

# **A perspective on Indian trade and investments in East Africa**

## **Kenya, Tanzania and Uganda**

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### **Abstract**

Africa is emerging hub for resources with leading world powers eyeing the continent for its oil and natural resources. India foreign policy approaches as an emerging power towards Africa in general and East Africa in particular, needs a systematic observation and an analysis accordingly. India economic engagement invites private sector investors along with Indian Diaspora set an additional strength working with East African partner.

This invitation gives bargaining power to East Africa choosing either existing traditional powers or Indian investors. This partnership will develop India's power status and genuine responsibilities towards this region.

This engagement needs opening up of market to foreign investment. India external affairs adopted market economy and presented itself as emerging entrepreneur under global economy. Indian foreign policy talks about self-reliant economic growth in east Africa region that will lead to self-reliant development. The development cooperation should not base on donor-recipient basis but stand on equal partnership that comes under South-South Cooperation.

Today, the evidence is at best inconclusive on whether technology transfer contributes to growth, poverty reduction and India's emergence as power in East Africa. There is a need to conglomerate the technology and majority of people need. South-South partnership primarily a step towards development and mingling the common idea of mutual progress and prosperity will facilitate the way towards mutual India-East Africa socio-economic transformation.

### **Introduction**

Post 1990 India's engagement observes differently (from rest of world) in Africa. The food prices have risen sharply, entrapping millions of people in the poverty, hunger and starvation-death in Africa. The rise in food prices touches east Africa as well. There is a need to reform the

agricultural output in this region and there is the common consensus among investors dealing trade between India and east Africa. India foreign policy looks differently in contemporary international setting from others in Africa. India shares humane concern and develop its own understanding on food security, human resource and industrial development with individual countries as well as different regions in Africa. It shows a major difference as compare to other countries practicing foreign economic policy.

The regional perspective of East Africa (Kenya, Uganda and Tanzania) being in the proximity of Indian Ocean is an opportunity for Indian trade and investment. Ambassador Juma V Mwapachi, Secretary General, East African Community (EAC) Secretariat, Tanzania, said that 'market access is extremely important, as it lies at the heart of economic engagement and integration in the world and it opens up new economic vistas for bolstering trade. Market expansion is also important because of the reason that it enables structuring economic relations with other economic blocks and countries. Moving into a common market means moving into a higher level. It is precisely for these reasons that an agreement on economic partnerships with the European Union is being worked out, and in July 2008, a trade and investment agreement was concluded with the US. The EAC is also negotiating a trade and investment agreement with India. Further he pointed out that a liberalized market access to India cannot be fully exploited when the supply side is ill seated as it currently is.' (CII Conclave, 2009).

The regional approach of Africa development persuaded India to fit into this framework and one may observe that there is a perceptible shift in India's approach to the region. East African Community's collective engagement with Indian investors is beneficial for Africa's development on the one side and promotes the Indian industry on the other side. Mr. Sanjay Kirloskar, Chairman Kirloskar Brothers Ltd highlights that 'a regional approach will give the member states greater opportunities to attract foreign investments. In the case of Africa, regionalism has received special attention as a result of growing fears of African marginalization. The process of creating a free trade area that incorporates the East African Community, the Common Market for Eastern and Southern Africa, and the Southern African Development Community is underway — bringing together nearly 600 million people into a single market. Such a development will have a major bearing on India-Africa economic exchanges. There are also important developments within the existing regional markets' (CII Conclave, April 2009).

Kenya, Uganda and Tanzania as member states of EAC are working on eliminating non-tariff barriers and modernizing infrastructure, integrating their capital markets, and generally harmonizing their key policies and regulations to reduce the costs of doing business with the international community. The approach of Indian investors in Kenya, Uganda or Tanzania opens the gate to the entire East African regional market. The infrastructure development in EAC has been observed during my visits to these countries in the early months of 2009.

The institutional entrepreneurship in East Africa represents through CII, FICCI, EXIM (BANK), IOR-ARC, and Focus Africa. India's economic engagement in Africa is working as per their local needs. Different turnkey contracts are working in Tanzania, Uganda and others. It enables import of Indian equipment and technology on deferred credit terms extended through EXIM Bank, PTA Bank, BOAD, EADB and EBID. Joint Ventures of Indian companies engage in Africa through Line of Credit. A visible change in perception with access to greater knowledge of the

region has helped in promoting economic relations between the Indian industry members and the African countries. CII effort is to develop a long term sustainable relationship with the private sector in the African countries.

The participants in March 2009 conclave was remarked by 483 African delegates and 318 Indian delegates discussed more than 193 projects worth \$17.2 billion in technology, agriculture, human resources and energy in the COMESA regions (CII Conclave: 2009). All the institutions played their active role during conclaves and sponsored it as per their capacities. CII Africa Committee has Institutional Agreements with Africa's Small and Medium Enterprise (SME) and signed Memorandum of Understanding (MoU) in the fields of soap plan, water management and infrastructure related projects during the 5th Conclave. A strong structure that supports a continuing dialogue, transparent access to opportunities, interaction with the government and the African Heads of Missions has now been institutionalized in Conclaves.

### **Mutual Partnership in Poverty Eradication & Food Security**

The agrarian sector in EAC faces poor access to input and output markets and limited infrastructural support. This region needs Green revolution for achieving food security to cater (Kenya 36.1, Uganda 25.8 and Tanzania 36.9 million) nearly 100 million people. More than 85% of agriculture in this region is rain dependent. Table-1 shows that east Africa has abundance of water across the region consists of rivers, major lakes and other lakes. Only 20% of it is required to make the east Africa region's food secure. East Africa needs water pumping system and water management techniques from India. The requirement of little training to EAC Human Resource Development (HRD) will help installation of pumps for handling it that will change the production pattern in agriculture. The opportunities for Indian investors in agriculture sector in this region are to provide better seed technology, irrigation, scientific techniques & instruments and infrastructure to strengthen their food security. East Africa may contact Indian experts working in the different research institutions in the fields of water management and water harvesting to strengthen their agriculture set up.

### **Table-1 Lakes, Rivers and Streams in East Africa**

<b>SECTOR</b>
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<b>DESCRIPTION</b>
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<b>DUTY</b>
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VAT

Agriculture

§	All Capital Goods
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§	Agricultural Machinery/Equipments
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§	Fertilizers & Pesticides
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§	Farm Implements & Other Inputs
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§	One Non Utility Adm. Vehicle
---	------------------------------

§	Corporation Tax 30%
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§	Capital Allowance 50%
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0%

0%

0%

0%

0%

0%

0%

Deferred

Exempt

Exempt

Exempt

Deferred

Mining

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§	All Capital Goods
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§	Spare Parts
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§	Explosive and other Supplies
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§	Fuel & Oil
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§	Corporation Tax 30%
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§	Capital Allowance 50%
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0%
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0%
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0%
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0%
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Relieved
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Relieved
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Relieved
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Relieved

Tourism

§ All Capital Goods

§ Hotel Facilities i.e. Carpets, Furniture, etc.

§ One Non-Utility Admin. Vehicle

§ Vehicles for tour operators (4WD 3000 CC & Below)

§ Corporate Tax 30%

§ Capital Allowance 50%

0%

0%

0%

0%

Deferred

Deferred

Deferred

Deferred

Zanzibar, part of United Republic of Tanzania offers investment opportunities in:

**Agriculture**

- Horticulture and Floriculture.
- Agro-processing.
- Fruit processing and Canning.

**Fisheries**

There is a potential for development of various types of fish, shrimps, lobsters, seaweed and other marine resources. Investors are free to choose suitable areas for:

- Deep sea fishing.
- Fish Farming
- Processing and Canning

Zanzibar is known as the Spice Islands. The investment opportunities in spices include:

- Cloves,

- Cinnamon, Cardamom, nutmeg, black pepper, chillies, etc.

India and Tanzania bilateral Institutional framework set up in the form of

- Joint Commission (last session in April 2003 in Dar es Salaam);
- Joint Trade Committee (last meeting in May 2007 in New Delhi);
- BIPPA (Proposed in 2002; drafts exchanged, Comments awaited by both sides);
- Avoidance of Double Taxation Agreement (The 2nd round of talks for updating the agreement held in August 2007 in Dar es Salaam).

Tanzania is one of the largest beneficiaries under ITEC with 100 places in 2007-08. Currently three Indian funded projects are under implementation: a small industry information centre (by NSIC); a Centre of Excellence in ICT (by C-DAC); and the pan-African e-network project (to be implemented by TCIL). At the JTC meeting in May 2007 India agreed to provide technical support for preparation of a feasibility report of a cyber city project in Arusha region.

India-Tanzania bilateral trade is increasing in terms of volume. India's export touches US\$ 237.02 million and import of US\$ 56.56 million (2006 estimate). The principal commodities of exports deals with mineral fuels, pharmaceuticals, cotton textiles, engineering goods, iron & steel, motor vehicles, consumer goods and garments. The import works in raw cashew nuts, gemstones, raw cotton, pulses and timber. The trade between Tanzania and India has increased in the past few years and now stands at over \$750 million a year before being expected to increase further in the next few years. Tanzania has joined the India-Africa duty-free tariff preference scheme that was announced during India-Africa Forum Summit in 2008. India is ranked among the top three countries in both the export and import categories with Tanzania.

### **Investment in Kenya**

Kenya has called upon Indian entrepreneurs to explore investment opportunities in the areas of textiles, fertilizers, pesticides and tyres. Kenya offers various benefits to investors including a liberal economic regime, cheap labour, investment guarantee and protection, good market access to developed countries. Indian entrepreneurs to look at setting up units in Kenya's export processing zones in the area of textiles and take advantage of the duty-free and quota-free access to the US provided under the Africa Growth Opportunities Act (AGOA). There is a need for diversification of trade between India and Kenya in both volume and value terms.

Kenya signed a new bilateral agreement with India, geared towards advancing trade, investment and technical cooperation on 22nd December 2008. India-Kenya Joint Trade Committee (JTC) touches on various sectors of economy of both countries to enhance trade, investment and technical cooperation between the two countries. The agreement further stated

that in order to enhance competitiveness in the agricultural sector, the Indian National Research and Development Corporation (NRDC ) would assist Kenya in value addition, packaging and technological interventions to enhance agricultural output. Regarding lines of credit, the Kenyan delegation expressed interest in accessing Lines of Credit (LOC) for several sectors including cooperation in trade and investment in the Export Processing Zones, joint venture investment in textile sector, co-operation in tea and coffee sectors, targeting process technology and research and development. Furthermore, agreement was reached on development of infrastructure projects with emphasis on Build Operate Transfer (BOT), co-operation in business process outsourcing, administration of standards, co-operation in energy efficiency and conservation, bilateral investment promotion and protection agreement.

### **India as an Emerging Power in east Africa**

The demand of industrial and health sector is increasing in this region. This region focuses on power networks including the production of power with alternate sources. The limited financial recourses, current economic downturn, hydrocarbon fuel price fluctuations and growing dependence on coal generation are the myriad challenges in this region. EAC and India should look jointly to reduce the dependence on fossil fuels and coal based energy generation and look towards solar and nuclear energy to strengthen industrial sector. 'By participating in a regional market, they get to enjoy the economies of scale and enhance their own global competitiveness. Regional market integration leading to regional market access is particularly relevant in the context of trade and investments in the energy sector and physical infrastructure development', Kirloskar said (CII: March 2009).

EAC needs to initiate an environment for intra-regional trade in energy-related products and services as well as imports from outside the region requires regional agreement. Reduced import duties and uniform standards for energy products and the creation of a common, bigger market for fuels, equipment and energy services can help bring about price reductions for consumers and improved services across the region. In the case of infrastructure development, India has historically played a key role in Africa's physical infrastructure development ranging from constructions to watershed management. But, for the benefits of the engagements to reach a larger number of countries, and also for Indian engagement to upscale, there is need for a higher level of regional coordination in east Africa. It has been said that projects like laying fibre optic cables, building roads and power transmission lines could then be taken up across countries, and the economies of scale would benefit an entire region.

India can play a catalytic role in furthering the regional economic integrative forces. Providing an "inhouse experience", Mr Obadiah K Mbaya, Chairman, IDB Capital Ltd, Kenya, said his country has benefited significantly from the Government of India Line of Credit (LOC). Kenya has received the last LOC in 2003 and expressed hope that a new LOC will be made available to Kenya soon. The LOCs have helped the Kenyan government in its endeavour to facilitate easy financing to industry, transfer of technology, value addition of primary commodities, employment generation, greater international trade and bilateral cooperation with India. The LOCs also helped India to increase its exports to Kenya.' (CII Conclave, April 2009). Dr. Manmohan Singh mentioned that 'The objective will not just be a quantitative increase in trade and investments; we will also aim at a qualitative enhancement (through transfer of technology) of Africa's

economic competitiveness and technology capabilities. It is one of the cutting-edge differences between India's relationship as an emergent power with Africa as compare to traditional partners' (Reuters, 2008).

Along with it, Pan-Africa network to assist Africa is complimentary to India's foreign policy goals assess differently from traditional partners of Africa. The experiment testing of development of Pan-Africa network is already done to strengthen connectivity of all African countries. Kenya, Uganda and Tanzania have signed the agreements with the TCIL. 'The proposed network will link regional universities, learning centres, regional super specialty hospitals and remote hospitals from east African countries and 6 universities and 5 super specialty hospitals from India will coordinate in the network' (TCIL, 2008). Tanzania has been signed an agreement with Apollo Hospital last Month May 2009 and start constructing one of the biggest hospital in Dar es Salaam in a fix time frame.

### **Conclusion**

Land allocation should form an integral part of national policy on the use of agriculture for social and economic development. 'The article recommends timely government intervention through bulk purchase and distribution of food in the short term, and land redistribution, provision of credit, agricultural processing, and improved access to markets as long term measures to mitigate the debilitating conditions.' (Francis Nwonwu, 2009: 44).

Overall, India-east Africa needs to build their capacity to use as functional leaders, enjoy more responsibility and produce scientific educated younger and future generations. Today, the evidence is at best inconclusive on whether technology transfer contributes to growth, poverty reduction and India's emergence as power in Africa. There is a need to conglomerate the technology and majority of people need. Global partnership primarily a step towards development and mingling the common idea of mutual progress and prosperity will facilitate the way towards mutual India-Africa socio-economic transformation.

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