

KNOWLEDGE PARTNERSHIP PROGRAMME

TRADE AND INVESTMENT

Prospects for India- Ethiopia Trade and Investment Partnership



India-Ethiopia Trade: Some Facts

Annual Exports from

Ethiopia to India increased from \$2 million in 2000 to above \$28.6 million in 2013. On the other hand, India's annual exports to Ethiopia increased from \$51 million in 2000 to \$974 million in 2013. Thus, total trade between India and Ethiopia has increased

transport equipment's, iron and steel and pharmaceutical products to Ethiopia

The export basket of Ethiopia comprises primarily of goods such as food and live animals, vegetables, leather, crude materials, coffee, tea and cocoa.

India's DFTP and Ethiopian Exports

India's DFTP scheme provides preferential treatment (duty free or

- *India Ethiopia Trade increased from \$53million in 2000 to above \$1 billion in 2013 indicating tremendous scope for further improvement.*
- *India is one of the leading investors in Ethiopia with around \$5 billion investment.*
- *Indian investment has resulted in 3, 04, 330 jobs in Ethiopia*
- *Hindrances to Trade include: poor business climate; infrastructure bottlenecks, lack of access to trade financing, limited scope in DFTP scheme, NTBs etc.*

from \$53 million in 2000 to above \$1 billion in 2013. However, trade balance has remained highly in favour of India.

Although India's export to Ethiopia increased by 19 times between 2000 and 2013, its export to Ethiopia as ratio of total exports is still below 0.3 percent. Similarly, Ethiopia's export to India as ratio of total exports, accounts for only 1 per cent. The low trade share between India and Ethiopia shows that there is immense scope to enhance trade and promote trade with each other.

Trade Baskets

India mainly exports manufacturing products like chemicals, machinery and

Margin of Preference (MOP) to 98 per cent of the Indian tariff lines, whereas 2 per cent of tariff lines are in the exclusion list that can be exported to India at MFN tariffs. 48 LDCs including Ethiopia (33 from Africa, 14 from Asia and one from America) were officially beneficiaries of the scheme.

To assess the impact of India's DFTP scheme, Ethiopia's exports are divided into pre-DFTP period (2004-2007) and the post-DFTP period (2009- 2012), using 2008 as a cut-off point.

India-Ethiopia Trade facts

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DFTP Scheme and Ethiopian Exports

The export of duty-free products registered the highest growth rate (251 per cent), followed by exclusion products (235) and MOP products (148 per cent) in the post DFTP period, Indicating DFTP scheme has stimulated Ethiopia's exports to India.

India's Investment in Ethiopia

Around 632 Indian firms have invested over \$5 billion in Ethiopia in sectors like agriculture, floriculture, cotton and textiles, plastics, and health care. About 48% of Indian companies are in Manufacturing and 21% in agriculture and rest are in services sector.

Trade and investment hindrances

There are many hindrances: poor investment and trade climate, infrastructure bottlenecks, access to trade financing, presence of NTBs, exchange rate control, lack of awareness about DFTP schemes affect trade and investment between two countries.

Policy Recommendations

Steps to improve business climate, logistic and trade cost, infrastructure bottlenecks, diversification of exports, and measures to develop light manufacturing would help Ethiopia to improve its trade and investment partnership with India.

Between the two periods considered, the export of duty-free products (or covered under DFTP Scheme) observed the highest growth rate (251 per cent), followed by exclusion products (235) and MOP products (148 per cent). More importantly, duty-free products make almost half of the Ethiopian exports to India and their share increased by almost 7 per cent in the post DFTP period. Therefore, it looks like the DFTP scheme has stimulated Ethiopia's exports of preference products to India, particularly duty-free products.

Notwithstanding the benefits of DFTP scheme for Ethiopia, this scheme has many problems. Currently, the exclusion list constitutes 2 per cent of Indian tariff lines, but, in value terms, it excludes around 68 per cent of total exports of Ethiopia.

In addition, many products such as coffee, sesame seeds, sweet corn, oil seeds, other agricultural products and certain type of meats are where Ethiopia has comparative advantages are in exclusion list.

India's Investment in Ethiopia

Total FDI inflows to Ethiopia increased from \$135 million in 2000 to \$953 million in 2013, with large proportion coming from Asia, particularly from China and India. Indian firms invested in sectors such as agriculture, floriculture, cotton and textiles, plastics, and health care. About 48% of Indian companies are in manufacturing, 21% in agriculture and rest in the services sector.

Indian investment in Ethiopia created significant employment with nearly 2 lakh 40 thousand jobs being created in Ethiopia though mostly in the primary sector. India also made a commitment to raise Lines of Credit (LOC) facilities to Ethiopia's

agricultural and infrastructure sector.

As per Exim Bank Report, the largest single LOC approved so far by the bank so far is the one to Ethiopia (\$640 million) for its Tindaho Sugar Project.

Barriers to India-Ethiopia Trade and Investment

There are many hindrances which are affecting bilateral ties between the countries. These are: poor investment and trade climate; infrastructure bottlenecks, higher level of corruption, poor access to trade financing, presence of NTBs and lower human capital development in Ethiopia. Evidence from primary survey conducted by CII, indicates that transportation and logistics costs are major problems for promoting trade and investment in Ethiopia.

Access to finance is the second major barrier which India faces. The banking sector in Ethiopia is mainly state run and is not geared to cater to the needs of trade. The volatility in the exchange rate was a major deterrent for Indian companies trading with Ethiopia. In addition, other problems highlighted by Indian companies operating in Ethiopia include: repatriation of profits, confusion about VAT, difficulties in accessing Ethiopian buyers, delays in costumes and procedural issues.

Conclusions

Trade and investment between India and Ethiopia has increased rapidly, particularly after the Bilateral Investment Promotion and Protection Agreement 2007. However, to unlock the trade potential, both countries need several concrete measures. Steps to improve business climate, reducing logistic and trade cost, infrastructure

bottlenecks, removal of exchange control, diversification of exports, financial development, further liberalization of FDI and measures to develop light manufacturing would help Ethiopia to improve its trade and investment partnership with India. India also needs to bring about simplification of investment and business approval processes, further revision of DFTP scheme by including products of export interest to Ethiopia; relaxation of rules of origin and greater participation in institution and skill development in Ethiopia will help both countries in trade and investment flows. In addition, the annual India-Africa Conclave is an important forum to bring buyers and sellers together and spreading awareness among traders and policy makers regarding the policy environment in both the countries.

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