

## Can India's Duty-free Scheme Foster Trade and Development in African LDCs?

**A**t the 2005 World Trade Organisation (WTO) Ministerial Conference, the developing countries' members agreed to provide Duty-free Quota Free (DFQF) access for Least Developed Countries (LDCs) by 2008 on being in a position to do so. Launched in April 2008, India's Duty-free Trade Preference (DFTP) scheme offered duty-free access to LDC exports on 85 percent of Indian tariff lines; Further, 9 percent of tariff lines offered a Margin of Preference (MoP) ranging from 10 percent to 100 percent. The remaining 6 percent of tariff lines were excluded. The products of particular interest to Africa comprised cotton, cocoa, aluminium, copper, cane sugar, garments, fish fillets and non-industrial diamonds, among others, under the scheme. But the scheme excluded key LDC export items, such as coffee, tea, fruits and vegetables, spices and iron and steel.

### Trade trends and enabling conditions

Africa's exports to India increased from US\$4.6bn in 2000 to US\$23.1bn in 2012. Three natural resource-rich countries, namely South Africa, Nigeria and Angola forming the bulk of Africa's exports to India. Fuels represented 74 percent of Africa's exports to India in 2012 as compared to 12 percent for agricultural exports. Besides oil and a few other commodities, African LDCs' exports are quite limited. The conditions that help the LDCs from getting benefits from the scheme include the LDCs' capacity to export; the degree of inclusiveness of the scheme; and the extent of product complementarity between beneficiary-country (BC) exports and India's import requirements.

### Impact of the duty-free scheme

Indian customs data works under the assumption that all imports from BCs are under the DFTP scheme. However, in practice, this might not be the case. Obtaining certificates of origin may be a cumbersome process and not worth the hassle where MoP is very small. The scheme would be deemed effective if the first and at least any other of the following conditions occur:

- Exports of preference products (PP) to India by BCs in the post-DFTP period are higher than those in the pre-DFTP period;
- Exports of PP by the BCs to India post-DFTP increase faster than the rest of the world;
- Share of India in BCs' exports of PP increases in the post-DFTP;



- Share of BCs' exports of PP in India's global imports increases post-DFTP.

A report by International Centre for Trade and Sustainable Development (ICTSD) titled "Deepening India's Engagement with the Least Developed Countries – A Critical Analysis of India's Duty-free Tariff Preference Scheme" has undertaken analysis of the impact of the Indian DFTP scheme on the LDCs. It states that from the analysis it is difficult to conclude whether the scheme had the desired impact on BC exports. India has become a significant export market for Asian LDCs, such as East Timor, Bangladesh, Cambodia and Lao due to their geographical proximity and economic affinity with India as well as the fact that the DFTP scheme encompasses the bulk of the products exported by these countries. But India seems to remain a marginal destination for many African LDCs' exports.

### Going the extra mile

India's offer of an improved development package featuring extended lines of credit, technology transfer and capacity building can do much to offset some of the above constraints and foster structural transformation in African LDCs. In the short term, in order to aid Africa's development, India should revisit the DFTP scheme to make it more inclusive for African LDCs. Simulation results suggest that global welfare and welfare of African LDCs would increase by US\$561mn and US\$1201mn, respectively, if India moved to a 100 percent DFQF regime. The loss to India would be a paltry US\$171mn, which might easily be compensated by the resulting dynamic gains from liberalisation.

– Abridged from an article by V Ancharaz, Senior Development Economist at the International Centre for Trade and Sustainable Development (ICTSD), P Ghisu, Programme Officer for the Competitiveness and Development Programme and the Aid for Trade programme at ICTSD, and Jessica Wan, Intern with the Global Programme at ICTSD published in GREAT Insights, April 2014.

## Lessons from India

The African Development Bank Group (AfDB) said that it aims to draw on the lessons learned from India's successful implementation of private-public partnerships (PPP) and to use the model to encourage further investment in Africa's infrastructure.

India's story of success in implementing the PPP model makes it an important partner in facilitating the adoption of the model in Africa. Nilaya Mitash, Temporary Governor of India, highlighted the shared history of India and Africa and said that India is well placed to provide technical assistance to the continent at the AfDB 2014 Annual Meeting held on May 22, 2014 in Kigali, Rwanda.

In line with this, the Government of India has signed a Memorandum of Understanding (MoU) with the AfDB to share the model agreements and legal documents associated with PPPs to facilitate implementation of this model in African countries.

*(www.afdb.org, 27.05.2014)*

### Robust Economic Growth

Export-Import Bank of India's (Exim Bank) latest report on "East African Community (EAC): A Study of India's Trade and Investment Potential" highlights that the EAC region has recorded robust economic performances in the recent years, with a substantial growth of 5.3 percent in 2012.

Exports of the EAC have increased to US\$13.8bn in 2012 from US\$2.8bn in 2002, while imports have also witnessed almost 6-fold increase to US\$35.4bn in 2012 from US\$6.1bn in 2002. Accordingly, the global trade of EAC increased over 5-fold from US\$8.9bn in 2002 to US\$49.3bn in 2012.

The study draws attention to the fact that India's trade and investment relations with the EAC region have strengthened in recent years, and opportunities are there to further enhance bilateral commercial relations. The study has also delineated broad strategies and

recommendations to enhance India's commercial relations with the EAC region, which include cooperation in key sectors.

*(www.indiaonline.com, 29.05.14)*

### Bilateral Economic Synergy

A number of Indian companies have announced their intention to invest in Africa's mining and power sectors at the 11th edition of the West African Mining and Power Exhibition (WAMPEX).

India's High Commissioner to Ghana, Jeeva Sagar, said, "There are synergies to be created between Indian and Africa. Ghana is rich in resources, while Indian technology and expertise in mining and power sectors is appropriate to and consistent with this country's (Ghana's) development model. The coming together of these complementary strengths augurs well for the bilateral economic cooperation between India and Ghana".

The Ministry of Lands and Natural Resources of Ghana stated that political stability, availability of geological data, favourable investment climate and improvised governance as reasons, which put Ghana in a favourable spot with the investors.

*(www.africanreview.com, 30.05.14)*

### Ministry Buys Vehicles

The Zimbabwe Tourism Ministry has ordered 670 vehicles worth around \$50mn from Ashok Leyland of India to be delivered in the 2014-15 financial year, the company said in an announcement to the Bombay Stock Exchange (BSE).

"It's basically a suppliers' credit to the tune of \$50mn and is meant to resource us, particularly in the area of domestic tourism", stated Zimbabwe Tourism Minister, Walter Mzembe. He said that the deal had just been concluded and that the loan would be repaid over a period of 10 to 20 years at "nominal" interest.

In a statement, Ashok Leyland said that it had secured an order worth \$50mn to be delivered in the 2014-15 financial year.

*(www.source.co.zw, 04.04.14)*

### Lack of Quality Healthcare

Quality and affordable healthcare delivery is one challenge that Nigeria has been battling with. While the government at various levels has carried out reforms at one time or the other in the healthcare system, the fact remains that most of the Nigerian hospitals still lack infrastructure of international standard.

This situation has made the Nigerians, especially those with the wherewithal to seek medical treatment abroad. This of course, comes with its consequence, high cost of accessing medical treatment overseas.

There seems to be some relief in the situation as the new Indian High Commissioner to Nigeria, Ambassador Ghanashyam Rangaiah has disclosed his Government's readiness to establish more Indian hospitals across the six geopolitical zones of the country. *(www.allafrica.com, 25.06.14)*

### Expanding Footprints

The South African Airways is looking at expanding its footprints in India with a rise in passenger traffic between India and South Africa. The airline, which currently operates a daily direct service between Johannesburg and Mumbai, might consider a direct flight to Delhi if the number of passengers grows sharply.



"For South African Airways, India is a key market in overall growth strategy. The number of travellers from India to South Africa is on a rise. In the previous year, around 130,000 people travelled from India. This number is not sufficient to justify another aircraft. But we want to expand. We are looking forward to it and the next destination should be Delhi", said Sajid Khan, Country Manager (India), South African Airways. *(www.thehindu.com, 20.06.14)*