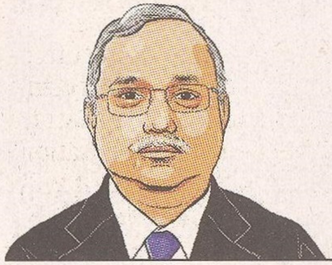
THE INDIAN EXPRESS, SATURDAY, OCTOBER 31, 2015



# Bridges across the Indian Ocean

## India's private sector can use institutional mechanisms to deepen ties with Africa

CHANDRAJIT BANERJEE

THE PARTNERSHIP of India and Africa has stepped into a new era. Close political relationships are being reinvigorated by flourishing trade and investment ties. These new trade and investment bonds could be crucial in the struggle to lift millions out of poverty.

India and Africa's strong trade and investment relations are rooted in the huge complementarities between their economies. This foundation has further deepened in the post-crisis period, as India and other large developing economies have emerged as stronger economic powers. This shift in global growth poles has resulted in both India and African countries looking towards each other for mutual trade and investment opportunities.

Total trade between India and Africa grew from approximately $30.75 billion in 2007 to $75 billion in 2014, with a compound annual growth rate of 13.6 per cent. For the next five years, a growth rate of 15 per cent may be expected, with total trade crossing$150 billion by the end of 2019. Indian private investments in Africa have also surged, with big-ticket investments in the telecommunications, IT, energy and automobile sectors. Capital investments from India to Africa have grown to $54.5 billion between 2003 and 2014.

While the two-way trade and investment ties have deepened, the future potential is higher. With the changing architecture of global trade agreements, the focus is shifting towards creating value chain- and investment-led trade. The Indian private sector can leverage available institutional mechanisms to further deepen its trade and economic footprint in African nations. A key mechanism is the effective utilisation of India's DFTP (duty-free tariff preference) scheme, the genesis of which goes back to the first India-Africa Forum Summit in 2008. The DFTP is a unilateral duty-free market access scheme, which India has provided to all least developed countries, including 34 in Africa. Since it came into force in August 2008, only a few African less developed countries (LDCs) have managed to increase their exports to India, notably Tanzania. Contrary to similar schemes provided by other developing countries, the DFTP programme offers much deeper market access into India. After the amendment of the DFTP scheme in April 2014, its coverage has gone beyond 98 per cent of India's total tariff lines.

Contrary to perception that this scheme will benefit only LDCs, Indian industry, too, can make use of it to advance its trade and investment relations. It can source intermediate products from beneficiary countries at zero duty and invest in African LDCs to manufacture locally to export back to India through the DFTP route. By doing this, Indian industry can also access third-country markets like the EU, US and so on, making use of the African Growth and Opportunity Act and Everything But Arms Proposal.

Relocating part of the production process in Africa to build a robust India-Africa value chain will help Indian industry avoid the duty disadvantage it faces in big markets of the EU and US. For instance, in the textiles and apparel sector, Indian exporters face 8-30 per cent duty in the US and 10-12 per cent in the EU.

The second important instrument is the Exim Bank/ Union government's lines of credit (LoCs). LoCs have helped Indian companies enter the African market, as well as expand their footprint on the continent. This is evident from the fact that LoCs to African countries constitute 60 per cent of all LoCs. However, there is still a gap between LoC commitments and actual disbursement, which needs to be bridged.

Across the Indian Ocean, India and Africa have enjoyed age-old connectivity. It is time to build new bridges of friendship between our two regions, and Indian industry will be a key partner in this endeavour.

*The writer is director general, Confederation of Indian Industry*