

EXIM BANK: RESEARCH BRIEF

ECOWAS: A Study of India's Trade and Investment Potential



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Introduction

Despite the many challenges facing Africa, economic growth of the region has exhibited resilience. Considerable progress in the region has been achieved through improved macro-economic management, market-based reforms and continued structural progress in many countries. This has resulted from the strong commitments of many African governments to prudent fiscal, monetary and exchange rate policies, during the last few years. Stimulus to sustained growth emanated from the deepening of reforms - economic and political governance, structural transformation, rebuilding institutional capabilities as well as efficiently managed macro-economic policies.

The Economic Community of West African States (ECOWAS), is among the main trading blocs in the African region. The community came into existence as a regional grouping with the signing of the Treaty of Lagos in May 1975 by 16 West African countries, with the primary objective of achieving economic integration and collective development through a unified economic and monetary union, promoting trade, cooperation and self-reliance in the region. ECOWAS trade bloc also sought the removal of customs duties for intra-ECOWAS trade, establishment of a common external tariff and harmonization of economic and financial policies. ECOWAS presently comprises 15 countries namely Benin, Burkina Faso, Cape Verde, Côte d'Ivoire, Gambia, Ghana, Guinea, Guinea-Bissau, Liberia,

Mali, Niger, Nigeria, Senegal, Sierra Leone and Togo. Mauritania withdrew its membership in 2000.

Economic Environment

In 2007, the combined Gross Domestic Product (GDP) for ECOWAS region increased to an estimated US\$ 217.6 billion from US\$ 187 billion in 2006. The economies in the ECOWAS region, in recent years, have witnessed increased activity, and growth performance. Improved cotton production and recovery in re-export trade with Nigeria, boosted Benin's real GDP growth from 3.8% in 2006 to 5.0% in 2007. In Mali, real GDP registered a growth rate of 4.3% in 2007. In Niger, strong growth in the non-agricultural sector, mainly industrial production, boosted real GDP growth to 5.6% in 2007. In Senegal, real GDP grew at 4.6% in 2007, with good performance of the services sector and steady rebound of the agricultural sector. In Côte d'Ivoire, real GDP registered positive growth rates of 0.9% and 1.5%, respectively, in 2006 and 2007. Nigeria's real GDP

continued its upward trend with a 5.8% growth in 2007. Liberia's real GDP growth rate accelerated from 7.8% in 2006 to 9.0% in 2007 on account of a recovery in agriculture and donor-funded reconstruction activity. Real GDP grew at 5.5% in Ghana due to strong services and agricultural sectors, and at 7.0% in Sierra Leone with the growth in the services sector. Further, the Gambian economy registered real GDP growth of 7% during 2007 with good performances in the agricultural and services sectors.

Economic Outlook

Real GDP growth of Ghana is expected to remain strong at 6.3% in 2008 and 6.5% in 2009 with robust activity in construction and services. The services sector is expected to remain strong in 2008, with tourism having benefited from Ghana's hosting of the African Nations Cup football tournament. Economic growth in Niger in 2008-09 is expected to be underpinned by agriculture while growth in the

Chart 1: Global Trade of ECOWAS Region (US\$ bn)



Source: Direction of Trade Statistics Yearbook 2007, International Monetary Fund (IMF)

uranium sector will become increasingly important. Real GDP growth is estimated at 4.7% in 2008 and 5% in 2009, assuming adequate rainfall in the growing season. The economic outlook of Côte d'Ivoire remains dependent on the resilience of the cocoa and petroleum sectors as the main sources of revenue and activity. Real GDP growth of Senegal is expected to remain strong at 4.8% in 2008, mainly driven by growth in construction sector, expansion of telecommunication, trade and increased phosphate production. Fiscal policy of Mali in 2008-09 will continue to support the government's poverty-reduction strategy while preserving macroeconomic stability and keeping external debt at sustainable levels. Real GDP growth of Cape Verde is expected to increase to 7.5% in 2008 and 8% in 2009, supported by high inflows of foreign direct investment in the tourism and construction sectors.

Foreign Trade of the ECOWAS Countries

ECOWAS as a sub-region has shown tremendous performance in terms of its global trade. Total trade of ECOWAS region has more than doubled from US\$ 51.6 billion in 2001 to nearly US\$ 140 billion in 2006, growing at a rate of 21.9% over the period. Growth in total trade of ECOWAS region is on account of favourable growth performance of both exports and imports. Exports of ECOWAS region steadily shot up from US\$ 27.2 billion in 2001 to US\$ 71.3 billion in 2006. Growing at almost a similar pace, imports of ECOWAS region too rose from US\$ 24.4 billion to US\$ 67.7 billion over the period 2001-2006 (Chart 1).

Share of ECOWAS in total trade of Africa has remained steady over the past few years. On an average, ECOWAS region accounted for 24.5% of Africa's total exports during 2004 to 2006. Imports of ECOWAS region too accounted for 23.8% of Africa's total imports during the same period.

The merchandise exports within the ECOWAS bloc have shown a

steady growth, more than doubling from US\$ 2.7 billion in 2000 to nearly US\$ 6 billion in 2006. The share of intra-bloc merchandise exports as a percentage of global exports of the bloc has also risen from 7.6% in 2000 to 8.3% in 2006.

FDI in the ECOWAS Region

With a view to encourage the economic development of West African states, ECOWAS offers a wide market area and a big consumer population to investors. The formation of the ECOWAS was an important step for West African states towards their economic development. ECOWAS promoted the unity of the independent West African states, and favoured trading within the states and with the rest of the world.

FDI inflows to ECOWAS region rose to US\$ 6.9 billion in 2006 from US\$ 3.2 billion in 2003, following larger investments in all sectors by mainly European and Asian Companies. The sub-region's share in total FDI inflows to Africa rose to 19.5% in 2006, from 15.5% in 2005. Nigeria was the main destination in ECOWAS region, accounting for 78.6% of the total FDI to the subregion, dominated by FDI in its oil industry. In Ghana, inflows tripled to US\$ 435 million, largely as a result of investment from United States. Most of the other inflows into ECOWAS went to the services sector. FDI in tourism in the country also experienced strong growth.

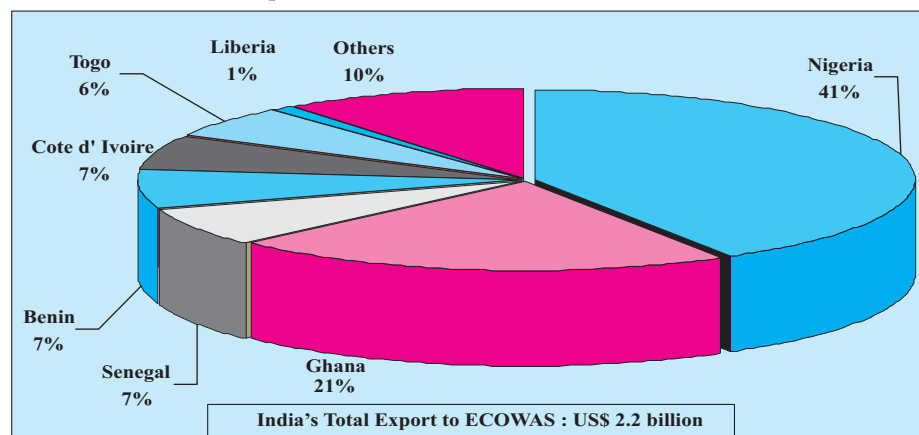
India's Bilateral Trade & Investment Relations With the ECOWAS Countries

India's trade with the ECOWAS region has rapidly risen from US\$ 2.7 billion in 2005-06 to US\$ 10.2 billion in 2006-07, with India's exports to the region amounting to US\$ 2.2 billion, and India's imports from the region aggregating US\$ 8 billion in 2006-07. The importance of the ECOWAS region can be assessed from the fact that the region accounted for 21.4% of India's total exports to Africa, and 54.4% of India's total imports from Africa during 2006-07. Countries such as Senegal, Nigeria, Ghana, Cote d'Ivoire, among others, are not only important trading partners for India, but also major destinations for India's overseas investments in the ECOWAS region. India's trade balance with ECOWAS region has turned into a deficit of US\$ 5.8 bn in 2006-07 from a surplus of US\$ 579.8 mn during 2005-06, mainly on account of imports of oil.

Nigeria is the leading export market among the ECOWAS members, with a share of 41.5% in India's total exports to ECOWAS in 2006-07. The other major export markets during the same year are Ghana (21.2%), Senegal (7.0%), Benin (7.0%) and Côte d'Ivoire (6.5%) (Chart 2).

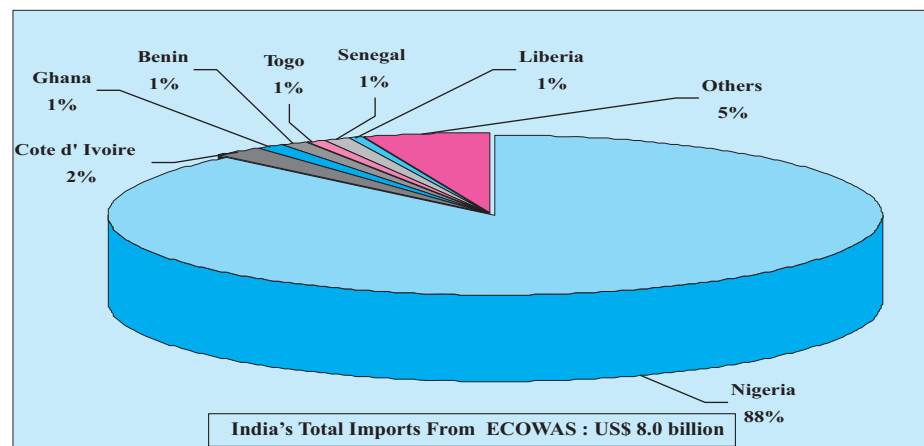
As for imports, Nigeria is the largest supplier to India among the ECOWAS members, accounting for 87.7% of India's

Chart 2: India's Exports to Select ECOWAS Countries (% share 2006-07)



Source: Directorate General of Commercial Intelligence and Statistics (DGCIS), Ministry of Commerce & Industry (MOCI)

Chart 3: India's Imports from Select ECOWAS Countries (% share 2006-07)



Source: Directorate General of Commercial Intelligence and Statistics (DGCIS), Ministry of Commerce & Industry (MOCI)

total imports from the ECOWAS region in 2006-07. Guinea (4.3%), Côte d'Ivoire (2.3%), Ghana (1.3%), Benin (1.0%) and Togo (1.0%) are other important import sources from the ECOWAS region in the same year (Chart 3).

Exim Bank in the ECOWAS Region

The countries in the African Continent, including the ECOWAS region, have been a focus region, and thus a critical component of Exim Bank's strategy to promote and support two-way trade and investment. As a partner institution to promote economic development in the region, the commitment towards building relationships with the region is reflected in the various activities and programmes which Exim Bank has set in place.

With the growing level of bilateral and regional trade and investment relations especially with the ECOWAS countries, Exim Bank, in order to further boost bilateral economic cooperation, opened a representative office in ECOWAS region at Dakar, Senegal in 2008. The Dakar office has been conferred with a special status 'Accord de Siège' by Government of Senegal at par with multilateral institutions located in Senegal.

Project Exports

Exim Bank plays a pivotal role in promoting and financing Indian companies in execution of projects. Towards this end, the Bank extends funded and non-funded facilities for

overseas industrial turnkey projects, civil construction contracts, supplies as well as technical and consultancy service contracts. In the ECOWAS region, Indian companies have implemented numerous projects, spanning various sectors, with support from Exim Bank, in countries including Ghana, Nigeria and Senegal. These projects, in turn, facilitate and support infrastructure development in host countries, thereby contributing to the overall development process in the region. Exim Bank has been a key partner in the conclaves on India-Africa Project Partnerships, which seek to create platforms for decision makers from African countries and relevant multilateral, regional and national funding agencies to meet, in one place, the entire range of Indian companies involved in engineering consultancy, turnkey projects, construction and supply of project goods among others.

Lines of Credit

The commitment towards enhancing bilateral commercial relations with countries in the African region can also be assessed from the fact that, out of 94 operative Lines of Credit (LOCs) which Exim Bank has in place, 55 of them are in Africa with credit commitments of around US\$ 2 billion. These LOCs facilitate import of project-related equipments and services from India on deferred credit terms, as for instance the LOCs extended to countries in the ECOWAS region such as Burkina Faso, Côte d'Ivoire, Gambia, Ghana, Mali

and Senegal. Besides supplementing the "Focus Africa" programme of the Government of India, Exim Bank's Lines of Credit are in line with the 'Team 9 Initiative', a regional cooperation mechanism between India and Governments of most West African Countries to foster economic growth in the region. LOCs extended by Exim Bank to the ECOWAS region include, besides others, US\$ 250 million to the ECOWAS Bank for Investment and Development (EBID).

Partner in Institutional Building in Africa

As a partner institution in promoting economic development in Africa, Exim Bank shares its experience in the setting up of institutional infrastructure for international trade. In this regard, Exim Bank has taken active participation in the institutional building process in countries in Africa. Exim Bank has also been associated in the setting up of the Afreximbank, set up with the purpose of financing and promoting intra and extra-African trade.

Institutional Linkages

Exim Bank has been forging a network of alliances and institutional linkages to help further economic cooperation with the African region. These endeavours are supplemented by the various Cooperation Agreements the Bank has in place with key institutions in the African region including: African Development Bank; Afreximbank and Nigerian Export-Import Bank (NEXIM). Further, Exim Bank is a member of the Association of African Development Finance Institutions (AADFI), whose membership helps provide a platform for building linkages with other institutions in Africa.

Knowledge Building and Technology Transfer

In the area of knowledge building and technology transfer, Exim Bank's research studies have focused on potential areas for boosting India's trade and investment relations with select West African Countries like Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal and Togo which are members of ECOWAS, Southern African Customs Union (SACU) member countries, Southern African Development Community (SADC) member countries,

members of the Common Market for Eastern and Southern Africa (COMESA), as also the member countries of Maghreb region. Further, Exim Bank's bilingual (English and French) magazine titled "Indo-African Business" focuses on bilateral trade and investment between India and Africa, and addresses the business information needs of companies who are interested in trade with the African region, including the ECOWAS region.

Facilitating South-South Trade and Investment

With a view to facilitating South-South trade and investment cooperation, at the joint initiative of Exim Bank and UNCTAD, a Global Network of Exim Banks and Development Finance Institutions (G-NEXID) was launched in March 2006 in Geneva. Many institutions from ECOWAS are G-NEXID members, including: ECOWAS Bank for Investment and Development, Nigerian Export-Import Bank and Development Bank of Mali.

Thus, Exim Bank of India, with its comprehensive range of financing, advisory and support services, seeks to create an enabling environment for enhancing two-way flow of trade, investment and technology between India and the ECOWAS region, while also promoting infrastructure development, facilitating private sector development in host countries, also in contributing towards institutional building in the region.

Strategies for Enhancing Trade and Investment Relations

With the potential to further enhance bilateral trade and investment relations between India and the ECOWAS region, some broad strategies and recommendations are provided below.

Towards developing entrepreneurship and human capability, India could share its expertise and experience with countries in the ECOWAS region, particularly in the SME sector wherein India has developed successful SME clusters. Closer cooperation and linkages with specialised investment promotion agencies and chambers of commerce and industry, which have been set up by respective governments in the ECOWAS region, would also serve to enhance access to information about investment opportunities as also prospective joint venture partners in the region. In the realm of Information Technology, cooperation could encompass areas such as e-governance, financial services and e-education, and sharing of expertise in software programmes and services for banks and financial institutions in the region. With few major Indian banks having set up operations in select countries in Africa, opening up of branches or representative offices and developing correspondent banking relations with select banks in the ECOWAS region would serve to facilitate and promote bilateral commercial relations. With a number of countries in the ECOWAS region richly endowed with natural resources, bilateral cooperation for development of such natural resources could benefit both India and countries in the region. An important element of the strategy would also be effective dissemination of information relating to trade/investment opportunities to potential exporters and investors in India as also prospective partners in the region. This could be facilitated through increased visits by trade and industry delegations from India to the region, and vice versa, participating in specialized trade and industry fairs and

exhibitions in the region; organizing buyer-sellers meets and specialized "Made in India" exhibitions showcasing Indian expertise. Indian companies could also develop business hubs in the ECOWAS region to encourage and lend support, as also market access to prospective companies who are interested in developing commercial relations and establish presence in the ECOWAS region.

The contents of the publication are based on information available with Export-Import Bank of India and primary desk research through published information of various agencies. Due care has been taken to ensure that the information provided in the publication is correct. However, Export-Import Bank of India accepts no responsibility for the authenticity, accuracy or completeness of such information.

Note: Indian Rupee are referred in crore and lakhs:

1 crore : 10 million
1 lakh : 100 thousand

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