loss on any single entity is reduced. The initiative also fits the bill of development for "mutual benefit", the line adopted by the Government of India for all its development cooperation projects.

On the Indian side, suggestions have also been made regarding how the Export-Import Bank of India lines of credit can be better used. The availability of lines of credit is viewed as an important tool for development finance. A study completed by the Observer Research Foundation provides an explanation on how the lines of credits are demand-led loans. This implies that the country to which the loan is being extended identifies the project or industry that will receive this transfer. The projects are meant to enhance the "developmental process in the host country". They are intended to draw on the experience of India while increasing the country's presence in Africa as a partner in development. Accordingly, more efficient use of the lines of credit is in the best interests of all stakeholders involved. This implies that there is urgent need to ensure that information on the lines of credit is correctly disseminated, as a better understanding of how to apply for and use them would ensure that productivity losses are kept at a minimum.

Another point of discussion in the report is on how to make development aid from India more focused and therefore more feasible and relevant. This, as noted in the report, needs to be done by setting up stronger bilateral ties rather than trying to address the issue at the multilateral level. Many experts have identified areas of cooperation for India and Africa, ranging from infrastructure to energy security. In that regard, a lot of ground has been covered but a lot more can be done. Some experts have noted the potential of that civil society in efforts to encourage more policy dialogue. The scope for diversification is linked to the possibility of increasing the role that small and medium enterprises play. This would include readdressing the framework for private investment on both the Indian and the African side.

The report also contains three case studies on the following topics: the potential for cooperation in agriculture in Zambia; the need for reform in the telecom sector in Africa, discussing the case of Airtel; and the importance of building basic infrastructure as seen through the experience of Kirloskar in Africa.

Based on the case studies, some general and specific conclusions have been reached. Foremost is the recognition that addressing basic infrastructural lacuna is necessary in

order to realize the true potential of Africa-India trade. African countries have limited productive capacity and suffer from a significant infrastructure deficit, which limits exploitation of their trade preferences. One approach to help overcome this would be for African countries to develop and apply strategies aimed at identifying and resolving binding constraints on exports by offering targeted policy options in selected sectors.

Generally speaking, there is no doubt that there is much more potential in Africa-India trade than what is currently realized. To overcome the hurdles identified, a concentrated response is needed from governments and regulators. Knowledge asymmetry has been created because of inefficient dissemination of information. This has resulted in unnecessary hindrances to trade and investment between India and Africa, which stems from the incomplete understanding that the two sides have about each other's markets. There is also the matter of harmonizing standards and easing regulations to lower transaction costs of doing business with Africa. Greater levels of government involvement on both sides are also necessary to reduce risks.

All in all, more collaboration between governments and industry is necessary to enable Africa–India trade to be further galvanized and offer a viable model for enhanced South-South cooperation looking forward.

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