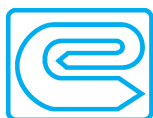


# EXIM BANK: RESEARCH BRIEF

## SADC: A Study of India's Trade and Investment Potential



March 2010

EXPORT-IMPORT BANK OF INDIA

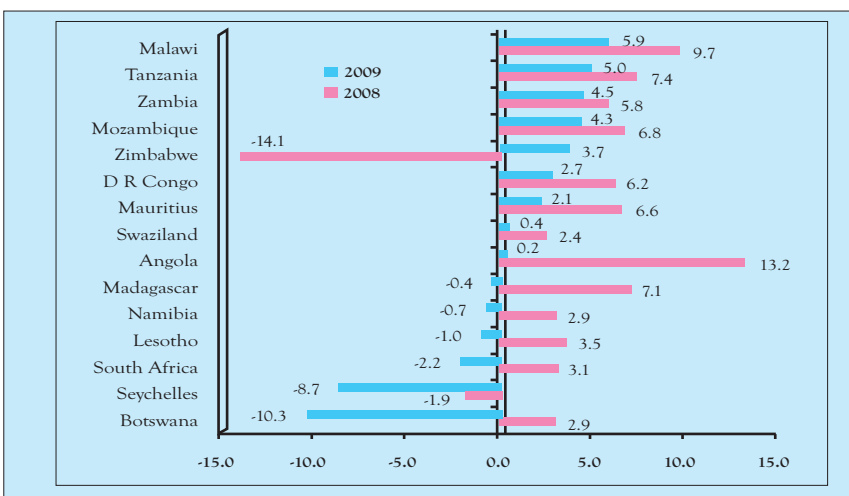
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### Introduction

The Southern African Development Community (SADC) has been in existence since 1980, when it was formed as a loose alliance of nine states in Southern Africa known as the Southern African Development Coordination Conference (SADCC), with the main aim of coordinating development projects. SADCC was formed in Lusaka, Zambia on April 1, 1980, following the adoption of the Lusaka Declaration - Southern Africa: Towards Economic Liberation. The founding member states were: Angola, Botswana, Lesotho, Malawi, Mozambique, Swaziland, Tanzania, Zambia and Zimbabwe. The transformation of the organization from SADCC into SADC took place on August 17, 1992 in Windhoek, Namibia when the Declaration and Treaty was signed at the Summit of Heads of State and Government, thereby giving the organization a legal character. The main objectives of SADC include, among others, achieving development and economic growth, alleviating poverty, enhancing the standard and quality of life and supporting the socially disadvantaged through regional integration; promoting and defending peace and security; promoting self-sustaining development on the basis of collective self-reliance and the inter-dependence of member states; achieving complementarity between national and regional strategies and programmes; and promoting and maximising productive employment and utilisation of resources of the region.

Chart 1: GDP Growth of SADC Countries, 2009 (percent)



Source: International Monetary Fund (IMF), World Economic Outlook (WEO).

### Economic Profile of Select SADC Member Countries

In spite of the recent global financial crisis, all SADC member countries, except Zimbabwe and Seychelles, recorded a positive real GDP growth rate in 2008, and more than half of the countries in the region continued to record positive growth in 2009 (Chart 1).

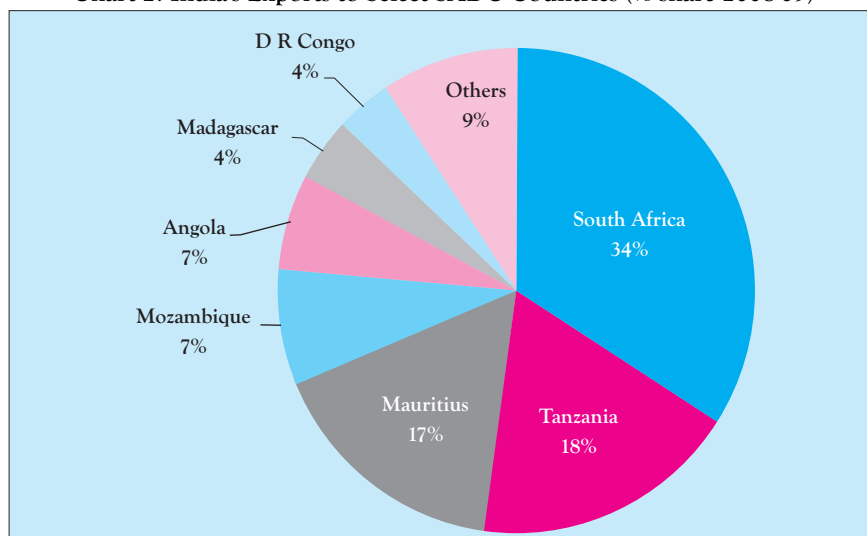
### Foreign Trade in SADC Region

During the past five years, total exports of SADC increased more than two-folds from US\$ 73.1 billion in 2004 to US\$ 165.8 billion in 2008, primarily as a result of higher exports of South Africa and Angola, the two major trading partners in the region. Higher exports during the period were mainly supported by increase in exports of mineral fuel, and pearls and precious stones. SADC's total imports also increased by 85.3 percent

during the past five years from US\$ 78 billion in 2004 to US\$ 144.5 billion in 2008, with South Africa being the largest contributor to total imports. Petroleum products and heavy machineries were the major commodities which contributed for higher import growth of the region. South Africa and Angola were the major importing countries accounting for 60.6 percent and 12.6 percent, respectively, of total imports of the region in 2008. As a result, total trade balance of the region, which turned into surplus in 2005, widened from US\$ 5.8 billion in 2007 to US\$ 21.3 billion in 2008.

### Foreign Direct Investment in SADC Region

Foreign direct investment (FDI) inflows into SADC countries witnessed a significant increase in recent years, with

**Chart 2: India's Exports to Select SADC Countries (% share 2008-09)**

Source: Directorate General of Commercial Intelligence and Statistics (DGCIIS), Ministry of Commerce & Industry (MOCI), Government of India (GOI)

the total FDI inflows in to the region increasing by more than seven-folds to US\$ 31,091 mn in 2008 from US\$ 4,118 mn in 2004. Among the SADC countries, Angola accounted for the largest share (50.0 percent) of FDI inflows to the region in 2008, followed by South Africa (29.0 percent), Madagascar (4.8 percent) and D R Congo (3.2 percent).

### India's Bilateral Trade and Investment Relations with the SADC Countries

India's trade and investment relations with the SADC region have strengthened in recent years. India's total trade with the SADC region has risen more than three-folds from US\$ 4.4 billion in 2004-05 to US\$ 13.6 billion in 2008-09, with India's exports to the region amounting to US\$ 5.7 billion, and India's imports from the region aggregating US\$ 7.9 billion in 2008-09. The SADC region accounted for 39.3 percent of India's total exports to Africa during 2008-09. The share of India's total imports from SADC region, in India's total imports from Africa, increased from 21.2 percent in 2006-07 to 32.5 percent in 2008-09. SADC member countries such as South Africa Mauritius, Tanzania, Mozambique and Zambia, among others, are not only important trading partners for India, but also major destinations for India's overseas investments in the African region.

India's exports to SADC region increased by a robust compound annual growth rate

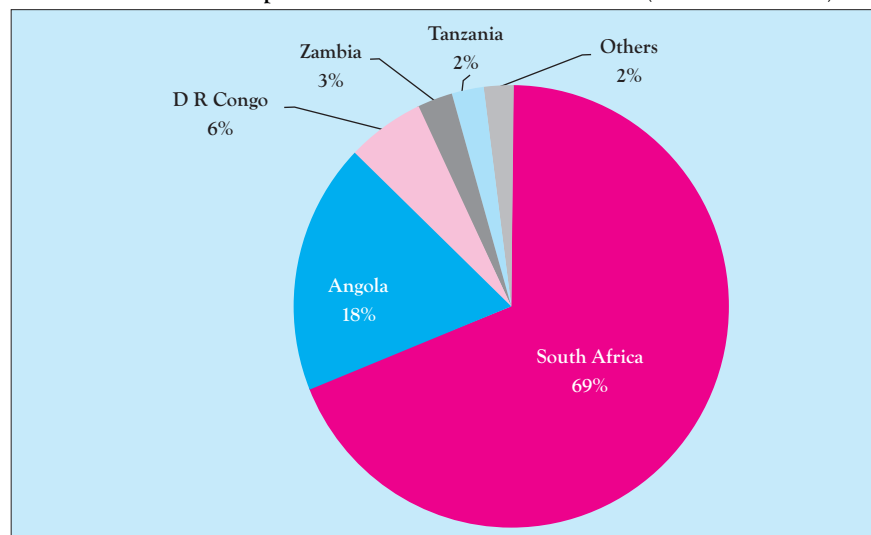
(CAGR) of 31.6 percent during the period 2004-05 to 2008-09. India's imports from SADC region too accelerated from US\$ 2.5 billion in 2004-05 to US\$ 7.9 billion in 2008-09, registering a CAGR of 33.3 percent. India's trade balance with SADC has turned into a deficit of US\$ 2.2 billion in 2008-09 from a surplus of US\$ 0.5 billion in 2007-08. South Africa is India's leading export market among the SADC members, with a share of 34 percent in India's total exports to SADC in 2008-09, followed by Tanzania (18 percent of total exports), Mauritius (17 percent), Mozambique (7 percent) and Angola (7 percent) (Chart 2). As regards

imports, South Africa is again the largest supplier to India among the SADC countries, accounting for 69 percent of India's total imports from the region in 2008-09, followed by Angola (18 percent of total imports) and D R Congo (6 percent) (Chart 3).

During the period April 1996 to December 2007, total approvals of Indian direct investments in joint ventures (JVs) and wholly owned subsidiaries (WOS) in the SADC region, amounted to around US\$ 3.6 billion, accounting for slightly more than 7 percent of India's global overseas investments during the period. Among the SADC countries, Mauritius has been the major destination, with total investments amounting to US\$ 3.5 billion during the period, accounting for almost 97 percent of total investments from India in the SADC region. As regards cumulative inflow of FDI into India, between April 2000 to December 2009, largest investment flowed in from Mauritius to the tune of US\$ 45.7 billion, accounting for almost the entire investment flow from SADC region into India. The other major sources of investment flow into India from the SADC region were South Africa and Seychelles.

### Policy Initiatives

With a view to facilitate and further enhance bilateral trade and commercial relations with countries in Africa, India

**Chart 3: India's Imports from Select SADC Countries (% share 2008-09)**

Source: DGCIIS, MOCI, GOI

has put in place important policy measures as also institutional frameworks to create an enabling trade and business environment. Such initiatives have been effective in giving a new dimension to mutual cooperation and the already existing close relations between the two sides. Major policy initiatives would include, among others, Focus Africa Programme, Pan-African E-Network, India-Africa Partnership Conclaves and India Africa Summit.

### Potential for Enhancing Trade and Investment Relations

Both imports and exports of SADC member countries have shown an overall increasing trend in recent times. India too has registered a positive growth in its trade with these countries. The potential items for India's exports to the SADC region would include electrical and electronic goods, plastic & linoleum products, organic and inorganic chemicals, article of iron & steel, automotive components, petroleum products, pharmaceutical products, machinery and instruments, transport equipment, textiles, and spices. Based upon India's primary requirement of imports, items which hold potential for import from SADC region would include gold, coal, coke & briquettes, non-ferrous metals, metaliferrous ores and metal scrap, diamonds, pearls, precious & semi-precious stones, cashew nuts, coffee, marine products, pulp and waste paper, and wood & wood products.

### Exim India in the SADC Region

Export-Import Bank of India (Exim India) operates a comprehensive range of financing, advisory and support programmes to promote and facilitate India's trade and investment relations with countries in Africa, including the SADC region.

#### Lines of Credit (LOCs)

In the African region, Exim India has 80 operative LOCs totalling US\$ 2,668.6 mn, covering 47 countries, including the SADC region. With respect to SADC region, Exim India has 27 operative LOCs, amounting to US\$ 519.5 mn, extended to the Governments of D R Congo, Lesotho, Madagascar, Mauritius, Malawi, Mozambique, Seychelles, Tanzania, Zambia, and Angola. Exim India also

extended LOCs amounting to US\$ 65 mn to Eastern and Southern African Trade and Development Bank (PTA Bank), where all the SADC countries are shareholders, for setting up of, among others, sugarcane crushing and processing plant, cement plant, paper plant, weaving machinery and capacitor power panel. Exim India also has in place an LOC of US\$ 30 mn to Afreximbank for general purpose utilisation, and US\$ 5 mn to Seychelles Marketing Board, Seychelles, covering several items including vehicles, spare parts, automobile tyres, cables and medicines.

#### Support for Project Exports

Exim India extends both funded and non-funded facilities to Indian project exporters for overseas industrial turnkey projects, civil, civil construction contracts, supplies as well as technical and consultancy services contracts. Indian companies have implemented numerous projects in Africa, including the SADC region, with the support of Exim India. As on December 31, 2009, the value of project contracts secured by Indian project exporters in the SADC region amounted to Rs. 2.95 billion, in countries like Mauritius, Mozambique and Zambia.

#### Institutional Linkages and Arrangements

Exim India has signed a Memoranda of Understanding (MOUs) with the following institutions where members from the SADC region are members/shareholders, which include Afreximbank, Industrial Development Corporation of South Africa Limited (IDC), PTA Bank (Eastern & Southern African Trade Development Bank) and Board of Investment of Mauritius.

#### Association with African Development Bank (AfDB)

Exim India works closely with AfDB and has an active programme which offers a range of information, advisory and support services to Indian companies to enable more effective participation in projects funded by Multilateral Funding Agencies such as African Development Bank. Towards this end, Exim India and AfDB have in place agreement for co-financing projects in Africa, which envisages, among others, joint financing of projects (priority being given to support

projects of small and medium enterprises) in regional member countries of AfDB. Exim India also organizes business opportunities seminars in projects funded by AfDB at various centres in India.

#### Member of Association of African Development Finance Institutions (AADFI)

Exim India is a member of AADFI, a forum of institutions / banks with the objective of creating co-ordination and economic solidarity among the development finance institutions in the African continent. The membership of AADFI helps Exim India in identifying potential markets / partners in the African region and provides an ideal platform for building linkages with other institutions in Africa, which are members of AADFI.

#### Shareholder in Afrexim Bank and Development Bank of Zambia

Exim India has taken up equity in the African Export-Import Bank (Afrexim Bank), which is headquartered in Cairo, Egypt. The Afrexim Bank was established in 1993 by African Governments, African private and institutional investors as well as non-African financial institutions and private investors for the purpose of financing and promoting intra-and extra-African trade. Further, Exim India has also taken equity in Development Bank of Zambia (DBZ).

#### Global Network of Development Finance Institutions and Exim Banks (G-NEXID)

At the joint initiative of Exim India and UNCTAD, G-NEXID was launched in March 2006 in Geneva. Annual Meetings are held to deliberate upon measures to foster long-term relationship, share experience and strengthen financial cooperation to promote trade and investment relations between developing countries. A number of institutions from Africa are G-NEXID members, such as Afreximbank, PTA Bank, East African Development Bank, Development Bank of Namibia, Development Bank of Zambia, Industrial Development Bank of Kenya, Industrial Development Corporation of South Africa, Development Bank of Southern Africa, ECOWAS Bank for Investment and Development, Central African States Development Bank, Exim Bank of Nigeria, SME Bank of Tunisia,

Development Bank of Mali, and National Bank for Investment, Cote d'Ivoire.

### Exim India as a Consultant

Exim India has rendered technical assistance to a number of institutions worldwide, including those in Africa, which include: establishing the Afrexim Bank; establishing an Export Credit Guarantee Company in Zimbabwe; development of international trade finance products for Industrial Development Corporation of South Africa; consultancy assignment for the Government of Mauritius on "Mauritius as an Investment Hub for Indian Firms".

### Strategies and Recommendations to Enhance Commercial Relations with the SADC Region

Some of the broad strategies and recommendations to enhance India's trade and investment relationship with the SADC region are highlighted as follows: Enhanced cooperation between India and SADC region in the pharmaceutical sector could prove beneficial for both India and SADC. In the Information and Communication Technology (ICT) sector, India's strength can be harnessed by encouraging the Indian companies to focus on the ICT sector of the SADC region. India could share its expertise and experience in SME clusters development with the entrepreneurs in SADC countries. Delegations from these countries could visit India to study the success factors of SME clusters in India and develop similar clusters in their home countries using their human resource endowments. Several Governments in the African region, including the SADC countries, view that foreign investments in agriculture cultivation would lead to possible benefits for rural poor, including the creation of a potentially significant number of farm and off-farm jobs, development of rural infrastructure, and social improvements, leading to poverty reduction. Indian companies can explore the possibilities of investment such as joint ventures or contract farming and out-grower schemes or investments in key

stages of value chains. The SADC region as a whole has been a net beneficiary of trade with the EU and the Economic Partnership Agreement will allow the region to improve competitiveness, diversify its exports, and build strong regional cooperation networks in support of those that currently exist or are being developed. By trading or investing in these countries, the Indian exporters / investors could also gain access to the vast and lucrative EU market.

Countries in the SADC region are well endowed with rich natural resources and abundant mineral resources which can help in accelerating the economic and social development and growth of the region, translating into socio-economic benefits for the citizens in the region. SADC countries are also rich in marine resources, and the region provides opportunities for development and exploration of marine resources. Indian companies can explore possibilities for mutual cooperation in technology transfer and resource processing, and reap the benefit of investing in the projects and development activities undertaken for this sector.

In light of the key role played by specialized investment promotion agencies and chambers of commerce and industry, focus could therefore be on building closer institutional linkages with such agencies. Such linkages would serve as important source of detailed information about existing potential areas for investment, investment regulations and incentives, as also prospective investment partners. A business hub in any one of the SADC countries would enable the Indian exporter / investor to enhance both bilateral trade and investment relations with the region.

An important element of the strategy to boost bilateral trade and investment relations could be to effectively disseminate relevant information about the opportunities and potential existing in fostering commercial relations. SADC countries being members of other trading blocs such as SACU, would help Indian

investors in gaining access to the large African market. SADC region has also emerged as one of the major tourist destinations of the world, receiving more than half of tourist population visiting Africa. With India being an emerging player in hospitality industry, Indian companies could explore the vast opportunities available in the SADC countries. Indian companies can focus also on developing world-class hotels and resorts with an Indian touch. Multilateral funding agencies such as the World Bank and the AfDB are active in funding development projects in the SADC region. Focus on these funded projects and increased participation by Indian project and services exporters in such funded projects would serve to enhance Indian commercial presence in the region.

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*The contents of the publication are based on information available with Export-Import Bank of India and on primary and 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.*

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Note: Indian Rupee are referred in crore and lakhs:

1 crore : 10 million

1 lakh : 100 thousand

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