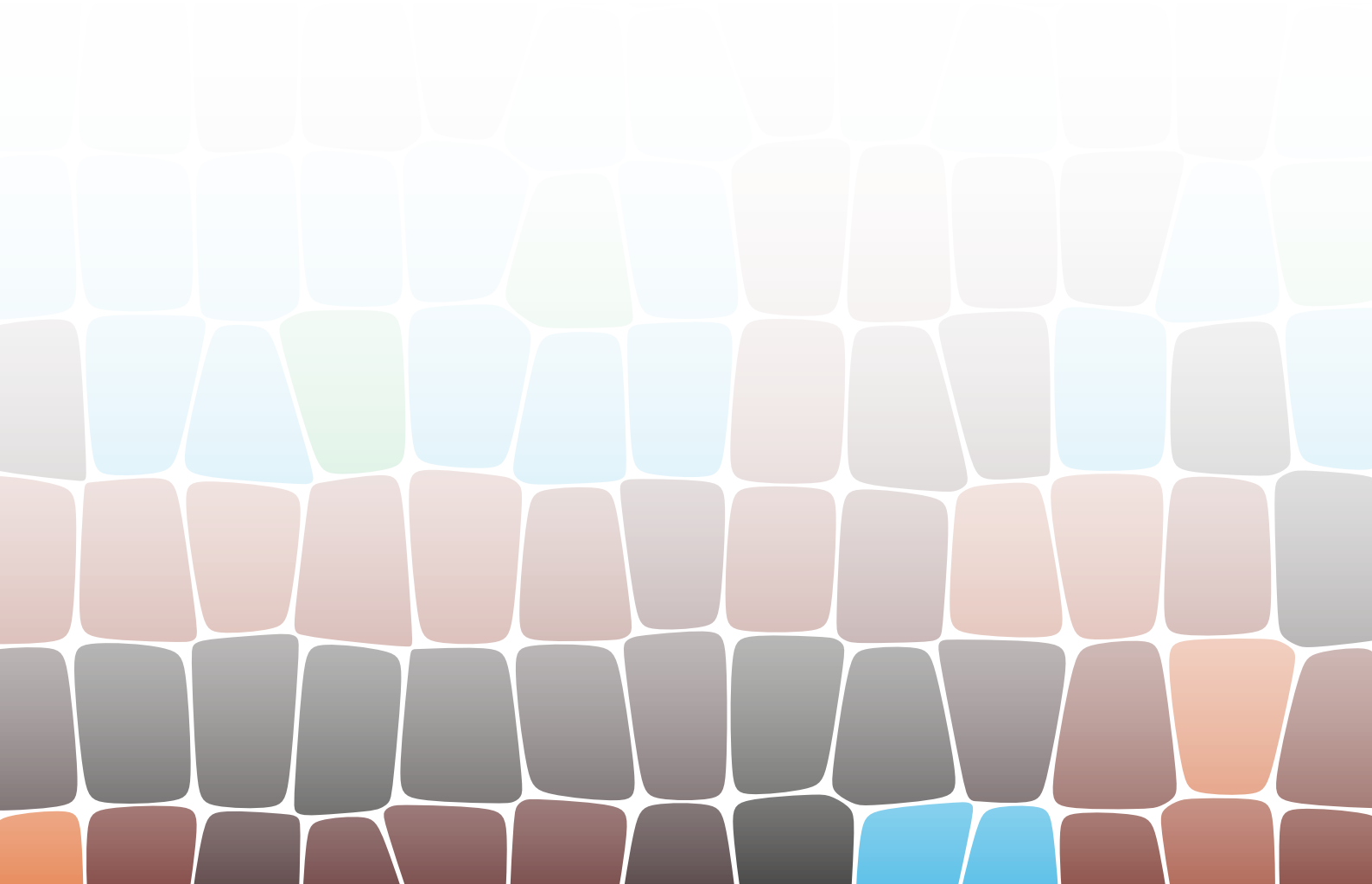


DEEPENING AFRICA-INDIA TRADE AND INVESTMENT PARTNERSHIP



Acknowledgements

The report, “Deepening Africa-India trade and investment Partnership”, has been prepared by the African Trade Policy Centre (ATPC) of the Economic Commission for Africa (ECA) and the Confederation of Indian Industry (CII). It was written by Simon Mevel, Economic Affairs Officer, ECA and Jhanvi Tripathi, Associate Researcher, International Trade Policy, CII, under the overall guidance and supervision of Pranav Kumar, Head of the International Trade Policy Division at CII, and David Luke, Coordinator of ATPC at ECA. We would like to acknowledge the contribution to “Overview of Africa-India investment patterns” by Martin Kohout, of ECA, under the overall guidance and supervision of Laura Páez, Chief of the Investment Policy Section at ECA. We would also like to thank Karanjit Singh, from the International Divisions’ Africa desk at CII, for his research assistance.

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The mandate of ECA is to promote the economic and social development of its member States, foster intraregional integration, and promote international cooperation for the development of Africa. Comprised of 54 member States, and playing a dual role as a regional arm of the United Nations and as a key component of the African institution landscape, ECA is well-positioned to make unique contributions to address the continent’s development.

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CII is a non-governmental, not-for-profit, industry-led and industry-managed organization, that plays a proactive role in the development of India. Founded in 1895, the country’s premier business association has more than 8,500 members, from the private and public sectors, including small- and medium-sized enterprises (SMEs) and multinational corporations, and an indirect membership of more than 200,000 enterprises from approximately 265 national and regional sectoral industry bodies.

CII charts change by working closely with the Government on policy issues, interfacing with thought leaders, and enhancing efficiency, competitiveness and business opportunities for industry through a range of specialized services and strategic global linkages. It also provides a platform for consensus-building and networking on key issues.

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With 67 offices, including nine centres of excellence in India, and 11 overseas offices, in Australia, Bahrain, China, Egypt, France, Germany, the Islamic Republic of Iran, Singapore, South Africa, the United Kingdom of Great Britain and Northern Ireland and the United States of America, and institutional partnerships with 355 counterpart organizations in 126 countries, CII serves as a reference point for Indian industry and the international business community.

* See <https://www.uneca.org/pages/overview> for further details.

DEEPENING AFRICA-INDIA TRADE AND INVESTMENT PARTNERSHIP

A Joint report by the African Trade Policy Centre and
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Addis Ababa, Ethiopia

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First printing: March 2018

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Designed and printed in Addis Ababa by the ECA Printing and Publishing Unit. ISO 14001:2004 certified.

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List of abbreviations

AfCFTA	African Continental Free Trade Area
AAGC	Asia Africa Growth Corridor
AADFI	Association of African Development Finance Institutions
Afrexim	Africa Export Import Bank
CII	Confederation of Indian Industry
CSR	Corporate Social Responsibility
CTH	Change in Tariff Header
CTSH	Change in Tariff SubHeader
DFTP	Duty Free Tariff Preference
ECA	United Nations Economic Commission for Africa
EXIM	Export-Import
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
GVC	Global Value Chain
ICT	Information and Communications Technology
LDCs	Least Developed Countries
LoC	Lines of Credit
MAI	Market Access Initiative
MDA	Market Development Assistance
MFN	Most-Favoured Nation
MoU	Memorandum of Understanding
MSME	Micro-, Small and Medium-Sized Enterprise
MRTAs	Mega-Regional Trade Agreements
NGOs	Non-Governmental Organization
ORF	Observer Research Foundation
OTP	Over-the-Top Services
PPP	Public-Private Partnership
QCBS	Quality and Cost Based Selection Approach
RCEP	Regional Comprehensive Economic Partnership
RTAs	Regional Trade Agreements
SDG	Sustainable Development Goals
TPP	Trans-Pacific Partnership
TTIP	Transatlantic Trade and Investment Partnership
WTO	World Trade Organization
ZDA	Zambian Development Act

Foreword

The multilateral trading system is facing a crisis of legitimacy due to the lack of progress on urgent issues at the World Trade Organization (WTO). This situation has created tension and confusion in the international trading environment, making countries more inward-looking and risk-averse. Furthermore, it cannot be overlooked that production processes are becoming increasingly connected, leading to the rise of global value chains and the need for countries to be integrated into those processes. Those trends should be seen as opportunities for developing countries to strengthen their regional integration efforts and ties with non-traditional trading partners.

In particular, Africa and India are increasingly becoming key trade and investment partners. Trade between the two has been growing at a steady pace. According to UNCTADStat, exports from India to Africa increased from US\$ 6.7 billion in 2005 to US\$ 25.6 billion in 2015. African exports to India grew from US\$ 4.4 billion in 2005 to US\$ 27.1 billion in 2015, making India one of the top three destinations for African exports, after China and the European Union.

In addition, the foreign direct investment (FDI) stock from India in Africa rose from US\$ 11.9 billion in 2010 to US\$ 15.2 billion in 2014. FDI stock from Africa in India also increased during that time period, from US\$ 57 billion to US\$ 73.7 billion. The higher FDI stock from Africa in India can be explained by the fact that Mauritius is used as a channel for a large amount of inward FDI in India.

It has been noted, however, that there is a lack of diversification and that recently, overall trade has slowed considerably between the two trade partners. Steps must be taken urgently to retain the momentum and enhance trading opportunities. Looking forward, the Africa-India partnership should be shaped so as to better support their industrial development and structural transformation.

Both Governments are aware of the immense potential of Africa-India trade. The present report, undertaken jointly by the African Trade Policy Centre at ECA and CII, not only provides an overview of Africa-India trade, but it also highlights the key role that their respective ongoing integration

processes can have on Africa-India relations, particularly through the African Continental Free Trade Area (AfCFTA) for Africa, and the regional comprehensive economic partnership (RCEP) for India. In the report, some external factors affecting them as well as new enablers of trade between Africa and India, such as the Asia-Africa Growth Corridor, are discussed. Through the use of case studies, it explains the main obstacles to increasing trade between the two countries.

In the report, whose key findings were presented at the CII-Export-Import (EXIM) Bank Regional

Conclave on India and East Africa which was held in Kampala on 20 and 21 November 2017, the challenges facing Africa-India trade are highlighted. It is hoped that the report will be a useful tool for policymakers and industry to better understand trade and investment relations between the two countries and how best to leverage them. This is to ensure that both partners are, in the long term, able to reap positive benefits from increasing trade and investment ties.



Vera Songwe
UN Under-Secretary-General
and Executive Secretary,
Economic Commission for Africa



Chandrajit Banerjee
Director General
Confederation of Indian Industry

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 (AfCFTA) would be critical to mitigate the negative effects expected to be brought about by RCEP on African economies. Moreover, AfCFTA 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 AfCFTA 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 AfCFTA 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 CII 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 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 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-sized 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 the 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.

Introduction

Africa and India have long been consistent trading partners. Their economic ties have become deeper since the advent of globalization and the integration of trade. Both are adjusting to trade along global value chains (GVCs) and aiming to increase and diversify their share in world trade.

India has been identified as one of the largest economies in the world with a strong demographic dividend. Africa has a similar dividend. However, both have not taken complete advantage of the opportunities that arise from this, especially of galvanizing greater economic ties between them.

In the first section of the present report, a trade policy context is provided through an overview of Africa–India trade and investment. The current platforms on which India and Africa engage, such as the Duty Free Tariff Preference scheme that India has for least developed countries (LDCs) are then explained, followed by a discussion on

implications that mega-regional trade agreements, particularly the regional comprehensive economic partnership, will have on Africa–India trade and investment, on the one hand, and the probable effects of greater African integration, precisely through the Continental Free Trade Area, on the other hand.

In section II, ways to boost Indian investment in Africa from an Indian industry perspective are discussed. Some enablers and disablers of Africa–India trade, including African regional integration, the impact of the Asia Africa Growth Corridor, lines of credit extended by Export-Import (EXIM) Bank and India’s overall development cooperation, are given. Then, the results of three case studies are explained. The first study showcases the lost potential of cooperation in agriculture in Zambia. The second highlights the dealings of Airtel in Africa in the telecom sector. The third study deals with basic infrastructure for agriculture and the role of Kirloskar in Africa.

I. Trade policy context

In the first part of the report, the evolution of the Africa-India trade and investment relationship is presented and policy options that could help lay the ground for a more conducive and pro-development partnership are explored.

1. Overview of Africa-India trade patterns

Africa and India are increasingly becoming more prominent partners in each other's trade, with significant growth in their respective import and export market shares.

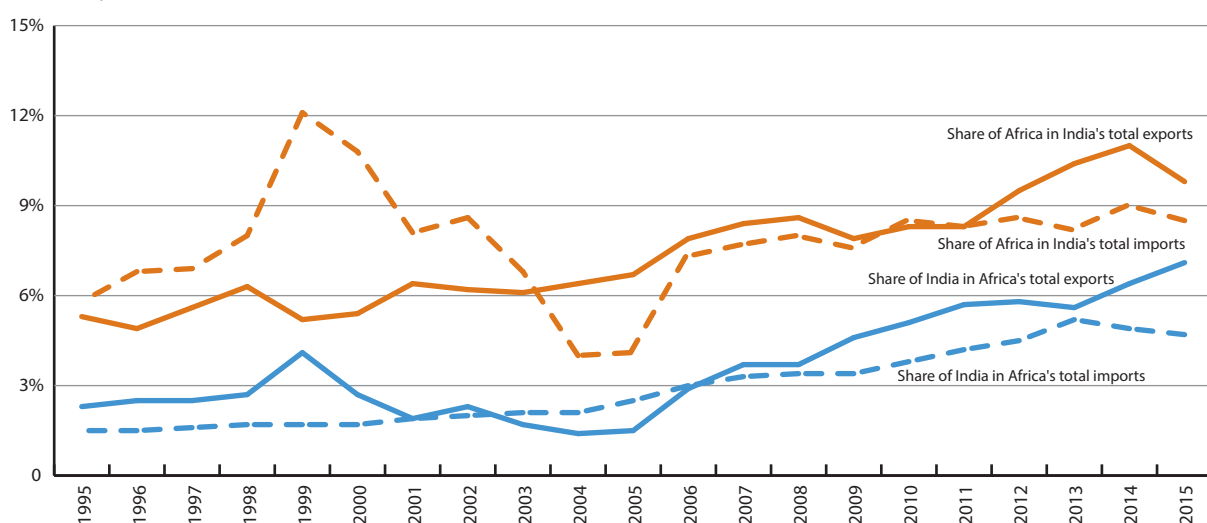
In absolute terms, the total value of merchandise exported by Africa to India increased from just US\$ 2.5 billion in 1995 to US\$ 27.1 billion in 2015 (peaking at US\$ 35.9 billion in 2012; see figure 2), whereas total merchandise value exported from India to Africa was US\$ 25.6 billion in 2015, after reaching a record high of US\$ 34.6 billion in 2014 and amounting to only US\$ 1.6 billion in 1995 (figure 5).

Translated into relative terms, the share of India in Africa's total value of exports has tripled between 1995 and 2015, from 2.3 per cent to 7.1 per cent, respectively. Since 2014, India has overtaken the United States to become the third largest receiver of African exports outside the continent in terms of value, after the European Union and China. India is the fourth largest source (excluding African partners) of imports for Africa, at 4.7 per cent, compared to only 1.5 per cent 20 years ago. Similarly, the share of Africa in India's total value of exports nearly doubled, from 5.3 per cent in 1995 to 9.8 per cent in 2015. Hence, Africa is among the top four destination for Indian exports. Africa is also ranked third, after China and the European Union, in terms of imports from India, which increased from 5.8 to 8.5 per cent over the last two decades (figure 1).

However, the composition of exports from Africa is considerably different from those from India.

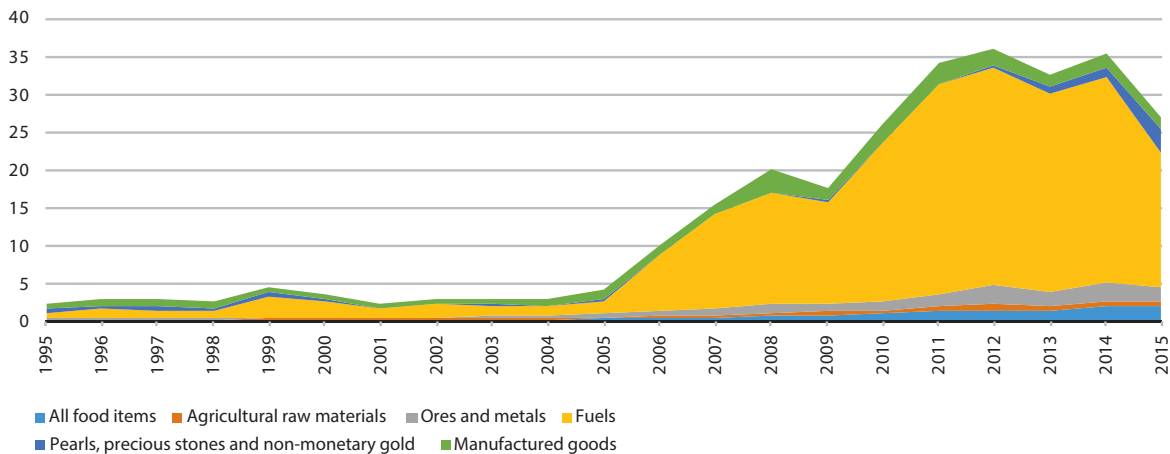
Indeed, throughout the period 1995-2015, exports from Africa to India were essentially concentrated

Figure 1: Evolution of the shares of Africa and India in each other's total merchandise exports and imports, 1995-2015



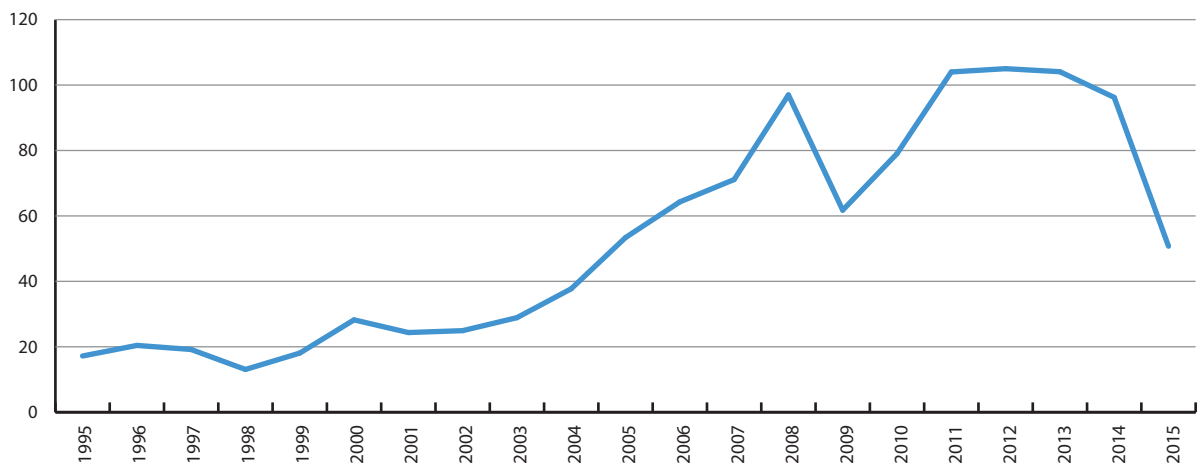
Source: Authors' calculations based on UNCTADStat (accessed 29 December 2016).

Figure 2: Evolution of exports from Africa to India by main product categories, 1995-2015 (US\$ billion)



Source: Authors' calculations based on UNCTADStat (accessed 29 December 2016).

Figure 3: Evolution of annual nominal crude oil (average) price, 1995-2015 (US\$/bbl)



Source: Authors' calculations based on the World Bank Commodity Price Data (The Pink Sheet).

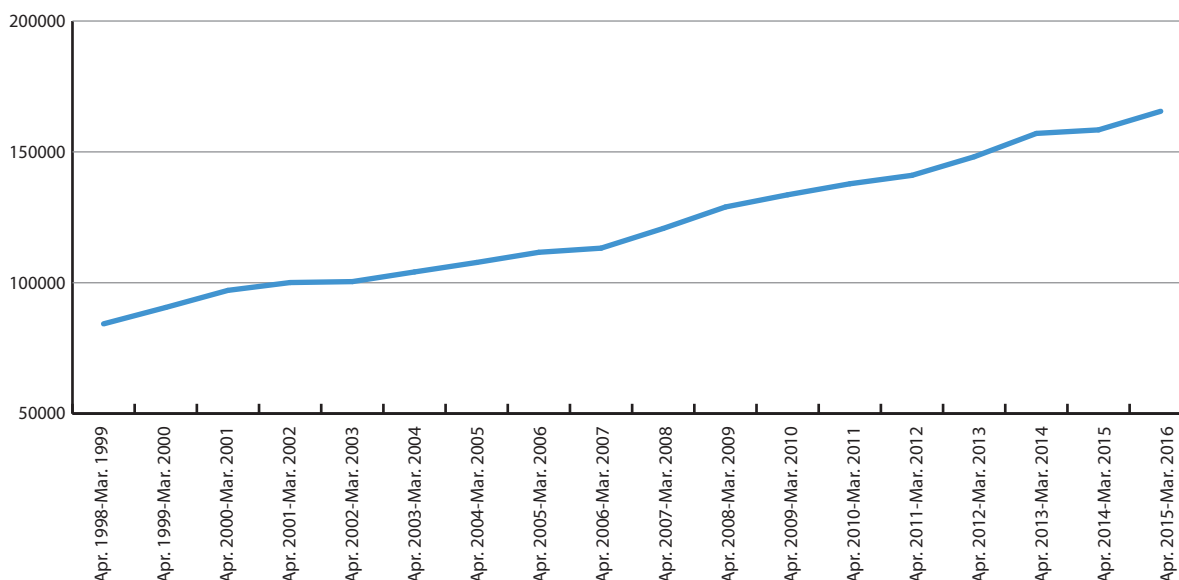
in fuels (particularly crude oil), with an exacerbation of the trend after 2005 and even more so during post-economic and financial crisis (figure 2). The share of fuel exports in total exports from Africa to India was 45 per cent for the average period 1995-2005 and jumped to an average of 77 per cent over the period 2006-2015. This can be attributed to a sharp rise in crude oil prices and impressive growth in fuel demand in India.

Considering the great concentration of Africa's exports to India in fuels, the evolution of Africa's exports value to India closely follows the trend of crude oil prices, which strongly picked up from the mid-2000s, dropped immediately after the 2008 crisis, and rebounded rapidly during the post-crisis period, before falling again in 2015 (figure 3).

This, combined with the continuously growing global demand for petroleum products by India (figure 4), inevitably had driven exports of fuels from Africa to its Asian counterpart.

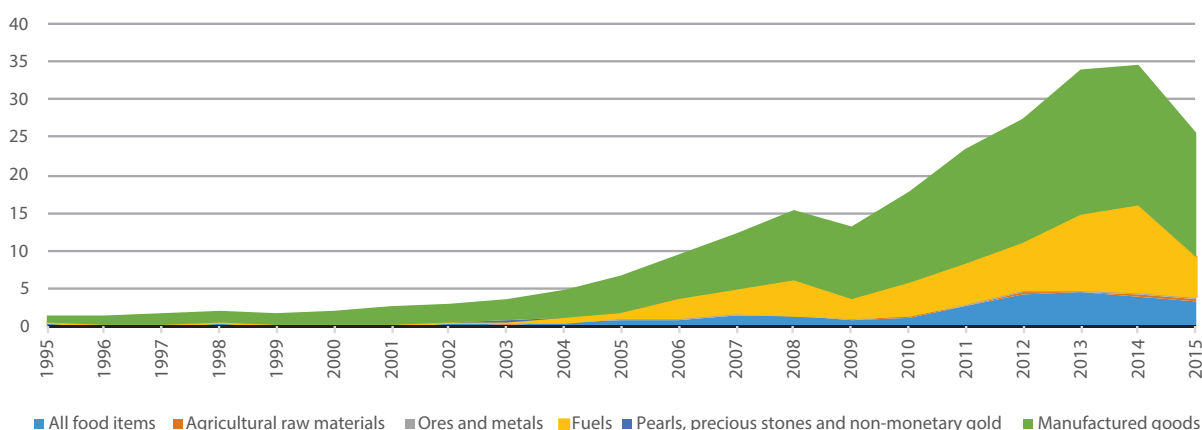
As illustrated in figure 5, Indian exports to Africa tend to be slightly more diversified, with essentially food items, such as rice and sugar, fuels (primarily refined oil, often from crude oil coming from Africa) and manufactured goods, such as pharmaceuticals, chemicals and rubber, textiles and apparel, machinery and equipment, including for transport, such as motor vehicles, motorcycles, bicycles and boat structures. Specifically, exports of manufactured goods hold a dominant share of the total export from India to Africa, contributing 63 per cent annually on average for the period average 1995-2015.

Figure 4: Evolution of India's consumption of total petroleum products, 1998-2016 (million metric tonnes)



Source: Authors' calculations based on the Petroleum Planning and Analysis Cell of the Ministry of Petroleum and Natural Gas, Government of India.

Figure 5: Evolution of exports from India to Africa by main product categories, 1995-2015 (US\$ billion)



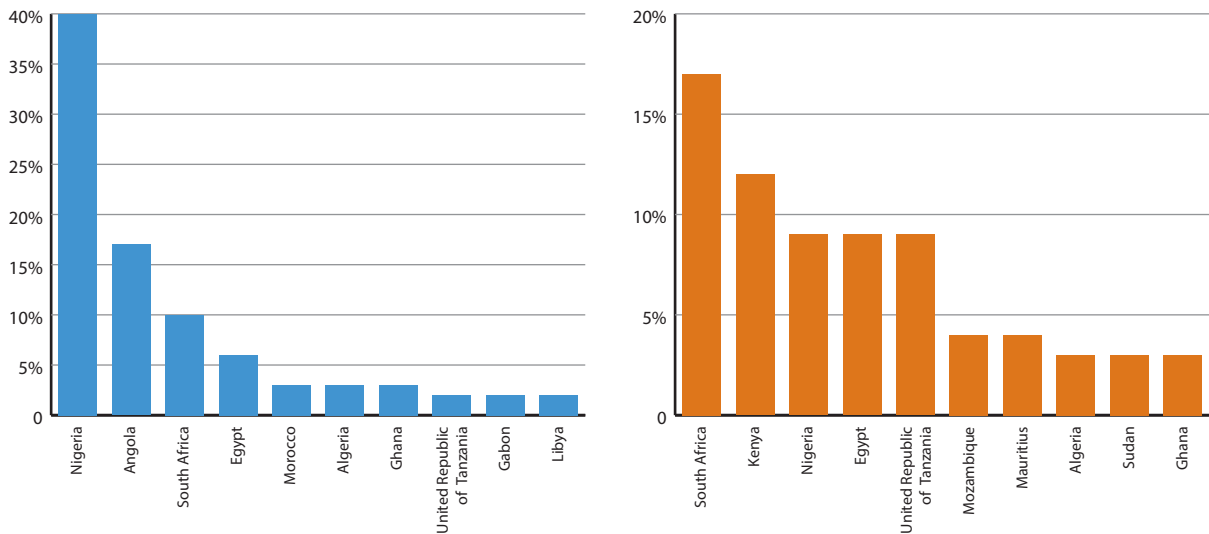
Source: Authors' calculations based on UNCTADStat (accessed 29 December 2016).

In this context, and as illustrated on figure 6 (left panel), it is no surprise that the top ten African exporters to India are essentially oil producers, and together account for 88 per cent of total exports from Africa to their Asian counterpart; Nigeria has the largest share (40 per cent), far ahead of Angola (17 per cent) and other African economies (all below 10 per cent). In contrast, the top ten African importers from India tend to source a wider range of products from the country, in all of the main sectors: agriculture; primary; and industry. It should be noted, however, that refined oil often

represents the largest share in value of imported commodities for many, and especially the African countries that are not oil producers (including South Africa). The share of the total value of imports to the ten largest African importers from India is 73 per cent. In fact, six African countries are among the top ten exporters to India and the top ten importers from India, revealing an apparent high concentration of trade between India and just a few African countries; South Africa, which became a member of the BRICS¹ group in December 2010, is an obvious strategic partner for India.

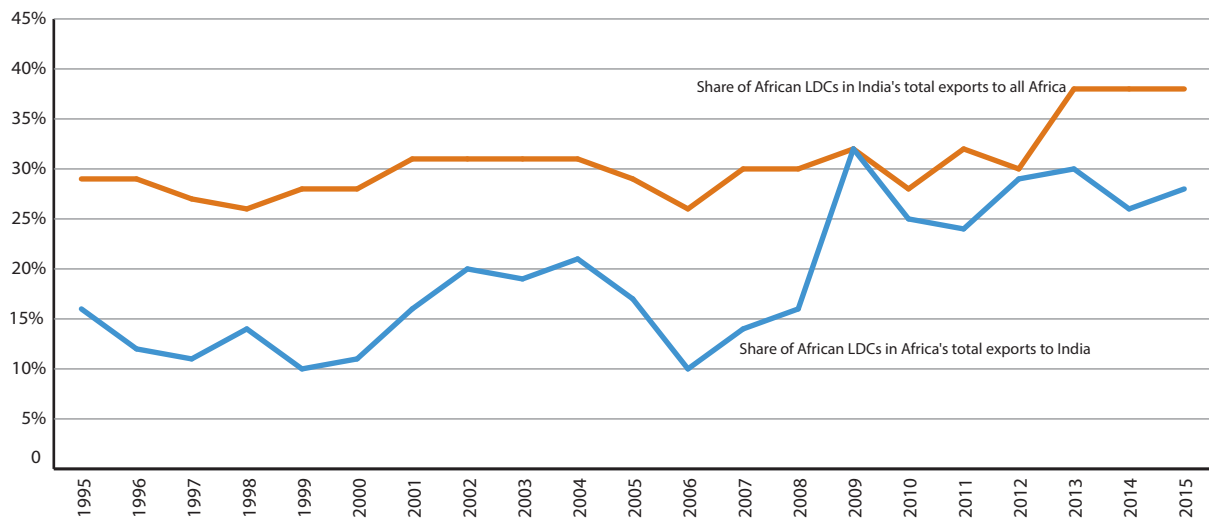
¹ BRICS is an acronym for an association of five emerging economies: Brazil; Russian Federation; India; China; and South Africa.

Figure 6: Shares of African countries' exports to India – top ten countries (left panel) vs. shares of Indian exports to African countries – top ten countries (right panel), average 2011-2015



Source: Authors' calculations based on UNCTADStat; accessed 3 January 2017.

Figure 7: Evolution of the share of exports from African least developed countries in total exports from Africa to India versus the share of exports from India to African least developed countries in total exports to Africa, 1995-2015



Source: Authors' calculations based on UNCTADStat; accessed on 29 December 2016.

In addition to Angola, the United Republic of Tanzania, and the Sudan, least developed countries (LDCs) that comprise 33 of 54 African countries are outside the lists of top ten African trading partners (either exporters or importers) with India in value terms. Nonetheless, trade between least developed African nations and India has increased considerably. While the share of African LDCs in the total exports from India to Africa has remained relatively stable (with a slight augmentation over the last few years), the share of African LDCs total

exports from Africa to India increased considerably after 2008, with an average share of 15 per cent for the period 1995-2008 against an average of 28 per cent for the period 2009-2016 (figure 7). Whereas the most dramatic change, from 2008 to 2009, which coincided with the financial and economic crisis, was essentially the result of the introduction of the trade preferential scheme offered by India to LDCs.

2. Indian Duty Free Tariff Preference Scheme for LDCs and implications for Africa-India trade

India introduced the Duty Free Tariff Preference (DFTP) Scheme for LDCs in 2008. The scheme progressively has eliminated customs duties imposed by India on its imports from LDCs on 85 per cent of the country's total tariff lines (as defined at the harmonized system 6-digit (HS6) level) by 2012. An additional 9 per cent of tariff lines (about 458 products) offered a margin of preference, ranging between 10 to 100 per cent. The remaining 6 per cent of tariff lines (326 products) were excluded from any tariff reduction, with LDCs enjoying most-favoured nation (MFN) rates when importing to India.

On 1 April 2014, the scheme was expanded with duty-free access granted to LDCs on their exports to India for 96 per cent of the tariff lines (4,994 products), with an extra 2.2 per cent (114 products) subject to preferential duties, leaving 1.8 per cent of product lines (97) without any duty concession.²

While the expanded DFTP scheme offers a considerable improvement in terms of market access for LDCs to the Asian economy, it should be highlighted that among the 97 products still on the exclusion list, some are particularly strategic for Africa, such as some fruit and vegetables, some dairy products, cashew nuts, coffee, tea, some spices, oilseeds, wheat flour, beer, wine and spirits, tobacco and cigarettes, and copper.³ For example, over the period 2008-2014, on average selected fruit and vegetables accounted for about 46 per cent, 39 per cent, 27 per cent and 26 per cent of total exports for Burundi, Ethiopia, Rwanda and Uganda, respectively, while more than 53 per

cent of the exports from Malawi was tobacco and copper accounted for 44 per cent of the exports from Zambia.⁴ Only a tiny share of exports of these 97 excluded products from the scheme from Africa reached India over the same period. Figure 8 shows that India imports a substantial amount of those products, but almost exclusively from outside Africa. A 100 per cent duty free tariff preference would, therefore, certainly provide greater opportunities to stimulate exports from Africa to India without necessarily adversely affecting Indian producers.⁵

In addition, and in more general terms, exports from African LDCs exports to India have increasingly become concentrated in fuels and primary products (figure 9), mainly as a result of a strong increase in primary commodity prices combined with substantial growth in demand for petroleum products in the global market (figures 2, 3 and 4).

It should be noted that only 26 out of the 33 African LDCs eligible are participating in the scheme: Benin; Burkina Faso; Burundi; Chad; Comoros; Central African Republic; Eritrea; Ethiopia; Gambia; Guinea; Guinea-Bissau; Lesotho; Liberia; Madagascar; Malawi; Mali; Mozambique; Niger; Rwanda; Senegal; Somalia; Sudan; Uganda; United Republic of Tanzania; Togo; and Zambia.⁶ In order to benefit from trade preferences when exporting to India, each least developed country must send a letter of intent to the Government of India stating that "it wishes to be covered under the DFTP and that it will comply with the scheme's provisions".⁷ Subsequently, countries must provide their lists of agencies authorized to issue certificates of origin to ensure compliance with market access requirements set by India under the preferential scheme. The overall situation for African LDC's (figure 9) may not properly reflect how exports

2 See Foreign Trade Policy Statement, http://dgft.gov.in/exim/2000/policy/FTP_Statement.pdf from the Government of India, Ministry of Commerce and Industry, Directorate General of Foreign trade (<http://dgft.gov.in/exim/2000/>).

3 See International Trade Centre (2015) and Ancharaz, Ghisu and Frank (2014).

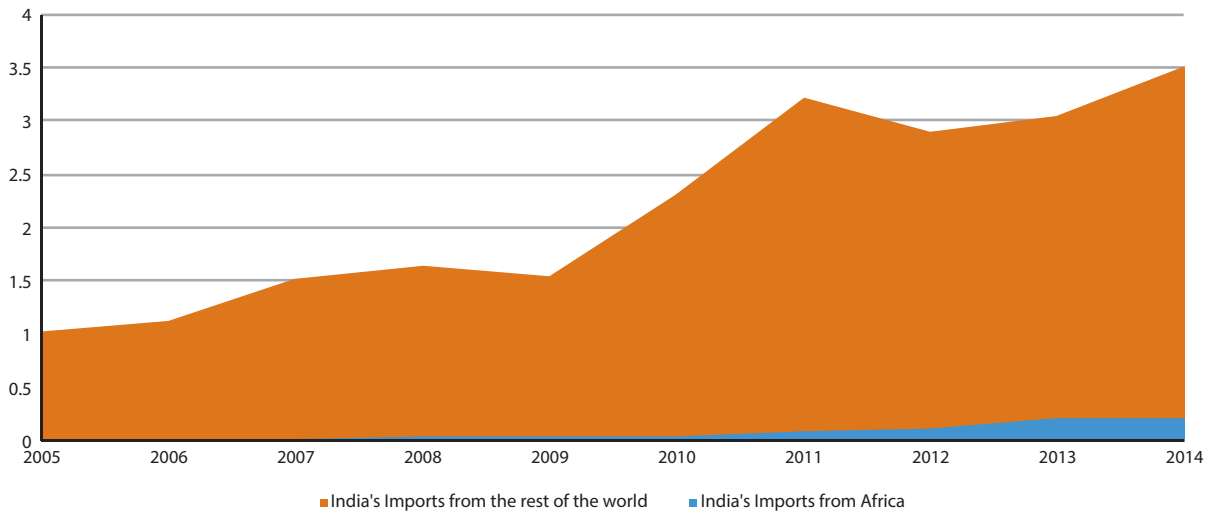
4 Authors' calculations based on the CEPII-BACI dataset.

5 Further analytical work would be required to confirm this point in the Africa-India context. However, based on empirical work recently conducted on the preferences granted by the United States to sub-Saharan African countries under the African Growth Opportunity Act, it appears that if the few products still on the exclusion lists were to be liberalized, exports from Africa would increase without hurting producers from the United States (see Mevel and others, 2013).

6 As of 9 October 2017, see: http://commerce.gov.in/writereaddata/UploadedFile/MOC_636434269763910839_international_tpp_DFTP.pdf

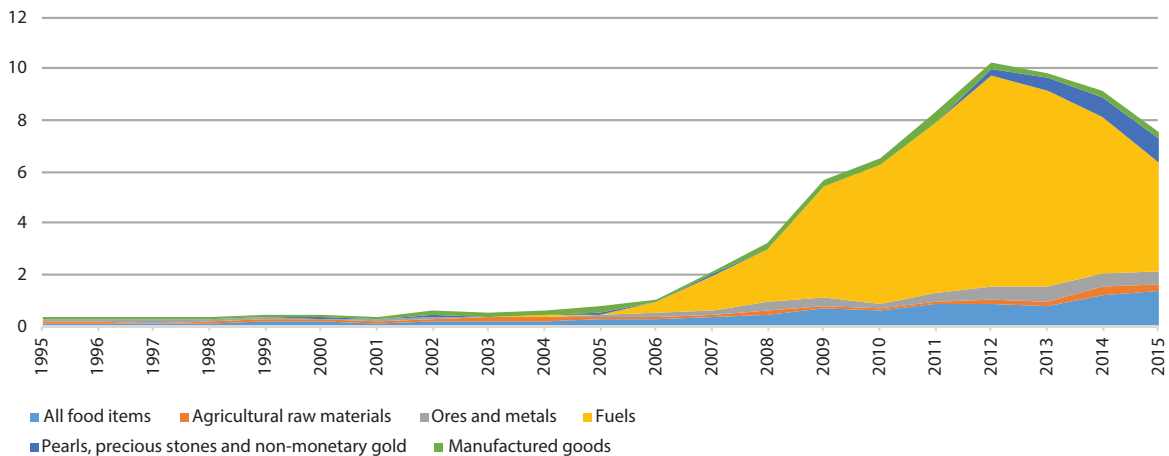
7 See International Trade Centre (2015).

Figure 8: Evolution of imports of products from India on the exclusion list of the Duty Free Tariff Preference Scheme for LDCs from Africa versus the rest of the world, 2005-2014 (US\$ billion)



Source: Author's calculation based on the CEPII-BACI dataset.

Figure 9: Evolution of exports from African least developed countries to India, by main product categories, 1995-2015 (US\$ billion)



Source: Authors' calculations based on UNCTADStat (accessed 16 January 2017).

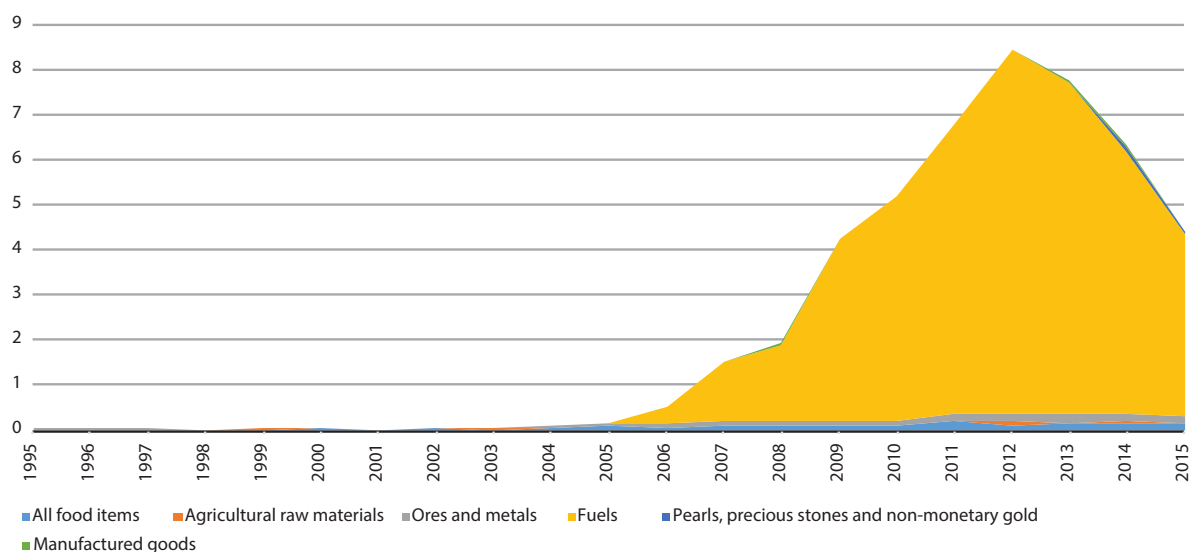
to India from the countries that have already been benefitting from preferences have evolved since the scheme was introduced.⁸ While figure 10 shows a high concentration of fuel exports to India by African LDCs that are not benefitting from the scheme, Figure 11 indicates a lower concentration in the LDCs that benefit from the scheme. In other words, LDCs that do not benefit from the scheme display higher concentration of

fuel exports as opposed to those who do benefit from the scheme.

Nonetheless, it would be an oversimplification to automatically attribute to the scheme, the capacity of strongly limiting the concentration in fuel exports to India that has been observed for African LDCs benefitting from it, compared to those that do not currently benefit. Rather,

8 In order to capture the impact of the scheme on exports from African LDCs (figures 10 and 11), only those countries that have benefitted from the scheme for at least a few years over the period reviewed (until 2015) have been considered. They are as follows: Benin; Burkina Faso; Burundi; Comoros; Central African Republic; Eritrea; Ethiopia; Gambia; Lesotho; Liberia; Madagascar; Malawi; Mali; Mozambique; Rwanda; Senegal; Somalia; Sudan; Uganda, United Republic of Tanzania; and Zambia. All of those countries joined the scheme between 13 August 2008 (for United Republic of Tanzania) and 1 January 2012 (for Comoros).

Figure 10: Evolution of exports from African least developed countries to India that have yet to benefit* from the Duty Free Tariff Preference Scheme for LDCs, by main product categories, 1995-2015 (US\$ billion)



Source: Authors' calculations based on UNCTADStat; accessed 16 January 2017.

* These countries are: Angola; Chad; Democratic Republic of the Congo; Djibouti; Guinea; Guinea-Bissau; Mauritania; Niger; Sao Tome and Principe; Sierra Leone; South Sudan; and Togo. Although Chad, Guinea, Guinea-Bissau, Niger and Togo are now benefitting from the scheme, they are considered to not be benefitting in this figure because they only recently joined and thus the impact of the scheme by 2015 for those countries would be meaningless.

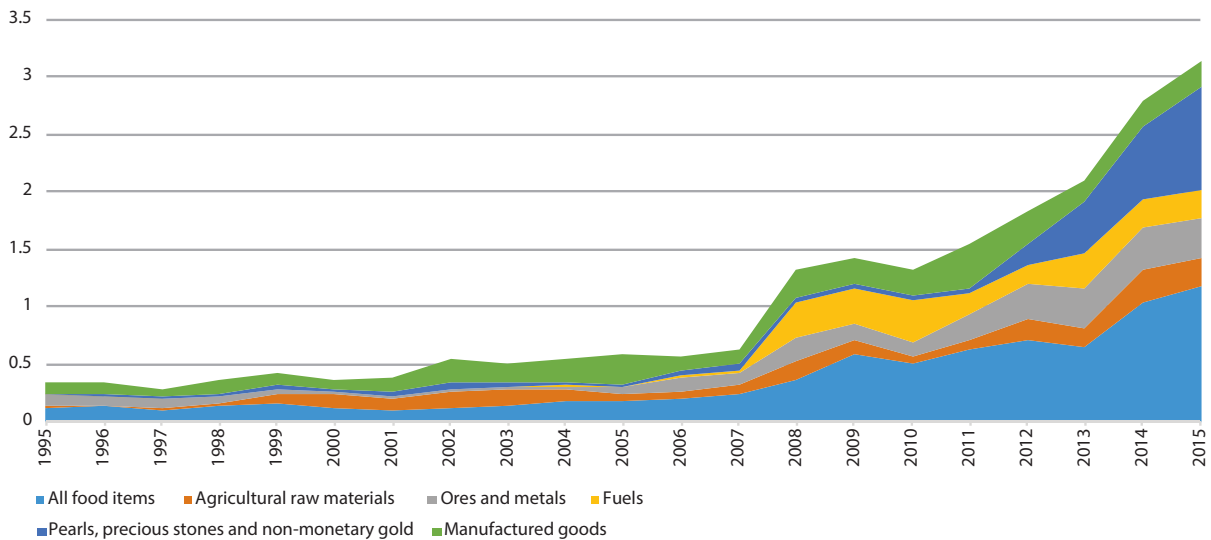
the current production and trade patterns of the African LDCs also strongly matter.

In the list of countries that do not benefit from the scheme, there is a large number of major oil producers, including the Niger, the Democratic Republic of the Congo, Chad, Equatorial Guinea, and more importantly, Angola, the second largest oil producer in Africa (after Nigeria). Angola alone accounted for 88.0 per cent of total fuel exports to India from African LDCs that did not benefit from India's DFTP over the period 1995-2015 (figure 10). Whereas with the exception of the Sudan and to some extent Malawi, no major oil producer in Africa profits from improved access to the Indian market. This is the factor behind the lower share of fuels in total exports of this country grouping to India (figure 11). Considering the lack of tariffs imposed by India on its imports of oil, regardless of the country of origin,⁹ increases in values of fuel exports from African countries to India are essentially driven by oil prices and Indian demand for fuel products, as stated earlier.

The DFTP Scheme for LDCs has had some positive effects on non-fuel exports from African LDCs to India, particularly for pearls, precious stones and non-monetary gold as well as food items, pushing the proportion of fuels exports slightly down. Despite this, the scheme has not prompted African beneficiaries to compellingly move away from exports of primary products; the share of exports of "manufactured goods" in total exports to India, which was dominant in the early 2000s, dropped from a peak of 43 per cent in 2005 to 19 per cent in 2008, and then to just 7 per cent in 2015. Accordingly, the scheme has not significantly helped African LDCs diversify their export base. Nevertheless, this is not a singular feature of the scheme, but rather a trend largely observed across preferential schemes. Figure 12 clearly shows that, irrespective of the destination of exports considered among major preference-given countries, African LDCs' exports did considerably increase over time, but remained essentially concentrated on fuels and primary commodities.

⁹ The most favoured nation status imposed by India on its imports of crude oil (for product line 270900 defined at the HS6 level of product disaggregation) is zero.

Figure 11: Evolution of exports from African least develop countries to India that benefit* from the Duty Free Tariff Preference Scheme for LDCs, by main product categories, 1995-2015 (US\$ billion)



Source: Authors' calculations based on UNCTADStat; accessed 16 January 2017.

* Those countries are: Benin; Burkina Faso; Burundi; Comoros; Central African Republic; Eritrea; Ethiopia; Gambia; Lesotho; Liberia; Madagascar; Malawi; Mali; Mozambique; Rwanda; Senegal; Somalia; Sudan; Uganda United Republic of Tanzania; and Zambia. Although Chad, Guinea, Guinea-Bissau, Niger and Togo are now benefitting from the scheme, they are not considered benefitting from it in this figure, as they only recently joined and thus the impact of the scheme by 2015 for them would be meaningless.

This weakness from trade preferences to trigger support for beneficiary countries' diversification process essentially relates to the limited capacity of preference-given countries to move away from exports of primary resources market requirements to comply with preferential schemes, and the essence and design of trade preferences.

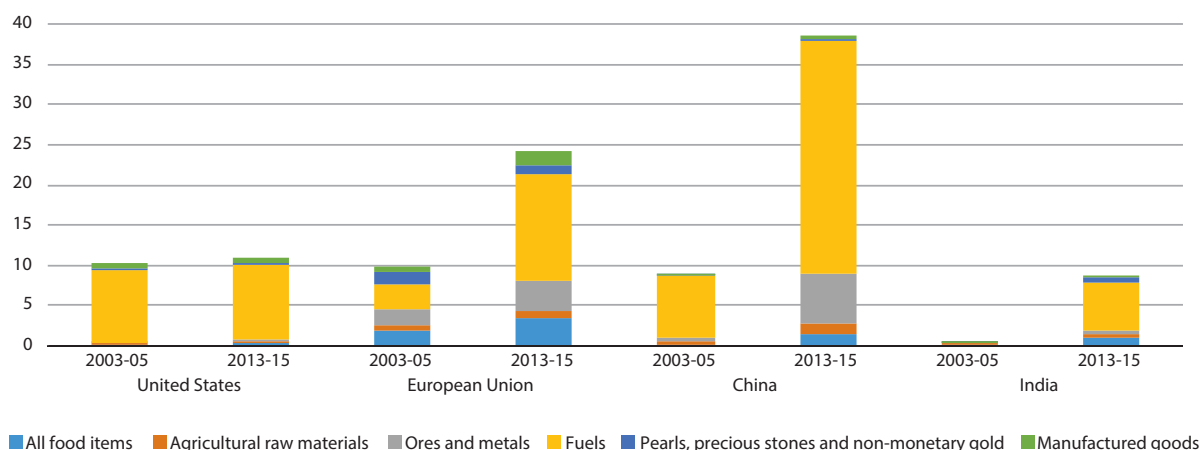
First, the optimal utilization of trade preferences by recipient countries is often strongly undermined by supply-side constraints. In particular, African countries have limited productive capacity and significant infrastructure deficits, which limit their ability to exploit trade preferences. Utilization strategies aimed at identifying and resolving binding constraints on exports by offering targeted policy options in selected sectors are potentially valuable tools to assist African countries. Such strategies are being developed for African exports to the United States under the African Growth and Opportunity Act¹⁰ and from the enabling of African countries to better utilize trade preferences granted by the United States between now and the expiry of the Act in

2025. Similar strategies could be developed in the framework of the Indian DFTP Scheme for LDCs.

Second, market requirements, such as standards, sanitary and phytosanitary measures and rules of origin, imposed by preference-giving countries are commonly difficult to meet by preference-given countries. Not only do beneficiaries of trade preferences often lack knowledge and capacity to fulfil the prerequisites, but also requirements can sometimes be cumbersome and costly to comply with. Focusing on the rules of origin of Indian DFTP, the scheme would qualify export goods – for preferential tariffs from any of the beneficiary country – that are certified as being wholly originating or obtained from this country, such as raw or mineral products, animals, plants and plant products grown or harvested in the country. A good produced from non-originating inputs can also qualify for a preference scheme as long as the good exported by a qualifying least developed country to India has undergone a change in tariff heading (CTH). For example, the imported inputs used and the transformed product to be exported do not have the same tariff heading at

¹⁰ See <https://agoa.info/toolkit/exporter-resources/national-agoa-strategies.html>.

Figure 12: Evolution of exports of African least developed countries to the top four destinations outside Africa, averaged for the period 2003-2005 compared with the averages for the period 2013-2015 (US\$ billion)



Source: Authors' calculations based on UNCTADStat (accessed 4 January 2017).

the HS6 level of nomenclature classification, and the transformation process undertaken in the least developed country has generated at least 30 per cent value added in this country, which needs to be computed based on a specific formula.¹¹ It should be acknowledged that the provisions related to the rule of origin were simplified in March 2015,¹² as follows: origin criteria was modified from CTH with minimum 30 per cent value-added rule, (CTH+30 per cent) to change in the tariff subheader (CTSH) with a minimum 30 per cent value-added rule (CTSH+30 per cent); choice was given to compute local value-added content either using the freights on board price as previously or using the exworks value;¹³ and the possibility to provide a certificate of origin in A4 size paper of white colour in the required format instead of a blue-coloured certificate, as stipulated under the DFTP Scheme for LDCs. While those improvements are valuable, it must be noted that the scheme does not allow for regional cumulation within beneficiary countries (originating inputs from each beneficiary country are considered to be originating inputs in the other beneficiary countries). Allowing for regional cumulation under the scheme would be particularly useful for African LDCs, when considering existing African

regional economic communities, and especially with regard to the ongoing process to deepen regional integration in Africa; indeed, negotiations for establishing the AfCFTA were officially launched in June 2015.

Third, unilateral in nature, trade preferences can be withdrawn or amended at any time by preference-giving countries. Clearly, this makes it difficult for beneficiary countries to build required capacities to take better advantage of trade preferences and to build, sustain and upgrade much needed regional value chains. Indeed, these imply important investments to be made when investors may be deterred by the uncertainty surrounding preferences. Although investments from India to Africa have increased over the past few years, they have remained highly concentrated in a few African countries and are strongly targeted to the natural resources sectors, with little investment directed to LDCs (see section 3). Incentives could be provided by the Government of India to promote investments from India to Africa using the scheme. For example, it could be envisaged that a zero tax rate be imposed on repatriated earnings for Indian companies that invest in non-resource intensive sectors in Africa. Such

11 Local value-added content = freight on board [FOB] price – the value of non-originating materials/FOB price * 100; the value of non-originating materials should include local profits for manufacturers and traders plus the cost of local transportation.

12 See Circular No. 29/2015-Customs (N.T.) from the Central Board of Excise and Customs, Department of Revenue, Ministry of Finance, Government of India (www.cbec.gov.in/htdocs-cbec/customs).

13 Ex-works value means that all charges (from the moment the goods leave the seller's factory or premises, such as delivery, distribution and commission) are to be borne by the buyer. In the case of FOB, the costs of movement of goods is borne by the seller. (International Trade Centre, 2015).

measures, together with targeted aid for trade, would complement and render more effective the implementation of utilization strategies that could be developed by African countries.

In sum, the Duty Free Tariff Preference Scheme for LDCs, and trade preferences in general, are useful in stimulating exports and sometimes even critical to develop or support specific industries of recipient countries, such as the development of the textile industry in Lesotho under the African Growth and Opportunity Act (ECA, 2015). However, they show a clear limit in supporting desired and essential diversification efforts of African economies. Yet, improvements can be envisaged to better address development priorities in Africa and still fulfil the objectives of India. This can be done, for example, if utilization strategies for trade preferences were to be developed by African countries or if India relaxes further market requirements with the possibility of allowing regional cumulation by African LDCs for rules of origin, and scale up financial assistance to African economies and provide incentives to stimulate investment from Indian companies towards non-extractive sectors in Africa. Nonetheless, benefits for African nations from the scheme risk being undermined by the emergence of mega-regional trade agreements, particularly the RCEP, of which India would be a member. Under the partnership, preferences are expected to decline and competition in the Indian market among African countries will increase.

Prior to assessing in greater detail the potential threats posed by mega-regional trade agreements on Africa-India trade and investment relationship and policy options available to Africa to mitigate them, it is useful to briefly review the recent investment patterns between Africa and India, and model of Aid to Africa set up by India.

3. Overview of Africa-India Investment patterns

The attractiveness of Africa as an investment destination has risen in recent years on the back of strong growth, an improved business environment and investment regulation, high rates of return on investment and a rising consumer market (ECA, 2016b). Emerging economies have also been enticed by the continent's natural resource

endowments (ECA, 2016b). In a similar vein, Anwar (2014) argues that, in addition to pull factors, investment in Africa by India is essentially driven by domestic food and energy security concerns, and a strong appetite for natural resources, thereby limiting the continent's opportunities for diversification (UNCTAD, 2013).

Investment in Africa by India dates back to the 1960s when the Indian Birla Group established a joint venture textile mill in Ethiopia. Since then, Indian investment has diversified in geographical and sectoral terms. Indian investors have expanded from the Eastern and Southern African regions, with which the country shares historical ties, to North, West and Central Africa. Indian investments are often represented in natural resource industries, textiles, information and communications technology (ICT), banking and automotive industries (ECA, 2013; WTO and CII, 2015). Specific examples of Indian investment in Africa are in extractive industries, such as the state-owned Oil and Natural Gas Corporation (Côte d'Ivoire, Libya, Mozambique, Libya, South Sudan and Sudan), coal (Mozambique and Zambia) and copper (Zambia); agriculture, including tea production (in Uganda and Rwanda) and floriculture (Ethiopia and Kenya); services, such as telecommunication and health care (Kenya), information technology (Ethiopia and South Africa), banking (Botswana, Ghana, Kenya, Mauritius, South Africa, Uganda, Zambia and Mauritius); industry, such as manufacturing (Ghana and Nigeria), pharmaceuticals (Nigeria), steel (Zimbabwe), textiles (Egypt) and automotive (Morocco, Nigeria, South Africa and Tunisia); and utilities, namely electricity in Nigeria.

Between 2010 and 2014, Indian foreign direct investment (FDI) stocks in Africa tended to oscillate, but they ultimately rose from US\$ 11.9 billion to US\$ 15.2 billion. Over the same period, FDI stocks from Africa in India increased from US\$ 57 billion to US\$ 73.3 billion. FDI stocks from Africa in India accounted for almost 23 per cent of the country's inward FDI stocks, while its investment exposure to the African continent amounted to 16 per cent.

It must be noted that Mauritius accounts for the vast majority of both inward and outward FDI movements between India and Africa (table 1).

Table 1: Top five African recipients of Indian foreign direct investment versus top five African emitters of foreign direct investment to India – stock at the end of 2014 (US\$ million)

Top five African recipients of Indian FDI	
Mauritius	13 798
South Africa	366
Mozambique	271
Nigeria	239
Libya	177
Top five African emitters of FDI to India	
Mauritius	72 967
South Africa	159
Seychelles	61
Swaziland	48
Morocco	25

Source: International Monetary Fund (IMF) (2015).

Mauritius is a widely used conduit for Indian inward and outward FDI, owing to the island nation's advantageous tax conditions and suitable financial facilities¹⁴ (UNCTAD, 2013). Indian foreign investment flows are often channelled through Mauritius before they reach other African countries. Mauritius accounts for about 91 per cent of the FDI from India on the continent. Conversely, international companies also often re-route their investments in India through Mauritius. The island nation reports more than 99 per cent of FDI from Africa in India. However, the situation is expected to change significantly, because from 1 April 2017, India negotiated an amendment with Mauritius to their Double Tax Avoidance Convention, which had been in effect since 1983.¹⁵

India has signed 13 bilateral investment treaties with African countries, of which, to date, eight have come into effect. In line with the wider African trend, most of these agreements were signed between the late 1990s and the end of the first decade of the new century (table 2). While those treaties can be useful for increasing international investors' confidence, countries willing to develop those policy frameworks need to carefully balance investors' protection, allowing necessary policy space to domestic policymakers to pursue national developmental objectives (ECA, 2016b).

¹⁴ Based on IMF data for the year 2014, Mauritius accounted for about 91 per cent of FDI stocks in India in Africa.

¹⁵ See News flash, "Updates on the tax treaty between India and Mauritius and impact on Singapore", www.pwc.com/sg/en/tax-newsflash/assets/taxnewsflash-201605.pdf, for more details.

Table 2: Bilateral investment treaties between African countries and India

Partner	Date of Signature	Date of Entry into Force
Democratic Republic of the Congo	2010	-
Djibouti	2003	-
Egypt	1997	2000
Ethiopia	2007	-
Ghana	2002	-
Libya	2007	2009
Mauritius	1998	2000
Morocco	1999	2001
Mozambique	2009	2009
Senegal	2008	2009
Seychelles	2010	-
Sudan	2003	2010
Zimbabwe	1999	-

Source: ECA based on the UNCTAD International Investments Agreements Navigator. Available at <http://investmentpolicyhub.unctad.org/IIA>.

4. An Indian model of aid to Africa

It has been observed by multiple scholars of Africa-India trade relations that development cooperation has been a major part of the policies of India concerning Africa. Indian investors have found fertile ground in Africa for brown-field and green-field investments. India has been following a path of economic diplomacy. It has specifically aimed to push forward its role as an aid donor rather than a recipient in collaboration with the private sector. Biswas and Dubey (2016) observe, "As highlighted by Ian Taylor, India prefers not to talk in terms of aid, but rather development cooperation under the rubric of South-South solidarity ... South-South development cooperation is a concept receiving greater attention as developing countries gain increasing weight in the global political economy". This is also shown at the international stage in which India and the African countries have taken a common stand during the Doha round of negotiations. Cooperation at the international level adds to the bargaining power that developing countries hold with respect to the West in terms of trade negotiations.

The approach of India towards Africa has been commended for its unconventionality. According

to Alden and Verma (2016), "The Indian private sector has played a crucial part in expanding the country's economic interests in Africa". Scholars have noted the commitment to adding "genuine value". "India looks towards Africa as a partner in securing energy and industrial resources ... It seeks long-term, mutually beneficial relationships ... a conscious decision ... [aimed at] the empowerment of people and capacity building, [and at] value addition" (Alden and Verma, 2016).

African countries and India have been cooperating in such areas as education, health and ICTs. Internationally, they have been cooperating on such issues as sustainable development and climate change, in which there is a more or less clear cut divide between the positions of the developed and the developing world.

At successive India-Africa conclaves and forums, the idea "that economic ties should encompass areas such as technology transfers that are "appropriate, affordable, and adaptable" has been promoted (Alden and Verma, 2016).

To date, India and African countries have reached many notable agreements on technology transfer beyond financial trade, such as extending lines of credit (LoC) from the New Partnership for

Africa's Development (NEPAD) internationally to the Indian Technical and Economic Cooperation Programme, under the Development Partnership Administration domestically, from which more than 30 African countries benefit.

This is in line with the push towards structural (economic) diplomacy that India has been following.

The way India is involved in providing development assistance to countries in Asia and Africa suggests that there exists an Indian model of aid too, based on a holistic approach which arguably encompasses economic cooperation (including infrastructure, aid-for-trade), humanitarian assistance and community development, education and capacity building and technical assistance. These parameters of cooperation have largely revolved around improving climate for trade and investments which gives a desired sustainability to the Indian model of Aid. India works on the approach of partnership for development and not necessarily on the donor-recipient relationship [*sic*] (Ahmed and Singh, 2014).

Ahmed and Singh (2014) identify three areas in which development aid is provided by India, "Economic cooperation and technical assistance ... Humanitarian assistance and community development ... Education and capacity building".

However, a major problem that still persists, as elucidated above, is the skewed balance of trade, with Africa exporting more raw materials and natural resources while India exports finished products. Africa has continued to export only low value-added goods. Lack of support infrastructure is a major reason for this, as it precludes effective technology transfer. This is directly linked to the dearth of public involvement compared to the degree of private sector involvement. More details on this issue are provided in part II.

Looking forward, a number of actions could be undertaken to improve investment ties between Africa and India. Policymakers need to push for robust backward and forward linkages with India. For example, resource-rich countries could put in place strategies to cultivate backward and forward processing linkages of Indian investment with the commodity sectors (ECA, 2013). Greater participation of domestic companies in the Indian value chains should be an objective of African countries (ECA, 2013). Taking inspiration from India, Africa should also seek to leverage traditional and home-grown know-how and adopt foreign technologies that come with investment to the local context (ECA, 2016b). Enterprise networks and clusters offer a practical solution to facilitate technology transfer and entry into GVCs. Promoting technology and skills transfers through investment would catalyse structural transformation against the backdrop of significant natural resource endowments, improvements in educational outcomes and a significant and growing young population. African economies need to establish appropriate institutions, processes and mechanisms to ease companies' access to novel technologies (ECA, 2013). Stronger domestic institutions, to ensure local knowledge generation capacities and dialogue with domestic stakeholders, such as members of the private sector, civil society and academia, would empower African policymakers to ensure that investment agreement negotiation outcomes meet the needs, objectives and aspirations of their countries (ECA, 2013). Collaboration with Indian businesses could also be facilitated through engagement of the diaspora of Indian descent, estimated at more than two million people, concentrated particularly in Ghana, Kenya, South Africa and Uganda (Balasubramanyam, 2015).

However, both trade and investment trends between Africa and India need to be put into perspective with the rapidly changing global trade and investment landscapes.

5. Implications of the emergence of mega-regional trade agreements on Africa-India trade and investment relations

While the number of regional trade agreements has considerably increased since the early 1990s,¹⁶ partly as a response to slow progress made in the multilateral trading system, the current trend is for many countries to come together into regional blocks that are significantly larger in terms of their shares in world population, gross domestic product (GDP), trade and investments. These larger blocks are commonly referred to as mega-regional trade agreements. Over the past few years, essentially three major mega-regional trade agreements have been under negotiation: the Transatlantic trade and investment partnership (TTIP) between the European Union and the United States; the Trans-Pacific partnership (TPP) between the United States and 11 countries from the Pacific Rim;¹⁷ and the regional comprehensive economic partnership (RCEP), which would bring together the ten ASEAN members with six other countries in Asia and the Pacific,¹⁸ including India.

The TPP was signed on 4 February 2016, but the announcement by the United States of its withdrawal from the agreement on 23 January 2017 somewhat delayed if not jeopardizes the ratification. Similarly, and beyond the current political stance of the United States, there is an increasing number of people demonstrating against the TTIP across Europe; France has expressed its unwillingness to continue with the negotiations.¹⁹ The decision by the United Kingdom to leave the European Union also adds

to the uncertainty. Negotiations under the RCEP are progressing at a relatively slow pace, with 16 rounds of negotiations held since 2013.²⁰ Nonetheless, the fact that the TPP and the TTIP are unlikely to translate into meaningful agreements soon may be seen as an opportunity for the negotiating Parties of the RCEP, particularly China, to play a central role in the trade arena, hence speed up their negotiations and possibly reach an agreement in the near future.

A recent study by ECA²¹ relying on a Computable General Equilibrium analysis assessed the expected economic effects of the possible implementation by the end of 2017 of three major mega-regional trade agreements on African economies. Findings confirm that African countries will be adversely affected by the mega-regional trade agreements as a result of the expected erosion of preferences and increased competition in the mega-regional trade agreements markets. Overall, total exports from Africa would decrease by about US\$ 3 billion in 2022 as compared to a situation without mega-regional trade agreements.²² While this is not a considerable decline, it should be noted that it is only a net global effect. Indeed, broken down by destination, exports from Africa would decrease sharply towards RCEP members (by nearly US\$ 11 billion) but increase almost everywhere else outside Africa²³ (by about US\$ 8 billion), including to some mega-regional trade agreement markets outside of the RCEP, such as the European Union (US\$ 1.5 billion) and the United States (US\$ 2.5 billion). This is explained by the expected extremely large increase in intra-RCEP trade, following formation of the partnership, to the detriment of third countries that will see their export shares to the RCEP member countries decrease. The RCEP economies altogether would grasp the bulk of

16 The cumulative number of physical regional trade agreements in force increased from below 50 in 1990 to 267 in 2016; www.wto.org/english/tratop_e/region_e/regfac_e.htm.

17 Outside the United States, the Trans-Pacific Partnership members are Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore and Viet Nam.

18 The 16 countries that are part of the regional comprehensive economic partnership are the ten ASEAN members, Brunei Darussalam, Cambodia, Indonesia, Malaysia, the People's Republic of Laos, the Philippines, Singapore, Thailand and Viet Nam, in addition to Australia, China, India, Japan, the Republic of Korea and New Zealand.

19 See Nienabar (2016) and Farrell (2016).

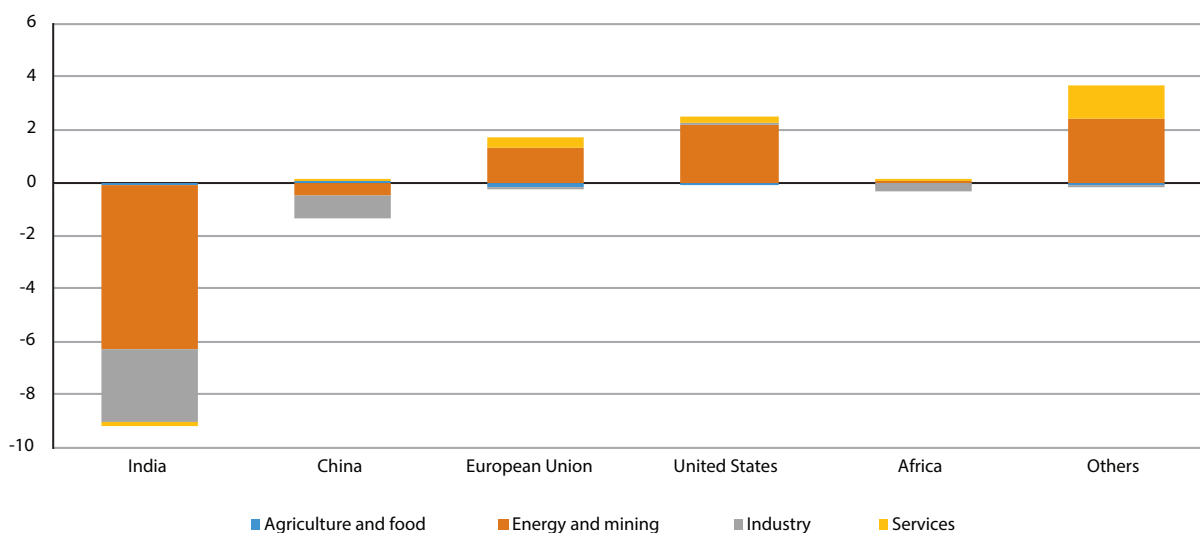
20 The seventeenth round of negotiations was scheduled to take place from 27 February to 3 March 2017 in Kobe, Japan.

21 See Mevel and Mathieu (2016) for full details and main model specifications.

22 While the reforms are assumed to be implemented by the end of 2017, results are given in 2022 because it takes time for the variables to adjust in the Computable General Equilibrium model used for assessment.

23 Intra-African trade would not increase but actually be marginally reduced by US\$200 million. Justification of this outcome is provided at the end of the current paragraph.

Figure 13: Changes in African exports by main destinations and sectors following the establishment of the mega-regional trade agreements, relative to the baseline, 2022 (US\$ billion)



Source: Mevel and Mathieu (2016).

trade benefits (93.2 per cent, with China reaping more than one-third of the share of benefits and India reaping 14 per cent) among mega-regional trade agreement members. African countries would still be able to seize export opportunities, although essentially for fuel products, in the European Union and United States markets where they enjoy trade preferences²⁴ and the competition from RCEP members would decline slightly, as RCEP nations would be more inclined to trade among themselves. Among the three mega-regional trade agreements under negotiation, the RCEP would have the greatest impact on third countries and be the most trade-diverting for Africa.

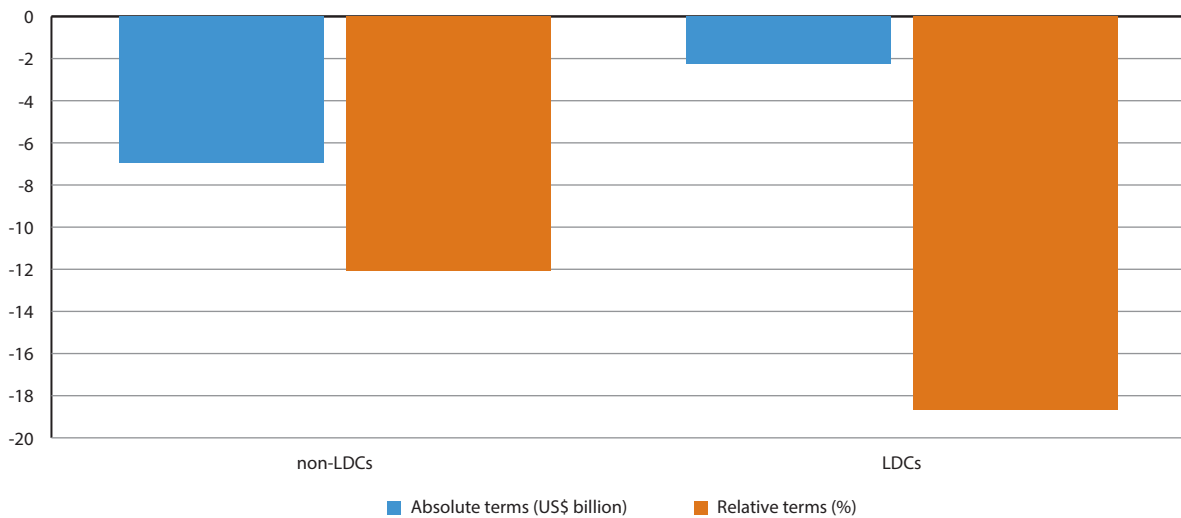
The rest of the section draws from findings of ECA analysis but goes beyond the reference paper in terms of details and unpacks the net global effect focusing on the Africa-India relationship.

Figure 13 further shows that the largest decline in exports from Africa would be to India and the significant magnitude of the decline would be US\$ 9.2 billion (or 13.2 per cent) worth of exports from Africa to India by 2022, compared to a situation in which the RCEP had not taken effect. Moreover, if more than two thirds of the reduction

relates to energy and mining products, which is no surprise considering the strong concentration of exports from Africa to India in those products, another third of the decrease would be felt in industrial products, thereby undermining Africa's industrialization through trade. Furthermore, it could be considered that as Africa loses ground in India following the RCEP, it could look to its internal African market to at least offset part of its trade loss. However, it should be noted that African exports to India largely consist of energy and mining products, which is less in demand in Africa; this is why Africa is redirecting some of its exports of energy and mining from India, and to some extent, China, to the European Union and the United States where African countries largely maintain their preference margins. Moreover, RCEP members' considerably higher revenue from deepened regional integration and specifically increased trade with their counterparts, as well as the greater competitiveness of the member economies, would allow them to expand their trade outside member countries. For example, India's exports to Africa would increase by US\$ 5.7 billion (or 13.2 per cent) following the establishment of the RCEP. This simply puts pressure on the African market, and intra-African trade would not increase after the partnership is realized. Instead it would

²⁴ Under the Everything But Arms initiative or Economic Partnership Agreements with the European Union and the African Growth Opportunity Act with the United States.

Figure 14: Changes in exports to India from African non-least developed countries versus African least developed countries following the establishment of mega-regional trade agreements, relative to the baseline, 2022



Source: Authors' calculations based on the MIRAGE CGE model.

decline marginally, by US\$ 200 million. That effect would result in a deterioration in the trade balance in Africa.

The decline in total exports from Africa, especially to India, conceals the strong disparities at country and sector levels. In absolute terms, the drop in African total exports to India would be the largest among non-least developing countries, amounting to three quarters of the total, or nearly US\$ 7 billion (figure 14). This is in line with the current shares of the exports to India from African non-LDCs and African LDCs (figure 7) and the relative significantly greater economic size of non-LDCs in Africa. However, and probably of more importance, African LDCs would suffer more than non-LDCs in relative terms following the establishment of the RCEP, with exports to India from LDCs and non-LDCs expected to decrease by 18.7 per cent and 12.1 per cent, respectively (figure 14). This confirms that the establishment of the RCEP would undermine trade benefits extended to African LDCs eligible to participate in the DFTP Scheme for LDCs. Preference margins for African LDCs would decrease and they would face greater competition from non-least developed country

members of the RCEP that are not eligible to take advantage of the DFTP scheme.

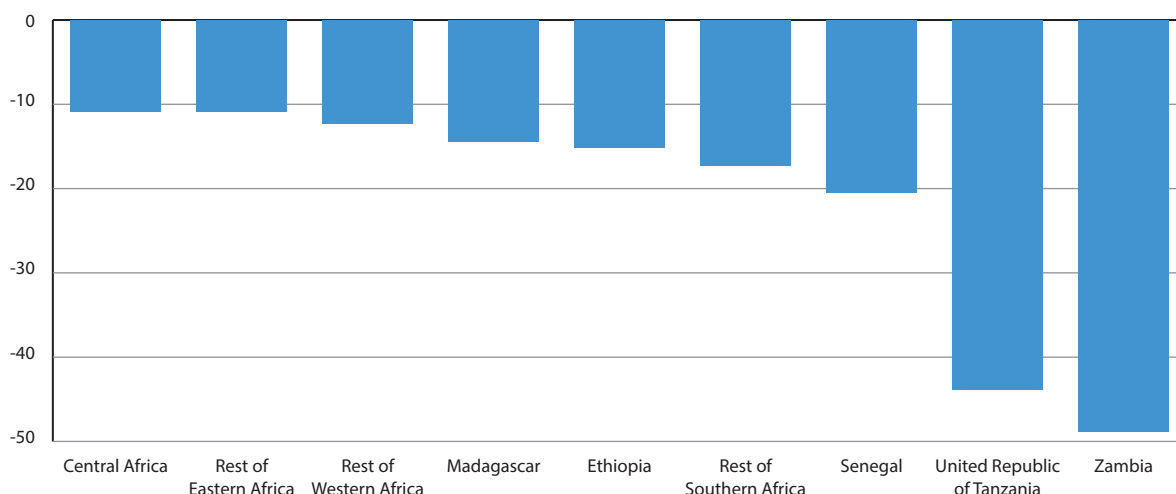
A further breakdown by least-developed country or region²⁵ indicates that the decrease in African exports to India would be uneven but substantial for all country groupings, ranging from -10.3 per cent for LDCs from Central Africa to as much as -43.9 per cent for the United Republic of Tanzania and -48.8 per cent for Zambia (figure 15). As a consequence, the RCEP would have negative effects for the Africa-India trading relationship.

Crossing country, region and main sector information, figure 16 illustrates that exports from African LDCs to India would not just lead to a reduction in energy and mining products, but also affect industrial products, with a decrease of at least 20 per cent everywhere and agriculture and food products, with reductions reaching 10 per cent or more for Central Africa, Madagascar, Zambia and Rest of Southern Africa.²⁶ It should be noted that the outcome could even be more negative for African countries as the analysis does not consider any liberalization of trade in services due to data limitation, whereas it is envisaged under the RCEP.

²⁵ Countries and regions matching the geographic decomposition of the ECA modelling, which is constrained by information available in the Global Trade Analysis Project (GTAP) database.

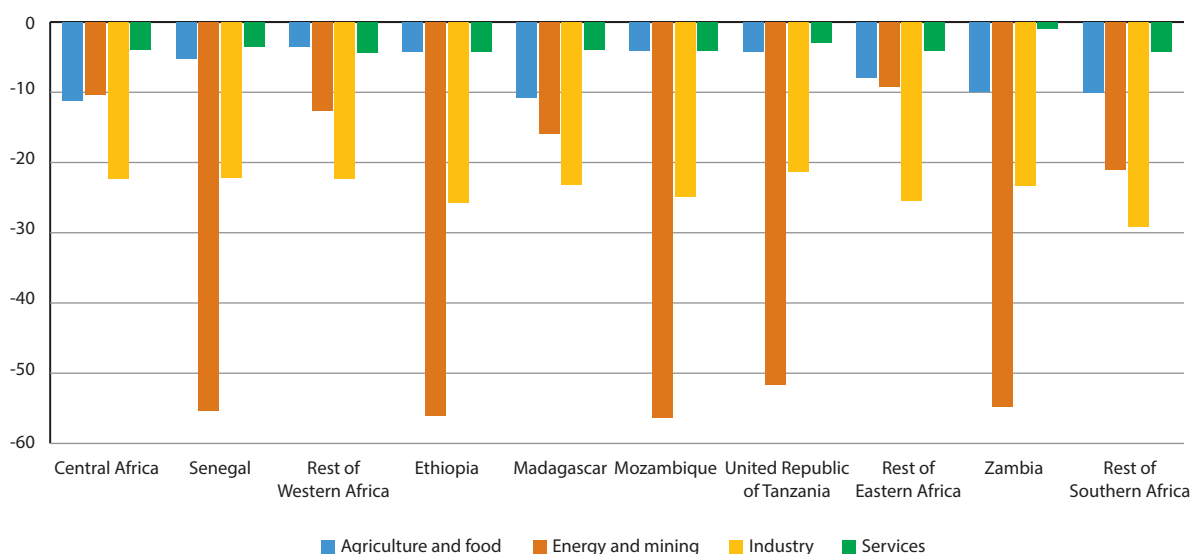
²⁶ The effect observed in services is meaningless because no liberalization in services sectors was undertaken in the analysis.

Figure 15: Changes in African least developed countries' exports to India following the implementation of the mega-regional trade agreements, relative to the baseline, 2022



Source: Authors' calculations based on the MIRAGE CGE model.

Figure 16: Changes in African least developed country exports to India by main sectors following the implementation of mega-regional trade agreements, relative to the baseline, 2022 (%)



Source: Authors' calculations based on the MIRAGE CGE model.

Beyond trade in goods and trade in services, the RCEP negotiating mandate encompasses investment and other subjects, such as intellectual property rights, economic and technical cooperation, competition, e-commerce, small- and medium-sized enterprises and dispute settlement.

Most provisions of the key areas under negotiation in the agreement are not fully known

and, therefore, it is difficult to precisely assess potential impacts it may have on its members and third countries. For example, it is not yet clear whether the investor-to-state dispute settlement would be included in investment provisions of the agreement. The investor-to-state dispute settlement allows foreign investors to sue the host government through international arbitration, thereby undermining the government's ability to regulate. It has pushed many countries, including

India,²⁷ to withdraw from bilateral investment treaties. However, beyond internal issues that may delay negotiations, it would be expected that agreed provisions mostly are aimed at facilitating investment between the RCEP members and improve transparency in investment relations among the members. This could have adverse effects on third countries by redirecting some of the RCEP countries' investments to their RCEP counterparts and away from outsiders. In that sense, the establishment of RCEP could pose challenges with regard to Africa-India investment relations.

Accordingly, Africa must provide an effective response that is capable of mitigating losses for African countries expected to be brought by the establishment of the RCEP if it is established. Similarly, Africa and India should devote efforts towards building a solid partnership that can boost their two-way trade and investment flows, which risk being weakened if the RCEP is to be established.

6. Establishing the African Continental Free Trade Area as a prerequisite for deeper trade and investment partnership between Africa and India

At the June 2015 African Union Summit, negotiations to establish the AfCFTA were officially launched, with the objective to reach an agreement initially by the end of 2017 and now by March 2018. The scope of the AfCFTA is ambitious and includes trade in goods, trade in services, investment, movement of natural persons, intellectual property rights, competition policy, dispute settlement rules and procedures. Although negotiations will not be concluded in all areas by March 2018, it is expected that substantial progress will have been achieved at least on trade in goods and trade in services.

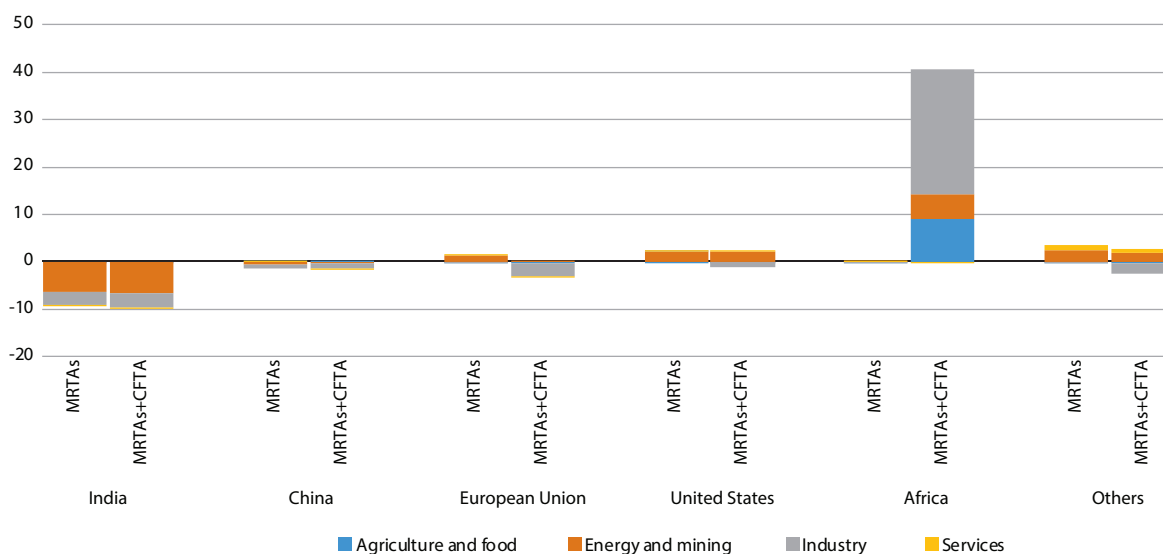
Recent ECA analytical work focusing on the implications of mega-regional trade agreements

on African countries provides useful insights on the crucial role that the AfCFTA would play in mitigating any possible trade losses for Africa following the formation of the mega-trade blocks. Indeed, the AfCFTA could function as the continent's own mega-regional trade agreement. Under that scenario, Africa would shift from being a net loser to a net winner with respect to a variation of its exports. Precisely, whereas total exports from Africa would decrease by about US\$ 3 billion with the establishment of mega-regional trade agreements outside Africa, they would strongly increase by US\$ 27.5 billion in 2022 if the AfCFTA was to be established in parallel. This could be explained by an expected impressive surge in intra-African trade, which would progress by as much as US\$ 40.6 billion (or 39.9 per cent), while African exports would decline almost everywhere else. Indeed, nearly two thirds of the intra-African trade creation would involve industrial products, thereby offering positive prospects for much needed industrialization in Africa. Moreover, the reduction in African exports to non-African partners under the AfCFTA would not be much more pronounced under the scenario that if only external mega-regional trade agreements were to be established. For example, total exports from Africa to India would decrease by US\$ 9.8 billion after the establishment of the AfCFTA in parallel with the establishment of other mega-regional trade agreements, against US\$ 9.2 billion in the case in which only mega-regional trade agreements are realized. Similarly, Indian exports to Africa, which would increase by US\$ 5.7 billion (or 13.2 per cent), under the scenario of the establishment of the mega-regional trade agreements, as compared with increasing by US\$ 4.3 billion (or about 10 per cent) if the AfCFTA were to be set up. Hence, the creation of the AfCFTA would have marginal effects on Africa-India trade relations, which would essentially be negatively affected by the creation of the RCEP.

Moreover, the AfCFTA offers important opportunities for Indian firms and investors. It provides a potentially larger, unified, simplified and more robust African market to tap into. Nonetheless, Africa should not just be seen as a

²⁷ As of 26 July 2016, out of 83 BITs signed by India, 58 are being terminated, see <http://dipp.nic.in/sites/default/files/lu1290.pdf>.

Figure 17: Changes in African exports by main destinations and sectors following the establishment of mega-regional trade agreements alone versus the establishment of mega-regional trade agreements in parallel to the African Continental Free Trade Area, relative to the baseline, 2022 (US\$ billion)



Source: Mevel and Mathieu (2016).

Notes: MRTA, mega-regional trade agreements.

destination for short-term returns, but also as a partner for a solid medium- and long-term relationship.

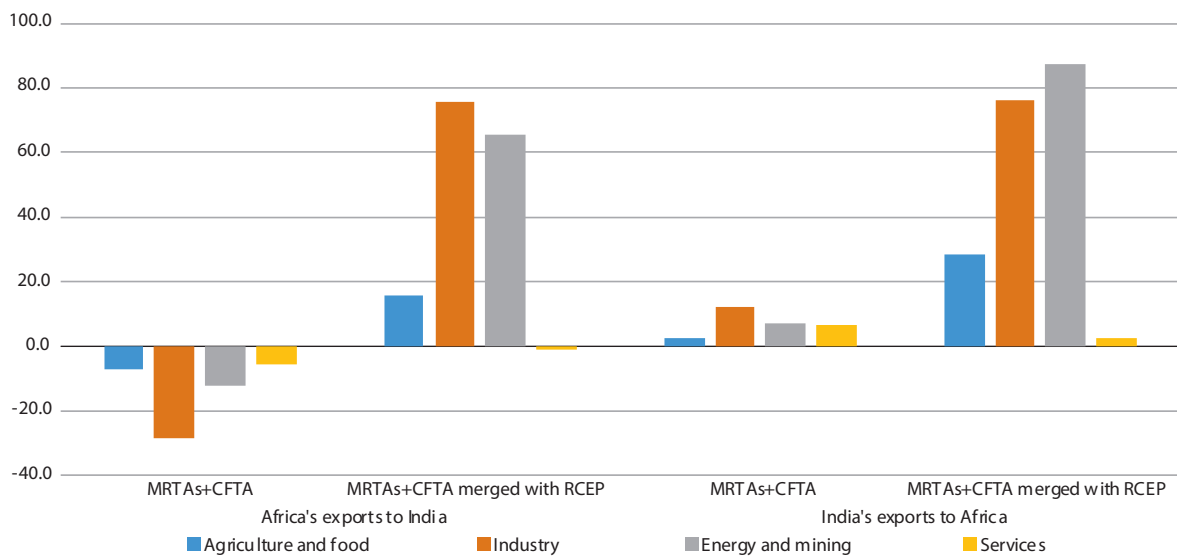
For example, if Indian and more broadly Asian countries' traders and investors are increasingly targeting Africa as a market of choice, it is sometimes perceived as a way for them to indirectly take advantage of preferential trade programmes offered to African countries by third parties. The third-country fabric provision, which allows some African countries eligible to preferences under the African Growth and Opportunity Act preferences granted by the United States to source raw material from third countries, including China and India, for making clothes that can be exported duty-free to the United States, provides a good illustration. The third-country fabric provision under the African Growth and Opportunity Act has proven to be vital, especially following the removal of the Agreement on Textiles and Clothing that ended quotas on these products, to shield Africa's textile and apparel industry and being a vector for job creation. Surely, Asian investors have played a positive role in the development of Africa's textile and apparel industry under the African Growth and Opportunity Act and massively invested in

African export processing zones. Nevertheless, there are also criticisms that, in particular, Chinese and Indian firms have greatly benefitted from African countries preferences under the Act, undermining the gains for Africa.²⁸ Without trying to assess whether the pros outweigh the cons or vice versa, targeting the African market for its unilateral preferences granted by third parties, which by nature are unpredictable, does not correspond to a long-term vision for a solid Africa-India partnership.

Actively supporting Africa's ongoing integration efforts may be an objective for India, as this would contribute towards building confidence between the two partners and could be the basis for successful negotiations aiming at reciprocal market access as well as offer greater investment opportunities. Such an approach would certainly avoid a similar situation than the one generated by the Economic Partnership Agreements between the European Union and five African negotiating blocks. Indeed, the negotiations for the Economic Partnership Agreements, which started about 14 years ago, do not match the current aspirations of Africa in terms of regional integration towards a unified rather than fragmented continent. Also,

²⁸ See, for example, Ormondi (2017) and African Business (2017).

Figure 18: Changes in African exports to India and Indian exports to Africa by main sectors following mega-regional trade agreements in parallel to the African Continental Free Trade Area versus mega-regional trade agreements in parallel to the African Continental Free Trade Area merged with the regional comprehensive economic partnership, relative to the baseline, 2022 (per cent)



Source: Authors' calculations based on the MIRAGE CGE model.

Notes: MRTA, mega-regional trade agreements; RCEP, regional comprehensive economic partnership.

there have been doubts among African countries regarding the expected benefits from the Economic Partnership Agreements and a growing lack of understanding between the European Union and its African counterparts during the course of the negotiations. Recent empirical work of ECA on mega-regional trade agreements envisaged a scenario in which Africa and RCEP countries could come together in a large regional block after they have concluded their respective integration processes, the AfCFTA and RCEP. This scenario, admittedly hypothetical, shows interesting outcomes. As illustrated in figure 18, Africa and India would considerably expand their trade with each other, and in relatively comparable proportions. The composition of trade would evolve compared to the current situation as African exports to India would increase mostly in industry, whereas Indian exports to Africa would be the largest in energy and mining. Conversely, it should be noted that those are relative changes. In absolute terms, the highest increase in African exports to India would still be in energy and

mining, but with exports from industry catching up, which offers an interesting prospect for diversification of exports and industrialization in Africa. Similarly, Indian exports to Africa would still mostly increase in industry, but the share of energy and mining would be increasing.

It must be reiterated that Africa would need to have sufficiently integrated markets, through the AfCFTA, for such positive outcomes to materialize for both Africa and India. The engagement of India in support of the AfCFTA could accelerate the process by helping African countries address supply-side constraints and bottlenecks and build or move up the value chains. The African Trade Policy Centre of ECA and the CII should continue to work closely together to identify the sectors of interest for India that offer promising opportunities for development in Africa in the context of the AfCFTA reform, and particularly as far as the potential for regional value chains is concerned.

II. Boosting Indian Investment in Africa: Indian Industry Perspective

In this part of the report the disablers and enablers to Indian trade and investment with Africa are examined along with some case studies to illustrate challenges and opportunities for the private sector's engagement in Africa and India.

From bureaucratic hurdles to limited infrastructure, trade and investment between India and Africa suffer from both structural and institutional problems. In multiple reports, the various bottlenecks that Indian investors face in Africa and vice versa have been identified. Those issues, however, have not stood in the way of efforts to keep up the momentum for a strengthened India-Africa trade and investment partnership. India has become one of the largest investors on the African continent by making trade and investment an integral part of diplomatic policies that guide relations between the two partners.

Indian forays into the African market have been aided and abetted by the Indian private sector, unlike some other countries where the public sector has successfully taken the initiative. Tata, one of the largest Indian conglomerates, set up offices in Africa as long ago as in 1994. Indian investors, including public sector units, have been aware of, and made serious attempts to use the opportunity that the African market represents. As noted in an earlier section, Indian involvement in African markets has been diverse. However, as many scholars have observed, trade has been hampered over the years by complicated regulations on both the Indian and the African side. This, in addition to the infrastructure deficit

mentioned earlier, increases the transaction cost of investing in Africa. The continent's vulnerability to economic shocks and unstable governments adds to the uncertainty and therefore the risks of investing.

Among various reports that have identified the bottlenecks that investors face, the authors of an Institute of Security Studies paper focusing on India-South Africa relations observed:

[a] lack of information, particularly online data, for Indian companies doing business in Africa ... Other factors that hinder Indian investment in South Africa are inadequate and inefficient infrastructural services, low levels of human capital and development and non-conducive investment policies ... Difficulty in obtaining business visas ... (Lucey and Makokera, 2015).

The issues discussed are not limited to South Africa, which the authors recognize is more developed than several other African countries. These are also extendable to other parts of the region. Challenges abound in terms of:

the poor business environment, the absence of bilateral investment agreements, the limited capital resources ... While larger Indian multinationals have the requisite resources to conduct the necessary background research and presumably offset the worst of these concerns ... they are not immune to these difficulties (Alden and Verma, 2016).

1. Doing business with Africa – disablers and enablers for trade and investment

In 2015, CII conducted an internal survey of more than 200 Indian companies involved in the African market as importers, exporters, or investors. The study was carried out to obtain a clearer picture of Indian business in Africa, the sectors they are involved in, and especially the issues they face in conducting business in Africa.

A total of 267 companies were surveyed, of which 219 fall under the micro-, small-and medium-sized enterprises (MSME) category. The survey included both members and non-members of CII. Most of the survey respondents reported to have employed at least some local labour. While the smaller companies did not employ many locals, the medium-sized companies employed between 50 and 1,000 local employees, and the largest company surveyed employed 4,000. This shows the positive impact of Indian industry in Africa on job creation.

1.1 African Regional Integration

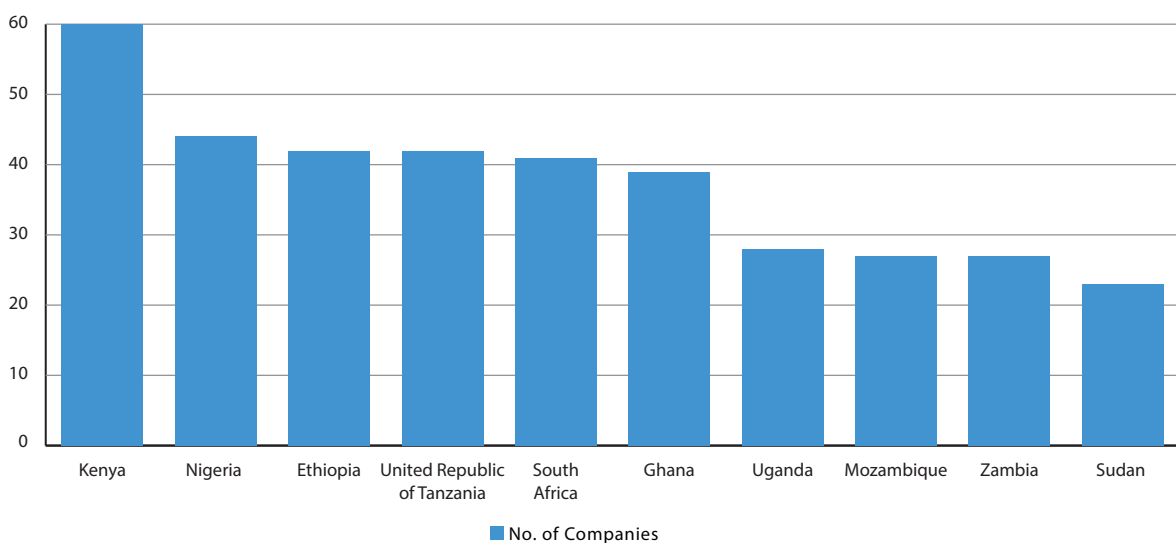
Figure 20 depicts the major issues that Indian industry has faced in Africa as conveyed to CII in the survey. The figure depicts the more serious concerns that have a direct or indirect impact on the trading environment and effect the integration of production into global value chains. The more serious concerns are the lack of skilled labour, lack

of infrastructure, political instability and the lack of reliable local partners. Those issues have persisted for years, as witnessed by a review of literature from as far back as ten years ago, which signifies that urgent reforms are needed in Africa to address them. Any reform that has taken place to date has evidently taken place at a very slow pace.

Some of the companies also identified poor regional market integration as a problem. In particular, poor integration makes it more difficult to move products across borders. It is for practical reasons, therefore, that India should support any integration efforts on the continent. This is likely to result in various advantages pertaining to trade facilitation and value chain integration. Integration would facilitate movement of goods irrespective of the stage of production that the industries are at. In the long term, this would also translate to greater value addition within Africa. It would mean lower transaction costs as moving products across borders would become cheaper.

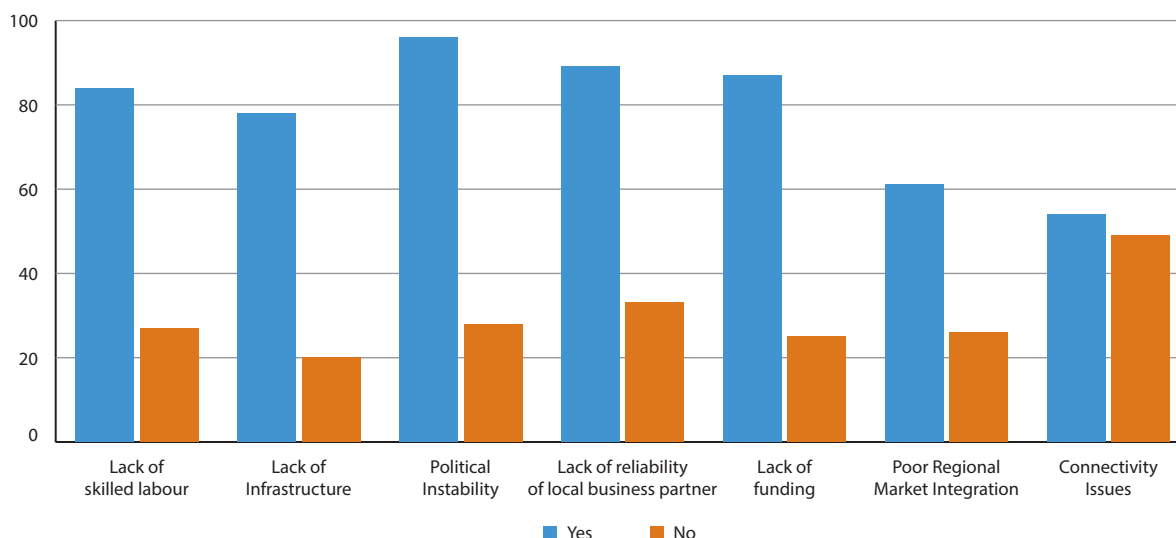
As Broadman (2008) observed, Asia and Africa have different comparative advantages as regards labour, resources, and capital endowments, which makes them “complementary business partners”. He explains how this complementarity could lead to greater trade between India and Africa, and Asia in general, which then is expected to have a positive impact on helping Africa move beyond exports of products at the bottom of the value chain. He states that “Indian firms in Africa are at the

Figure 19: Top ten countries in Africa by level of Indian industry presence



Source: CII (2015).

Figure 20: Trade and investment issues faced by Indian industry doing business in Africa



Source: CII (2015).

vanguard of the integration of Africa’s economies”. However, he warns against the “spaghetti bowl” of Free Trade Agreements (FTAs) that have become the bane of the multilateral trading system. Customs unions, as many have argued, should aim to facilitate harmonization of standards and regulations that go beyond WTO requirements. They should not advance competing standards that then become too complicated to navigate.

As discussed earlier, AfCFTA is expected to mitigate trade losses for Africa from RCEP and other trade blocks. It is also expected to increase intra-Africa trade. This would have positive effects on the competitiveness of African products and African countries’ participation in the global trading system (Mathew, 2014). Thus, African integration could be a highly effective enabler of trade and investment on the continent – not just with India, but overall.

1.2 The Asia-Africa Growth Corridor

The Asia-Africa Growth Corridor (AAGC) is a joint programme launched by the Prime Ministers of Japan and India for promoting development cooperation with Africa. It would also contribute towards greater value chain integration. While currently only India and Japan are involved, the Asia AAGC is also open to participation from other Asian nations.

Broadman (2008) argues that Indian companies entering the African market vary in size and are

likely to be private sector enterprises or public-private partnerships (PPPs). This has implications for how they perceive and respond to the risks of entering this market. They depend more on the availability of domestic facilities, such as physical infrastructure, skilled labour and simple regulations. The aim of the AAGC is to facilitate trade between Asia and Africa by addressing some of those issues. The four identified pillars of the programme according to the AAGC vision document include “enhancing capacity and skills, quality infrastructure and institutional connectivity, development and cooperation projects, and people-to-people partnership” (Research and Information System for Developing Countries, Economic Research Institute for ASEAN and East Asia and Institute of Developing Economies Japan External Trade Organization, 2017).

As the project is supported by the Governments of India and Japan at the highest level, it will alleviate political risk, which was identified by Indian industry as an issue they face when trading in Africa, as seen in figure 20. As Mathew (2014) notes, African countries often lack “strong, stable governments and other public institutions with good macroeconomic conditions ... key challenges include ... economic fundamentals, and creating a predictable business environment”.

With the AAGC, risk would be spread and therefore shared, thus reducing the burden of loss on any single entity. It also fits the bill of development

for “mutual benefit”, the line that the Indian State adopts in all its development cooperation projects.

Africa has been at the centre of India’s “aid-for-trade” initiatives for a substantial period of time. As discussed earlier, India follows a path of economic diplomacy. The country, according to Ian Taylor, uses three channels as a part of its economic diplomacy, technical cooperation, lines of credit (LoCs), and grant assistance. Africa receives more of the former two. This includes skills-based knowledge transfers and capacity-building programmes. India does not prefer grant assistance because it is a transferable model. The other two are non-transferable models, which are arguably less open to abuse.

The AAGC, then, fits the Indian model of diplomacy in multiple ways. It even identifies possible focus sectors, such as agriculture and agro-processing, health, pharmaceuticals and disaster management, also identified in the vision document. All of those sectors, if examined at a macro level, serve a larger purpose with respect to sustainable development and access to basic necessities, such as food and affordable health care. This is not just in line with the national interests of the countries involved, but also with their larger multilateral commitments. The political dimension driving the AAGC is one of its key advantages since it would have positive

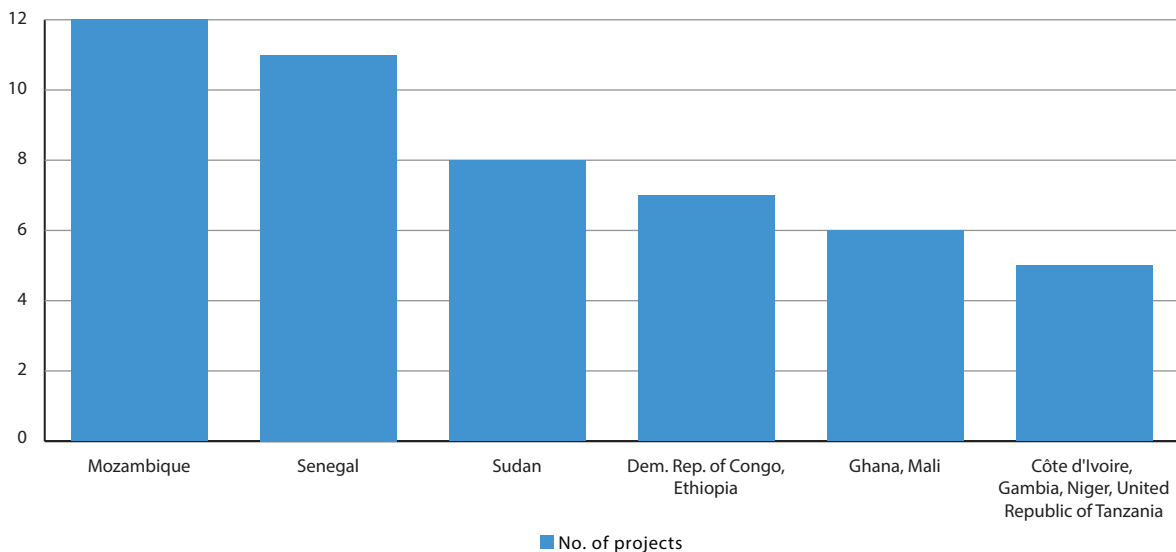
implications for investor confidence. This is one of the reasons for which the corridor could be one of the greatest enablers not only for Africa-India trade, but also for Africa-Asia trade.

1.3 The Export-Import Bank of India’s Lines of Credit

The Export-Import (EXIM) Bank of India was set up with the express purpose of extending financial help to importers and exporters. The Bank has varying methods through which it carries out this facilitative role. It has diversified beyond its initial mandate and makes specific efforts to support export capabilities, such as offering buyer’s credit and financing joint ventures and has a close working relationship with the African Development Bank (AfDB). It is also a member of the Association of African Development Finance Institutions (AADFI). It takes an active role in helping to build institutional infrastructure, such as the African Export-Import Bank (Afreximbank). Nevertheless, the Bank’s main method of extending aid is through LoCs.

As on December 31, 2016, the total number of operative LoCs to Africa was 154, extended to 44 countries and amounted to US\$ 7.7 billion. Of these, 149 LOCs aggregating to US\$ 7.6 billion to 41 countries are guaranteed by the Government of India (CII-EXIM Bank, 2017b).

Figure 21: Countries with five or more active lines of credit from the EXIM Bank, December 2016



Source: CII (2015).

Most EXIM bank LoCs are extended to sectors that have been identified by the Government of India as priority sectors under the “Focus Africa” initiative. This programme is discussed in detail in section 1.4.

LoCs have been recognized as a valuable tool for development finance. A study conducted by the Observer Research Foundation (ORF) explains how LoCs 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 aimed at enhancing the “developmental process in the host country” draw on India’s experiences while increasing the country’s presence in Africa as a partner in development.

The same ORF study notes that LoCs enable investment through a low-cost basis approach. This approach has been criticized on the grounds that while it allows for companies to participate in market development, it does not incentivize using higher standards in production and delivery. Interviews of Indian exporters and consultants who were included in the study suggested using a quality and cost-based selection (QCBS) approach on the view that it would reduce risks by making the process more competitive. One of the reasons for this is that such a process would also allow the focus to be on higher quality project delivery. These issues can easily be addressed with adequate reforms in the process. However, these problems do not detract from the various successful projects that have been conducted using LoCs; they have allowed multiple African countries to galvanize necessary infrastructure development and also contributed towards efforts to modernize agriculture and increasing rural electrification (Qadri and Singhal, 2014).

1.4 India’s Development Cooperation: Focus Africa

All of the above enablers are part and parcel of India’s development cooperation policies. In Africa, Indian industry and the Government of India have found common cause and common ground. Government initiatives have been aimed at enabling the Indian private sector’s presence in Africa.

The Government of India and various governments in Africa have taken up multiple initiatives to increase bilateral and multilateral cooperation between them. The “Focus Africa” programme of the Government of India was launched in 2002. By 2003, 24 African countries were covered by the programme. The aim of the programme was to take concrete steps to build awareness and increase cooperation between Indian and African markets through, for example, trade fairs, exhibitions, and country visits. The programme included schemes such as Market Development Assistance (MDA) and Market Access Initiative (MAI). In addition, India is also helping African countries to upgrade their credit ratings as part of the Focus Africa undertakings.

The initiative has created space for more PPP ventures. The private sector, as noted earlier, has in fact taken the lead in the continent. In 2005, CII, in collaboration with the EXIM Bank of India launched the Conclave on India Africa Project Partnership. It has been a regular feature with an increasing number of African countries participating in it. The purpose of the Conclave is to assess the successes and failures of old partnerships and evaluate whether new ones should be created. It makes for an open forum for discussing real-time issues that plague India-Africa trade and investment, some of which were mentioned earlier.

Focus Africa not only deals with export promotion. It is part of a larger goal for India to diversify trade relations and go beyond its traditional partners. More Memorandum of Understandings (MoUs), LoCs, and helping improve the credit ratings of African countries all make up a part of this strategy. A central goal is also to ease regulation and make registration and certification smoother. This would go far in helping other companies, such as Airtel, that face infrastructural and regulatory bottlenecks (CII and WTO, 2013).

The 11th CII EXIM Bank Conclave on India Africa Project Partnership, held in March 2016, produced key recommendations to enhance the India-Africa Trade Partnership.

The feasibility of implementing similar initiatives to the “Make in India” and “Skill India” initiatives in Africa were also discussed at the Conclave based

on the common need to develop manufacturing and increase the technical skills of the workforce. Africa too is witnessing a demographic dividend which it must tap to reap the benefits. As often noted, Africa is too susceptible to uncertainty created by the constant flux of global trade. A way to overcome this would be to reduce the dependence on the primary sector for exports from Africa (CII-EXIM Bank, 2016). India has long been involved in knowledge-sharing and capacity-building in Africa. Suggestions were requested from the stakeholders to see how this cooperation could be taken further with a focus on infrastructure development. There is also a need to ensure implementation of infrastructure projects. Regional Trade Agreements (RTAs) were perceived as instruments “for better coordination of implementation of Indian projects in the region” (CII-EXIM Bank, 2016).

In the most recent 12th Conclave, held in 2017, special attention was given to the importance of manufacturing for structural transformation, creating jobs and meeting the Sustainable Development Goals (SDGs). These objectives were identified as critical for Africa. Indian industry representatives noted that there were various persisting challenges in operating in Africa, chief of which were the lack of robust data needed to set up units and establish local suppliers and vendors to support manufacturers. In order to make Africa a manufacturing hub, water management and sanitation in the region must be high priorities (CII-EXIM Bank, 2017b).

As far as bilateral trade is concerned, it was suggested at the 11th Conclave that LDCs take greater advantage of the DFTP Scheme, as mentioned above. India is identified as one of the major markets that African countries should target as they scale up their manufacturing. The need to find ways to ease investment flows by simplifying procedures was also noted. The hope was that increased Indian investment could be seen in physical infrastructure projects in Africa. Attention must also be given to funding innovations and new projects led by a new generation of new entrepreneurs (CII-EXIM Bank, 2016). Some of the key recommendations that emerged from the 12th Conclave included a recommitment to

bilateral trade and investment flows between India and Africa. It was argued that the slowdown in global trade creates an opportunity for deepening South–South cooperation and leveraging regional cooperation initiatives; African LDCs not taking advantage of the DFTP scheme were strongly urged to do so (CII-EXIM Bank, 2017b).

Emphasis was placed on development cooperation with countries in Africa that do not fall into the LDC category. Focus could be put on building services infrastructure, such as education cities, pharma parks, and incubators for SMEs, among other suggestions. This would be a step up from traditional development cooperation and would help in further strengthening India-Africa ties. Recommitting to skills development to create more employment opportunities was seen as a given. A Public Private Partnership Model was identified as the most efficient way forward. The Conclave urged greater people-to-people connections to facilitate business and investment (CII-Export-Import Bank, 2017b).

An issue that needs to be urgently addressed is the creation of the framework conditions for private investment in African countries. “The legal frameworks should properly define the rights and obligations of investors, especially considering the high risk involved with investment, particularly within the African context” (Dube, 2013; Dubey, 2013). India will have to follow suit regarding its legal framework in order to encourage African investment in the country.

Many experts have identified areas of cooperation for India and Africa from infrastructure to energy security. Much ground has been covered but greater efforts should be made. Some have recognized the potential that civil society holds in creating more policy dialogue. There is also scope for diversification and the possibility of increasing the role that SMEs play. “Civil society and business can also work together to ensure greater monitoring, transparency and risk reduction”, as specifically observed in terms of India–South Africa relations (Lucey and Makokera, 2015). However, it should be noted that these observations hold merit for India-Africa relations in general.

2. Case Studies

The following case studies illustrate the issues that Indian industry has had to face and the ways to overcome them.

2.1 Coordination in Agriculture: contradictions in the Zambian case

Agriculture is a major sector of cooperation between India and Africa. Both share concerns over food security, poverty alleviation and increasing the standard of living of their people for which agriculture and food security is key (Dubey and Biswas, 2014). The sector is also the greatest employer for both, and serious efforts need to be made for skills and technological development, and the modernization of agriculture. There is also a need to ensure that any transformation in agriculture is sustainable and does not overstrain the environment. This is also linked to cooperation between the two sides on clean energy and sustainable development.

A cursory observation of the African case would suggest that the comparative advantage of those countries lies in the agriculture sector. However, continued dependence on raw agricultural commodities without sufficient diversification and remaining at the basic level of the value chain are disadvantageous in the long term. This is an element of the “resource curse” that plagues countries with an abundance of natural resources. They become trapped in a vicious cycle of low economic growth and development because of high exports of primary products but low value added and accordingly higher import of finished products.

India-Africa cooperation in agriculture is on multiple levels. At one level, it is an effort to boost diplomatic ties and facilitate South-South cooperation based on mutual benefits. India has offered aid, set up an agricultural institution, and provided scholarships to African students in various agricultural universities in India (Dubey and Biswas, 2014).

In recent years, Indian private sector players have started acquiring agricultural land abroad to address concerns of food security at home. The Government of India has even considered pursuing this as a conscious policy to ensure

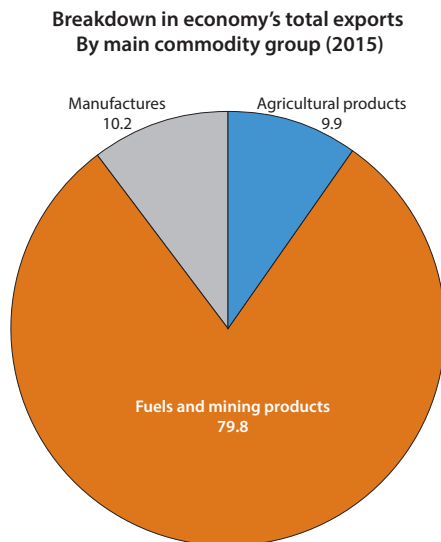
food security. As observed in the Oxfam report, Zambia is seen as an important potential partner as it has a relatively stable political and economic environment. The country has been able to maintain peace, an important consideration for the calculations of transaction costs and risks that investors make before deciding to enter a foreign market. It has also been trying to ease doing business by introducing the Zambian Development Act (ZDA), which contains more incentives for investment.

Despite this, India and Zambia engage in more trade in minerals and mining products than in agriculture. Although there are a number of Indian companies willing to invest in agriculture in Africa, and Zambia is ideally suited for investment, progress on the agrarian front has been limited.

Indeed, it is not formal government regulation that becomes a barrier, but rather the inability of the domestic government to engage with societal realities:

In Zambia, agriculture plays a key role in the economy ... The sector is characterized by a dual structure, where a small number of small commercial farms ... co-exist with scattered subsistence smallholders and a few small commercial farmers who face severe difficulties accessing input and output markets ... [But] the agriculture sector has long been neglected by the government’s urban bias (Dubey and Biswas, 2014).

This may be a contributing factor to the fact that the Indian investment, both private and public, has been very low in the Zambian agrarian sector. Investment to date has not been directly backed by the Government of India but has been more an individual investment. There have been attempts made to change this. Similar to India, many African countries, including Zambia, liberalized their economies in the 1990s. This gave impetus to private investment in all sectors, including agricultural production. The Government of Zambia has offered multiple incentives, such as tax cuts and improvement allowances to encourage investment in the sector. It is aiming to enhance this sector. Vast amounts of land have been allocated near the road and rail networks for

Figure 22: Export profile of Zambia

Source: WTO (2017).

potential investors to use. Electrification work is also underway in those areas. India recognizes the current and future potential of the country and continues to view it as a stable, long-term trade partner. The India Africa Forum Summit, held once every three years, is an important platform where policy discussions have taken place to increase trade volumes between the two partners.

One of the reasons that investment in agriculture in Zambia has been low may be the intervention of civil society groups that feel that the local population have had to face the negative repercussions of those deals:

Zambia Land Alliance is a network of seven non-governmental organizations (NGOs) working for just land policies and laws that take into account the interests of the poor in Zambia... NGOs wanted to protect customary land. They did not want multinational companies to invest in these lands... the customary system is informal and the government is seeking to systematise the process and bring it under state control (Dubey and Biswas, 2014).

A major observation of the Indian team, which went on a field visit to Zambia, was the lack of differentiation between Indian investment and the Indian diaspora's investment in Zambian agriculture, which distorts data. "Only 6 per cent of Zambia's land belongs to the State. The remaining is customary ... Investors access land by acquiring

leasehold title in the form of provisional certificate, which is valid not exceeding 14 years" (Dubey and Biswas, 2014). The team elaborated on the land acquisition procedure, which is highly unwieldy:

For acquiring land, they observe, "investors either seek consent directly from the chief with consultation of the village headman; or a [piece of] lands working group with the ministry of lands and ZDA negotiates land transfer on behalf of the investors. If an acquisition is approved, the chief issues an approval letter. The investors then carry out physical demarcation of the area with a sketch map in the presence of a village headman. Both are submitted to the district council. The council issues a letter of recommendation to the commissioner of lands, who either recommends or sends it to the president for approval" (Dubey and Biswas, 2014).

Nevertheless, the outlook for Indian investment in agriculture in Zambia looks bright. As mentioned above, Indian investors have not been entirely dissuaded from investing in the agriculture sector. They have tried to work in tandem with local groups to make their investments more sympathetic to their context. An especially attractive proposition for these investors is the low cost of farming in African countries. This is a significant transaction cost consideration in the Zambian context, which may outweigh the deterrent role that the land legislations of the country play. Zambia had purposefully created a more investor-friendly environment. For Zambia, investment in agriculture is a sign of diversification because the country is currently dependent on copper and other mined commodities. For that reason, it is still considered a "transition economy" rather than a "diversified economy" (Mathew, 2014).

Increasing investment in agriculture would not only help with food security issues, but also lead to increased earnings from exports. This would be within the larger scheme of reform that the country must adopt as a result of the World Bank-imposed structural adjustments. One of the reasons that there may be less investment in land in African countries could be that the land is not mapped before it is put on the market for lease. There is also a problem of follow-up as funds are raised but

not invested in projects. To address those issues, it is suggested to promote investment in land by SMEs. "Indian agriculture companies are in various stages of operation in Zambia. Some such as Champions Food Limited, are not fully functional, while others such as Danma Corporation Ltd. have only recently begun their operation" (Dubey and Biswas, 2014). This bodes well for future investment and cooperation in agriculture.

For investment to be made more viable in Zambia, in addition to incentives, implementation seems key. While the Government has provided many incentives for investment, follow-through is difficult not only due to regulations, but also leakages in the delivery system. This problem, though visible in the Zambian case, is not limited to it; it is a common issue that requires a model response which African countries could be widely adopting on the continent.

2.2 The expanding role of telecoms: the forays of Airtel in Africa

Telecommunication is one of the largest industries in the world. It is also highly competitive as telecommunication companies need to keep up with the rapid pace of changes in what has been dubbed the "Internet of Things". From Over-the-Top (OTP) Services to Internet banking, there is much new ground that is being navigated. "Telecommunications is ... considered to be both a cause and a consequence of economic growth" (Nojiyeza and Muthoka, 2013). Telecom service providers face tough competition for market share, which often devolves into price wars. A foreign telecom trying to enter domestic market "A" faces greater hurdles if there are preferential regulations that the government places that overtly or covertly better serve the interests of home-grown service providers.

As with other industries, the African market is seen as an important target for investment in terms of telecom services. This is because it is one of the most rapidly growing economic regions in the world, with a growing demographic dividend. Bharti Airtel is an Indian telecom giant and one of the top 10 largest telecom companies in the world (Chen, 2015). After establishing its presence in India, the company's expansion strategy for growth involved entering global service markets

starting with the neighbouring countries of Bangladesh and Sri Lanka. Krishnakumar, Sethi and Chidambaran (2014) note how, in its 2009 annual report, Airtel:

[a]s a conscious strategy, decided to focus on the emerging markets of Asia and Africa. We believe these markets will continue to be growth engines of the telecom world. With its billion plus population ... and a tele-density of less than 30 per cent ... Africa is going to be a market for the future and the next growth engine of the global economy.

It now operates in 17 African countries.

Similar to other companies before it (in other industries) Airtel had to and continues to face major challenges to entering first and then operating in African markets. However, Airtel has been committed to the African markets since its first forays despite the bottlenecks it has had to overcome and multiple losses.

The first tangible move towards establishing a presence in Africa was a negotiation between Airtel and MTN, South Africa, one of the largest telecom service providers in Africa. Each would buy stakes in the other company with the long-term goal being a full merger. The deal, however, did not fall into place for various reasons. Chief among the issues encountered were the regulations on both the Indian and South African side because of clashing rules of investment and listing. If the deal were to go through, Airtel would own a 49 per cent stake in MTN while MTN would own only 36 per cent in Airtel. The Government of South Africa would approve the deal on the condition that MTN retained its South African identity and proposed a "dual listing" system. However, this "dual listing structure" is prohibited by Indian regulations. "If the deal would have been completed, this transaction would have been the single largest Foreign Direct Investment into South Africa and one of the largest outbound FDIs from India" (Krishnakumar, Sethi and Chidambaran, 2014).

Despite the failure of this deal, Airtel did not give up on its ambition to enter African markets. In 2010, it started negotiations with and acquired the African operations of the Kuwait-based Zain

Telecommunications for US\$ 10.7 billion. Back then, it was the second largest acquisition by an Indian company abroad. Both Governments were happy to approve the deal, but there were numerous issues that Airtel had to deal with after the acquisition. One contributing factor to the stresses of the acquisition was the 3G spectrum sale taking place in India parallel to the merger and acquisition negotiations. This increased the debt burden that Airtel had to take on.

In addition, Airtel had to invest a great deal more on infrastructure development in Africa than it had initially expected. Combined with weak infrastructure, the cost of inputs was higher as they had to be imported due to lack of local production. Because of the lack of skilled labour, spending on manpower was also higher. Also, unlike in India, the company has found it harder to centralize its operations in Africa (Alden and Verma, 2016).

A particularly telling case is that of the company's operation hurdles in Kenya. The Kenyan telecom industry is largely dominated by Safaricom for mobile services. One of the problems competing telephone carriers face in Kenya is the high rates charged for call termination.²⁹ Airtel claims that this charge has delayed its "returns to profitability" significantly. "Airtel pays about 40 per cent of its revenue to its rival for connecting calls to their networks" (Nojiyeza and Muthoka, 2013). Domestic companies do not favour any reduction in termination rates because that would have a negative impact on their revenue, and to date, the Government seems to have kept to that line.

Another problem is currency volatility in African countries, which can result in extensive forex losses for Airtel (Ghosh, 2015). To recover some amount of its losses, Airtel had to sell interests in about five African countries in 2016, bringing the number of African countries it operates in down to 13. This raised concerns about Airtel beginning the process of exiting the African market in January 2017. Airtel officials have clarified that the company is just trying to streamline operations. It has also announced a US\$ 20.8 million investment project

to modernize infrastructure and connectivity in Malawi (Staff, 2017). Airtel has diversified its operations, providing net banking services and even an insurance plan in collaboration with Medensure.

In its 2015-2016 Annual Report, Airtel recognized the problems it has faced in the African market but maintained a positive attitude:

Taking cognizance of the prevailing challenging environment, we remain committed to enhancing the positive social impact of our services and products ... the outlook still seems challenging. Nonetheless, Airtel will remain resilient and will embrace radical changes necessary to guarantee the future (Bharti Airtel, 2015-2016).

Despite all the challenges that Airtel faces in the African market, it has managed to create a niche for itself. It continues to make efforts to stabilize its Africa operations. Airtel has described Africa as a frontier for growth, but resilience alone is not nearly enough. If regulations and non-tariff barriers to trade, such as seen in the Kenyan case, are not reduced, the risk of capital flight could materialize. Airtel is a significant competitor in the African market. Its new strategy might yield results. This is definitely a lesson learned for other companies wanting to invest in the country as well as for the African countries wanting to attract more FDI.

2.3 Building the basics: Kirloskar in Africa

Access to water is an ongoing and major concern for all developing countries, including the countries of Africa. Issues regarding water are cross-cutting, with a direct bearing on community health, sanitation, agrarian production, and even access to portable water. There is also the issue of rising populations in those countries. Population density has implications for an increasing demand in agrarian production and the availability of clean drinking water.

While it is true that most exports from Africa are in primary products and there is a real

²⁹ Call termination is the service of connecting the calling party to the called party. If, for example, an Airtel customer A calls a Safaricom customer B then the charge for connecting the call from customer A, which customer B's service provider will charge, is the call termination charge.

need to diversify, it is also true that there is immense potential in African agriculture that remains untapped because of the lack of basic infrastructure. Reports have identified important trends relevant to business in the continent. In addition to regional integration, digitization, innovation and renewable energy, among others, “The Responsible Agriculture Revolution”³⁰ is also seen as a priority. This is in recognition of the significant contribution that agriculture makes to the GDP of Africa. There is a need to modernize and update agrarian practices and ensure that they are sustainable with stabilized production of staple foods. This realization is part and parcel of other simultaneous developments taking place on the continent. From the population growth to rapid urbanization, there is more and more stress on access to food and water.

Climate change is also having a significant impact on levels of production, as shown by a World Bank study (Liang, 2008). This is especially true in terms of the need for expanding irrigation facilities in Africa. “Climate change ... will alter rainfall patterns and therefore reservoir storage, which, in turn, affects the availability of water for power production and irrigation. In addition, a changing climate will affect both crop yields and patterns” (Liang, 2008).

Irrigation has been identified as an important means to ensuring food security in the region. This is where the role of the Kirloskar Group in Africa has been significant. The largest pump and valve manufacturers in India, the group has made its presence felt in Africa in the fields of water pumping and irrigation. Ministers of agriculture from Ghana, Swaziland, and Burundi have also acknowledged that with Indian support, their yields per hectare have doubled from two to four tonnes, and in some cases, from six to eight tonnes.

Kirloskar has played a key role in upgrading Africa’s watershed management systems, flood control measures, and water conservation methods (CII-EXIM Bank, 2017b).

The company has followed a policy of the “three A’s – appropriate, adaptable, and affordable technologies” (CII-EXIM Bank, 2017b). It has a significant presence in Egypt, Ghana, Senegal, and the Sudan, and has two manufacturing facilities in South Africa. There are areas where the company’s name has become synonymous with pumps, proving the significant impact it has had. The company also has multiple wholly owned subsidiaries in Africa.

Furthermore, Kirloskar has diversified into oil engines and hydraulics. Its continued presence has allowed for a greater amount of food production and facilitated access to clean drinking water. This is indicated by its Corporate Social Responsibility (CSR) projects in Africa, which are aimed at bringing sanitation and clean drinking water to the African people. The Djibouti Project is a case in point. Kirloskar has also set up various pumping stations, helping convert some arid lands to green lands. It has been present on all sorts of agrarian fields, from tea estates to flowers and even fodder crop and has been able to meet the needs of all those diverse farm products (CII, forthcoming).

Kirloskar has called for creating the right standards. The company has publicly supported the need for African integration on the view that it will help the company connect its various projects across Africa and galvanize job creation. While the company has had an overall positive impact, there is still need for greater efforts. Better investment and trade facilitation, especially the movement of goods, can play a greater and positive role in that regard.

30 This is in reference to ‘The Principles for Responsible Agricultural Investment (PRAI)’ as adopted by the G-20 in their 2010 Seoul Summit.

Conclusion

The report illustrates the various factors, external and internal, that effect the economic relations between the African continent and India. Generally speaking, Africa-India trade and investment indubitably has more potential than what is currently realized. A concentrated response from governments and regulators is needed to overcome the hurdles identified. There is a knowledge asymmetry created because of the lack of proper dissemination of information, which creates unnecessary obstacles to trade and investment between India and Africa. This stems from an incomplete understanding that the two sides have about each other's markets.

More specifically, Africa-India trade can increase if some basic issues are dealt with in a concentrated fashion by domestic governments. Foremost here would be the creation of more straightforward, simpler regulations. Although not in the purview of this report, the adoption of the trade facilitation agreement at the WTO will be an important factor in determining how those regulations are made in future. An argument can also be made in favour of more uniform standards and therefore reducing transaction costs.

Another advantageous enabler outside the purview of this report is the role of the Indian diaspora. They are a strong part of the African demographic and can be a powerful means

of linking the two sides. African Indians are capable of serving as a bridge between the two, overcoming barriers created by language and a lack of understanding of the local systems.

There is an urgent need, on both ends, to create basic infrastructure to facilitate trade. It will be difficult for industry to invest if basic infrastructure is not in place, because this drives up the costs of investment. Greater political will and addressing domestic leakages are necessary to ensure that the correct environment is created to reduce investment risks. Making sure that any preferential schemes and legislations are fully understood is important to ensure that they are fully exploited.

All of the above requires immense amounts of political will and industry initiative. Both sides must move in tandem to ensure that the full gains of Africa-India trade can be realized. AfCFTA is a prerequisite for a more conducive and pro-development partnership between Africa and India. It is expected to not only support industrialization and structural transformation efforts in Africa, but also to offer a more visible and robust market for Indian firms and investors to access, thereby making Africa a top business partner. AfCFTA can even set the ground for deeper integration between Africa and India which could considerably benefit both partners looking forward.

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