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AFRICA- INDIA'S NEW TRADE AND INVESTMENT PARTNER

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***Abstract*-** Trade and Investment flows between India and Africa have grown massively over the recent period. The bilateral trade between the region and India was recorded at US $ 70 billion during 2012-2013 and the Indian Investments in the region stood at US$ 14 billion. The paper discusses this emerging trend in trade and investment relation between India and Africa.

***Index Terms*-** Africa, FDI, India, Trade

I. INTRODUCTION

INDIA'S OFDI POLICY REGIME AND TRENDS IN OFDI

India's OFDI policy regime has evolved overtime as the country embarked on New Economic Policy. Although Indian firms were investing abroad in the mid-1960s (Lall, 1983), restrictive OFDI regime limited them to small, minority joint ventures in developing economies. OFDI activity has become significant only since the onset of economic reforms in 1991and particularly 2000 onwards. The upward trend in OFDI from India is explained by the liberal policy regime adopted since 1991. The RBI Guidelines for Indian Joint Ventures and Wholly Owned Subsidiaries Abroad, as amended in October 1992, May 1999 and July 2002, provided for automatic approval of OFDI proposals up to a certain limit that was expanded progressively from $2 million in 1992 to $100 million in July 2002. In January 2004, the limit was removed altogether and Indian enterprises are now permitted to invest abroad up to 100% of their net worth on an automatic basis.[1]

Data suggests that annual average OFDI from India rose from about US$ 5 Million from 1980 to 1990 to US $ 121 million in a decade from 1991 - 2000. The level of OFDI flows recorded a sharp uptrend reaching US $ 105 billion during the period 2006-2012 as compared to US $ 10 billion between 2000 -2005. (UNCTAD FDI Statistics). Indian outbound FDI has undergone long term transformations in its character covering industrial structure, geographical composition, ownership controls, entry modes, motivations and source of financing since the country embarked on its liberalization journey (Hansen 2007). Prior to liberalization in the 1990s, India's outward FDI flows were largely limited to its neighboring developing countries and were viewed as its contribution to south-south cooperation. The share of FDI to the developed world increased from 24% in 1980s to 44% in 1990s (Kumar 2008) and has further risen to about 52% during 2000-2010 (RBI 2012)[2]. However during last couple of years developing economies have again become important destination of India's outbound FDI, accounting for about 60% of total outflows (UNCTAD 2013). The international financial crisis and resultant slowdown in the developed countries has prompted Indian firms to search for new markets and unexplored destinations for both trade and investment. Increasing trade and investment between India and Africa is an indication in the same direction. The objective of this paper is to explore the increasing trade and investment relation between India and Africa. The paper is organized as follows: Following the introduction, Section II lays down the theoretical framework of FDI. Section III discusses trade relationship between the India and Africa. Section IV explores the investment trends. Section V and VI briefly discusses the impediments to the economic relation between the region and India and support measures extended by India respectively. The last section concludes.

[1] RBI/2013-14/11 Master Circular No. 11/2013-14(Updated as on February 7, 2014)

[2]. Address delivered by Harun R Khan, Deputy Governor, Reserve Bank of India at the Bombay Chamber of Commerce & Industry, Mumbai on March 2, 2012. Available at: http://rbi.org.in/scripts/BS_SpeechesView.aspx?Id=674

II. MOTIVES OF FDI- THE THEORETICAL FRAMEWORK

Firms engage in FDI because they are motivated and have the capability to do so. Makino et al (2002) puts forth two distinct but complementary perspectives which explain the motives of FDI: asset exploitation and asset seeking. In the asset exploitation perspective, FDI is viewed as the transfer of a firm's proprietary assets across borders. In the asset seeking perspective, FDI is viewed as a means to acquire strategic assets (i.e. technology, marketing and management expertise) available in a host country. Kindelberger (1969), Hymer (1976) and Caves (1971) based their work on asset exploiting perspective of FDI and explained FDI as a tool of exploiting monopolistic advantage in the host country. In similar vein, Internalization theory explains FDI as an organizational response to external market failure for rent yielding resources and an attempt by the firms to reduce transaction costs of cross border activity (Buckley and Casson 1976; Rugman 1981). Dunning's OLI framework bridged the idea of market power and transaction cost approach and explained FDI as an attempt to exploit ownership specific advantages in overseas market through the process of internalization.

The traditional literature on FDI failed to explain the new wave of OFDI from emerging economies and FDI activity of "latecomer" firms. The internationalization behaviour of latecomers is explained from the Asset Seeking perspective. The asset augmenting or asset aeeking perspective of FDI suggests that firms engage in FDI not only when they have firm specific advantages that they want to exploit in foreign market but also when they want to and have the capacity to acquire complementary assets which are owned by firms in the host country, to enhance their competitive advantages (Dunning 1995, 1998 and 2000). Luo and Tung (2007) argue that emerging economy MNCs internationalize through a distinct process dubbed 'springboarding', designed to achieve the dual purpose of acquiring strategic resources abroad and reducing their institutional and market constraints at home. Mathews (2002) also argues that EMNCs typically represent instances of accelerated internationalization and that they use their latecomer position to their advantage through repeated applications of a process of 'linkage, leverage and learning'. They are not operating in a world where they seek to push monopolistic advantages as much as one where they seek to tap resources elsewhere and device appropriate strategies and organizational forms for doing so.

III. INDIA AND AFRICA- TRADE RELATIONSHIP

Africa's bilateral trade with India has seen a positive dimension since the globalization. It has witnessed a massive growth from a mere US$1 billion in 1990 to US$3 billion in2000, reaching up to the level of US$ 36billion in 2007-08 and climbing up high to the current level of US$ 70 billion in 2012-13. This upward trend in bilateral trade is partly the consequence of India's duty-free tariff preferential scheme for 49 least developed countries (LDCs), which was announced in April 2008, and which has benefited 33 African countries. While the Indian exports include manufactured goods, machinery, transportation equipment, food, and pharmaceutical products, India's imports from Africa are still dominated by crude petroleum, gold, and inorganic chemical products, reflecting India's high demand for energy resources.

INDIA'S EXPORTS TO AFRICA

India's trade relation with Africa took a new direction when Indian Foreign Trade Policy 2002-07 came along with a programme of "Focus Africa". The government of India launched this Programme in 2002-03 to increase the interaction between the two regions by identifying potential areas of bilateral trade and investment. The Focus Africa programme's commercial focus is expansive and beyond regular fiscal incentives, whereby export promotion activities are conducted by various export promotion councils and business associations with grant under Market Development Assistance (MDA) and Market Access Initiative (MAI) Schemes. The programme forms part of a larger strategy of India to diversify its trade relationships beyond traditional markets.

INDIA'S EXPORT TO AFRICA (US $ MILLION)								
REGION	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
North Africa	1593.21	1861.99	2652.26	3422.61	3125.18	3985.85	4693.63	5681.84
West Africa	1857.6	2446.76	3461.93	3357.08	3136.98	4296.61	6460.45	6523.39
Central Africa	165.27	203.54	257.7	384.87	349.63	465.03	707.8	931
East Africa	1437.42	2942.22	4214.15	4509.79	3512.18	5346.87	6594.24	8839.29
Southern Africa	1940.02	2814.93	3605.74	3139.07	3308.94	5619.11	6217.96	7166.98

TABLE-1 (source: http://commerce.nic.in/eidb/ergn.asp)

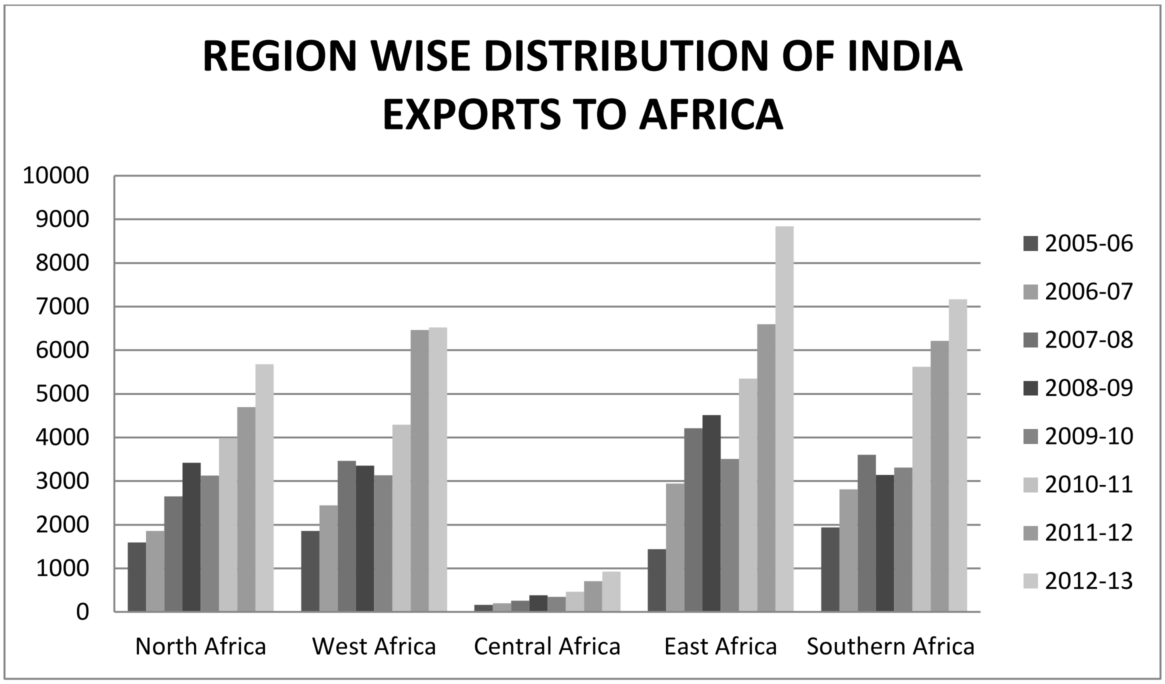

Figure 1

As can be seen from the data, Indian exports to Africa have been showing an upward trend since the inception of programme. With around 30% share of total exports to Africa, East Africa has been a major importer followed by Southern Africa (24.6%)and North Africa(19.5%)in the year 2012-13.

East African countries share good trade relationship with India and this is why, the largest market for Indian goods. The major export items to East Africa region includes refined petroleum products, pharmaceuticals, industrial machinery, iron and steel and sugar products. Ethiopia, a less developed country of the region has turned out to be a major trading partner for Indian exporters investing primarily in sectors of agriculture and mining.

Southern Africa accounting for around 24.6 % share of total India's exports to Africa in 2012-13, has seen a considerable rise in the exports from India. Southern African countries have been importing refined petroleum products, automobiles, pharmaceuticals, electrical and industrial machinery from Indian firms.

Following Eastern and Southern counterparts, North Africa has also been picking up pace when it comes to importing from India. In the northern region, Egypt has come out to be the largest market for Indian goods. The major import items are automobiles, electrical machinery and bovine meat. Turnkey Projects, refinery installations , gas pipeline , transmission line and water supply projects are the major projects undertaken by Indian firms in the Maghreb region.

With about 22 % share in total Indian exports to Africa, West Africa region's imports from India mainly include pharmaceuticals, electrical machinery and vehicles. Nigeria is the largest economy of the region and the largest market for India.

Central African countries account for less than 5% of India's exports. However, the region's imports from India are on rise. The major export destination in this region are Angola, Cameroon and the Republic of Congo and demand is mainly for the items like pharmaceuticals, refined petroleum products, vehicles and industrial machinery.

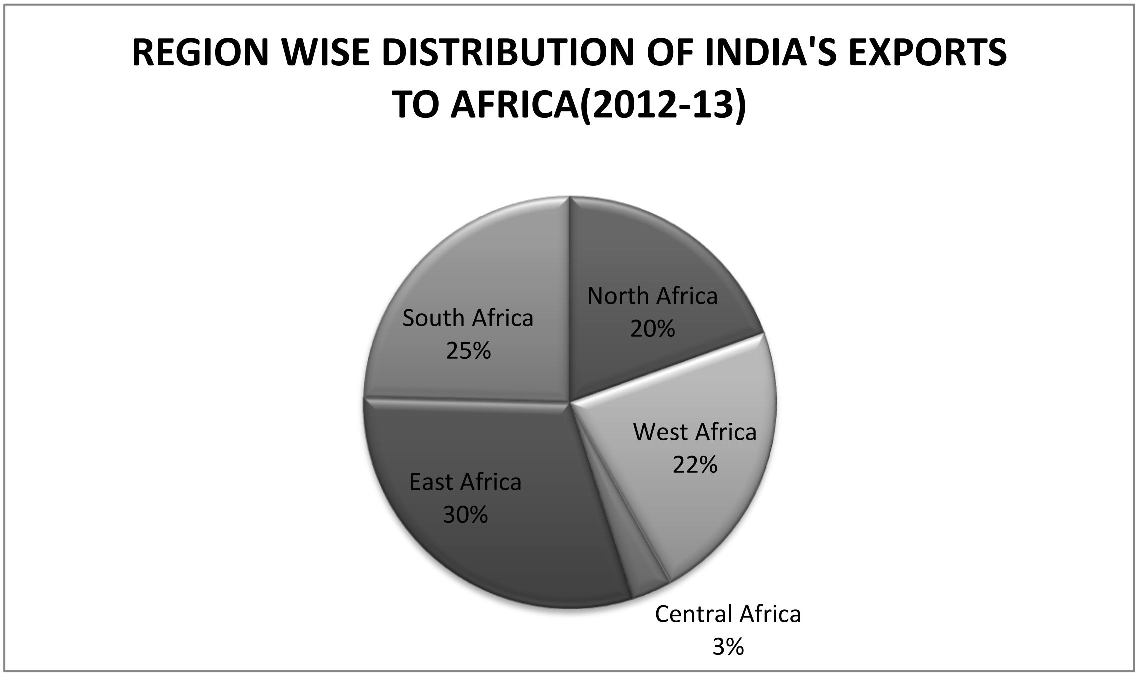

Figure 2

INDIA'S IMPORTS FROM AFRICA

For a good trade relationship to hold, both countries shall provide good and services to each other. This is why; India can't just export its merchandise and services to Africa. It shall also import and it does indeed. As can be seen from the table2, Indian imports from Africa have risen over the past few years. The major exporter to India has being Southern Africa accounting for 41% of total imports from Africa in 2012-13 followed by West Africa (39.5%) and North Africa (16%).

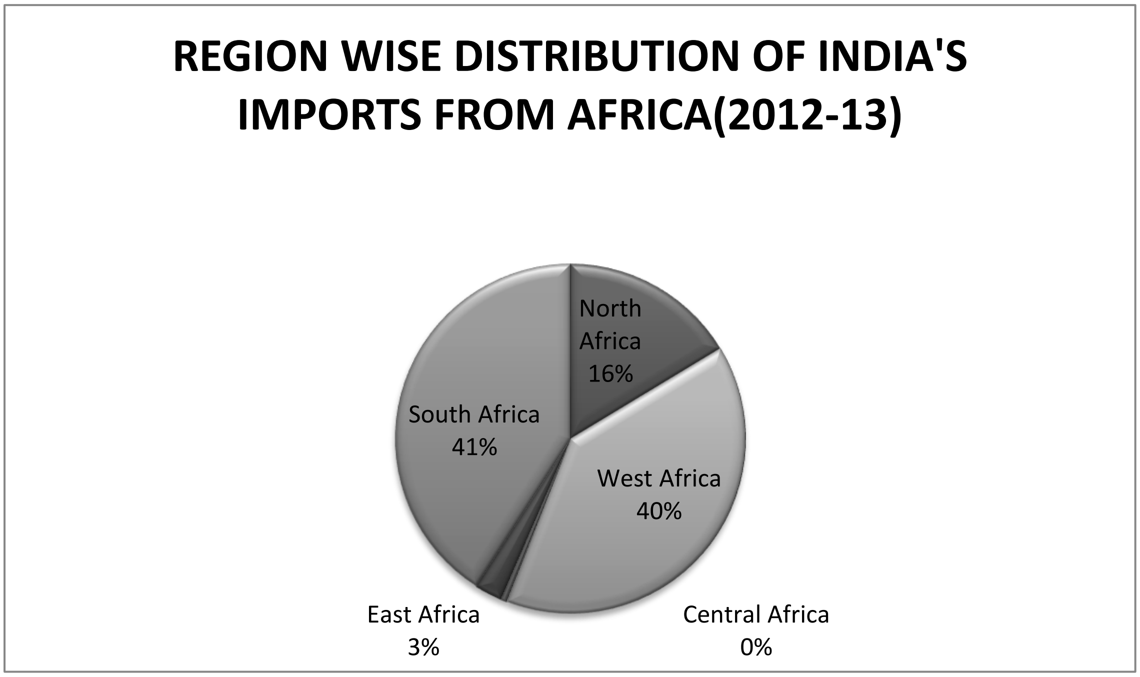

Figure 3

Imports from Africa are dominated by South Africa, the largest economy of Africa. The country is a major exporter to India and mainly exports gold and coal. Besides fulfilling the demand of its wide consumer base of gold, India has also been importing iron and steel, inorganic chemicals and mineral ores from the country. With a share of about 40%, West Africa's exports to India have seen an upward trend. India is a major importer of crude oil from this region. Besides oil, edible fruits and nuts, especially shelled cashews are significant import item. Following up the footsteps of Southern and Western Africa, North Africa has also started developing trade relations with India. Egypt, Algeria and Morocco could be seen as major trading partners. The import items from North Africa mainly include fertilizers, inorganic chemicals and mineral fuel. Apart from above, India has also been importing edible nuts, vegetables, iron and steel, coffee and inorganic chemicals from East Africa and crude oil from Central Africa.

INDIA'S IMPORT FROM AFRICA (US $ MILLION)								
REGION	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
North Africa	837.17	3353.47	5,542.93	5,823.96	4,899.66	5,894.40	7,405.84	6,723.32
West Africa	1,161.99	8,178.06	9,726.27	11,179.37	9,864.24	12,862.57	17,850.58	16,264.44
Central Africa	19.36	29.05	49.24	153.06	270.43	45.74	85.63	230.12
East Africa	223.73	234.42	321.14	353.43	388.49	579.73	542.87	1054.6
Southern Africa	2,636.31	2,921.23	4,831.33	7,218.48	10,191.94	12,573.98	17,980.70	16,838.20

TABLE-2 (source: http://commerce.nic.in/eidb/ergn.asp)

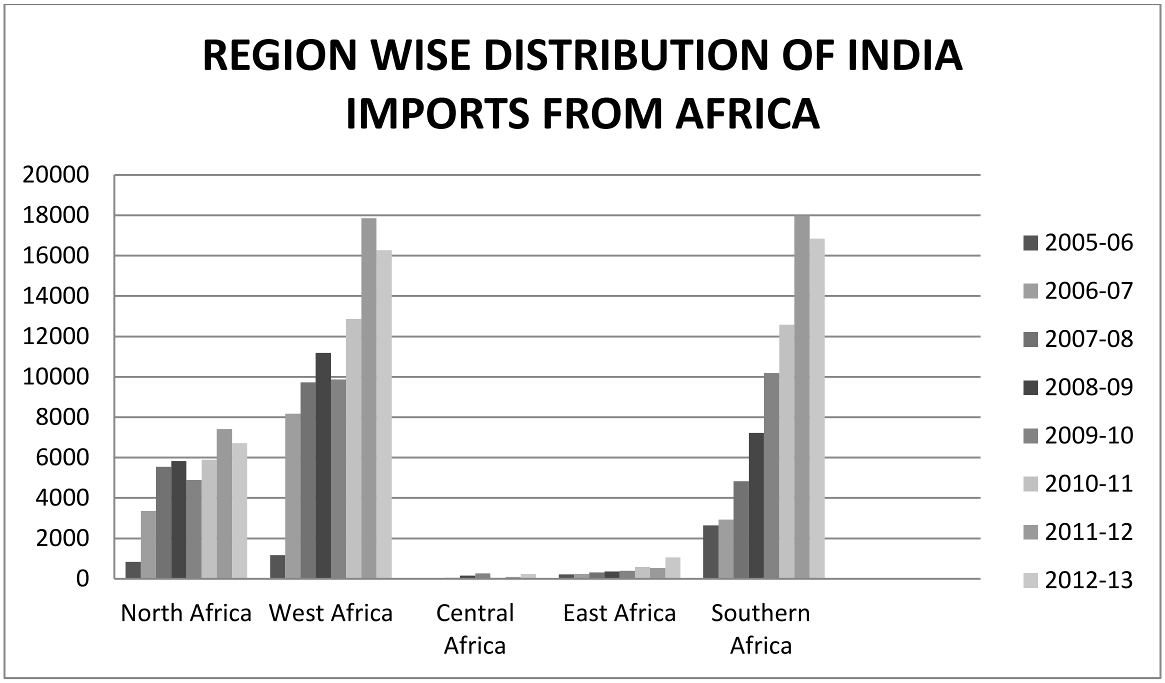

Figure 4

IV. INVESTMENT RELATION BETWEEN INDIA AND AFRICA

Africa is now considered as a continent poised for economic growth, the reasons of which lies deep rooted in economic, resource and operational factors. Africa is the third fastest growing economic region in the world.[3] Soaring prices for oil, minerals, and other commodities have helped lift GDP since 2000. On an average, Real GDP during 2000-2012 rose by 4.48%, almost twice its pace in the 1980s and 1990s. In addition to the surge in commodity prices during the last decade, the rise in GDP is accounted by various factors including government action to end armed conflicts, improve macroeconomic conditions, and undertake microeconomic reforms to create a better business climate. Africa has strong long-term growth prospects, propelled both by external trends in the global economy and internal changes in the continent's societies and economies.[4]

Over the years, African countries have emerged as the major reformers, trying to improve their business environment as a strategy to attract more FDI. The World Bank 'Doing Business In' Survey for 2012 – seen as a benchmark for rating the world's business environments – tracked Morocco as the top reformer globally during the survey period, with Sao Tome and Principe, Cape Verde, Sierra Leone and Burundi also among the top 10 reformers. Changes in domestic policy in these countries improved the process of dealing with construction permits, protecting investors and paying taxes, among other areas.[5] Improved business climate, prudent macroeconomic and fiscal policies, rising GDP and GDP per capita, increasing urbanization, improved infrastructure, growing middle class and most importantly abundance of natural resources has made Africa an attractive investment destination. The average annual FDI inflows in Africa increased from US $7 billion during 1990s to US $ 35 billion during 2000-2012. FDI inflows reached its peak during 2008, recorded at US$59 billion but subsequently declined for three years due to global financial crisis.(UNCTAD FDI STATISTICS). According to UNCTAD World Investment Report, 2012 the decline in investment, from $43.1 billion in 2010 to $42.7 billion in 2011, was largely due to reduced inflows to North Africa as social and political unrest in Egypt and Libya deterred investors. However, inflows to Africa are expected to recover as a result of stronger economic growth, ongoing economic reforms and high commodity prices, as well as improving investor perceptions of the continent, mainly from other emerging markets (UNCTAD 2012).

[3] IIFT Working Paper No. EC-13-18: India's Export Opportunity in Africa: Issues and Challenges in Select Sectors (April 2012).
[4] McKinsey Quarterly Report: What's driving Africa's growth.
[5] World Bank Doing Business Report (2012): Doing Business in a More Transparent World

INDIA FDI INTO AFRICA

Trade and investment relations between India and Africa were established in the 16th Century. The first OFDI in Africa was undertaken by the Birla Group in 1960s when they established textile mill in Ethiopia. India's investment in Africa is primarily driven by its need to ensure the reliable supply of natural and energy resources, which the region has in abundance. It is also driven in the search of newer markets. India OFDI outflows increased from US $243 million in 2000 to US $ 11 billion in 2007 (UNCTAD FDI STATISTICS). Indian Investments in Africa stood at US$ 9.2 billion in 2008-09. According to IMF estimates, total Indian investments in Africa at the end of 2011 were US$ 14.1 billion – a share of 22.5% in total Indian outward FDI stock, making country the seventh largest investor in the continent. Another estimate puts cumulative Indian investments into Africa at over US$ 35 billion. Although outward investment data from India to Africa remains sketchy, but upward trend in the same cannot be ruled out. (CII & WTO REPORT)

Indian FDI in Africa has traditionally been concentrated in Mauritius, taking advantage of the latter country's offshore financial facilities and favourable tax conditions; as a result, the final destinations of these investments have often been elsewhere. Indian investors have, however, been investing in other countries in the region, too, such as Côte d'Ivoire, Senegal and Sudan. (UNCTAD 2012)

V.IMPEDIMENTS

It has been observed that though the trade relationship between two countries is improving, however, there are some of the hindrances that are faced by the business firms in both the countries. High transaction costs due to exporting goods from India to Africa have been a major impediment for Indian exporters. The shipping and insurance costs keep on increasing, which is why, Indian exporters prefer to sell on "on delivery basis". Secondly, Small and medium enterprises in India, accounting roughly 40% of total Indian exports are unaware about the developments of Africa. So a need has been felt to update the knowledge about the African market among the Indian business market-both large and small. Moreover, getting work permit/visa is particularly difficult in some of the African countries .This create hurdle for the employees who want to work in Africa. Some of the other hurdles impeding Indian investments in Africa that has been observed as access to capital; absence of bilateral investment treaties; and, smaller market size

VI. INDIA'S SUPPORT TO AFRICA – A MARK IN SOUTH – SOUTH COOPERATION

The improved trade relationship between two countries has been a result of great co-operation and support. India has been providing skill training to African civilians through its various programs and schemes conducted with Afro-Asian Rural Development Organization (AARDO), African Union (AU), Pan African Parliament and EAC. The Indian Technical and Economic Co-operation (ITEC), the flagship program of Indian government provides assistance for agricultural processing, carpentry, plastic moulding and small engineering units.

To add to the above, triangular India-U.S.-Africa partnership in agricultural training was inaugurated in 2009 to improve agricultural productivity, strengthen agricultural value chains, and support market institutions in Kenya, Liberia, and Malawi .Moreover, Indian government has been supporting Africa in establishing new institutions since 2011. These institutions are generally based on Public Private Partnership model wherein the entities of both countries participate Further to overcome the hurdle of finance, India has increased its financial assistance towards African countries. The official aid and loan programmed toward Africa has seen an upward trend in the recent years.

CONCLUSION

The paper highlights the emerging trade and investment relation between India and Africa. Given the projected growth of India, her demand for natural and energy resources coupled with massive untapped resources in Africa, Indian entrepreneurs quest to ensure raw material security, owing to rising process of essential commodities in international market, improved business climate and macroeconomic policies adopted by Africa, the trade and investment between India and Africa is expected to grow tremendously. Though the outward investment from India to Africa has increased in recent years, there are potential hindrances that can dampen this upward trend. Realizing the opportunities in Africa, Indian Government has been extending support measures to facilitate the development in Africa, such as providing through EXIM Bank the Line of Credits to African entities to facilitate project finance. In the light of all the factors discussed, it can be firmly concluded that Africa can be the next big trade and Investment partner of India. Further research may be directed at exploring the nature motives of India OFDI in Africa.

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