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# Indian Foreign Direct Investment in Africa

Anusree Paul*

## Abstract

*The entry of Indian companies into Africa is largely market and resource seeking which offers much more potential in terms of promoting forward and backward linkages and in terms of impacting on competition in the domestic market. The increasing competitiveness of Indian firms and their interest to expand globally, particularly in IT-related services and pharmaceuticals, are driving its outward foreign direct investment (FDI) growth. Indian FDI to Africa is concentrated in oil, gas and mining in the primary commodities market. In the manufacturing sector, a dominance of automobile and pharmaceutical firms can be seen. Most of the Indian FDI in African countries is through greenfield investments (GIs) and joint ventures (JVs) that are desired by the host countries due to their contribution in creating new production capacity and generating employment, transfer of technology, etc. A number of factors have been identified that motivates Indian investors to invest in Africa. The factors are socio-cultural factors, host country policies, regional integration agreements, bilateral investment treaties (BITs), gross domestic product (GDP) growth and political economy factors. There is no denying that language, culture, presence of Diaspora does play a role in attracting FDI. The relationship between India and Africa exists and functions at all these multilateral levels as politics and commerce converge.*

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* *Senior Policy Analyst, CUTS International*

# 1. Introduction

## Context

Proliferation of bilateral trade agreements (BTAs) among developing and least developed countries (LDCs), along with a rise in outward foreign direct investment (O-FDI) originating from developing countries have further enhanced South-South trade and investment cooperation. Both these avenues are private sector-led and hence the market-oriented initiatives have been taken to promote economic efficiency. The recent interests of India and China in Africa have particularly bolstered such outward FDI. This phenomenon would tend to bring about parity between the investments of developing Asia and traditional investors from the developed world in the capital scarce least developed countries of Africa.

India has undertaken a series of important initiatives to create an enabling trade and business environment, to facilitate and enhance bilateral trade and investments with the African countries. The main aim of such initiatives is to deepen the India-Africa strategic partnership to promote sustainable development between the regions.

Keeping in perspective the growing commercial links between India and Africa and engagement of India and South Africa in the policy discourse of developing nations as Brazil, Russia, India, China & South Africa (BRICS), this paper attempts to look at the nature and pattern of O-FDI from India to Africa. The paper also helps to identify the sectoral composition related to O-FDI and future possibilities and the way to make inroads into Africa.

## Background

The relations between India and Africa have been guided by a long history of solidarity including shared values and ideals in the Non-Alignment movement days and synergy characterising the freedom movements in the African and Indian sub-continent. This long history of solidarity can be classified into several phases. The first phase coincided with imperialism in the 1900s during which Indian capitalists who traded with the continent and Indian troops, who were part of the British colonial ventures, got deeply involved in Africa.

Employment opportunities, which originated from the spread of Indian business interests and British colonial ventures such as the building of the Uganda railway,[1] led to migration by thousands of Indians to east, central, and southern Africa. After the end of the railway construction, merchant immigration from India continued until the 1920s, by when Indians had monopolised the entire retail trade of East Africa. During this phase, apart from Mahatma Gandhi’s long stay in Africa and contributions by some other Indians to the political awakening of the region, Indian-African relations were shaped by an economy and society, which was highly unequal and hierarchical.

The second period started with the politics of de-colonisation, followed by the newly independent Indian and African nations, often giving importance to modernisation, technological cooperation and scientific progress.

The third period spans the corporate globalisation era from the late 80s to the present day, with big Indian companies and their investment in Africa becoming the prime engine driving India-Africa relations. Both state-owned and private Indian companies such as Oil and Natural Gas Corporation (ONGC), Bharti Airtel, Reliance, Mahindra, Tata to name a few have forged their presence in Africa. At the same time, over the past four decades, India has provided more than US$2bn in technical

assistance to the countries of the South and most of it has gone to Africa. In the 1990s, a number of projects were initiated with the support of India. For instance, an Entrepreneurial Training and Demonstration Centre (ETDC) costing US$4.49mn has been constructed in Dakar (Senegal) by Hindustan Machine Tools (HMT) and handed over in June 2000 (Beri, 2003). Further, Indian companies are eying to invest in African continent – like TATA Chemicals has invested over US$100bn across the continent.[2]

Against this backdrop, the aim of the paper is to review the roadmap of Indian FDI in Africa by identifying the factors that have motivated Indian multi-national corporations (MNCs) to invest in Africa.

The paper discusses the theoretical aspects related to the motives and types of O-FDI and identifies the motivations of Indian O-FDI in Africa. It examines the patterns of Indian O-FDI in Africa on the basis of ‘sectors and destinations’ focusing on the Indian investment opportunity in Africa and finally provides conclusion.

## 2. Motives and Types of O-FDI: Theoretical Background

Under the banner of globalisation, the policy liberalisation measures in trade, investment and technology at multilateral, regional and individual country level has made the world economy more interdependent. Removal of policy hurdles on a global scale opened larger opportunities for capable Indian enterprises with trans-border expansion, lowering the transaction costs. In many cases, firms used O-FDI as a means of establishing trade supporting infrastructure in overseas markets to increase its non-price segment of competitiveness (Pradhan 2005).

The traditional FDI theory emphasised the ownership specific competitive advantages (technological, managerial, reputational etc.) of the investing firms as a key to exploit in foreign locations. The *Internalisation Theory* of FDI (Buckley et al 1976; Hennart, 1991) contended that firms extend their activity to foreign locations, being efficiency seekers want to reduce the transaction costs of cross border activities. This idea of transaction costs is further bridged by the *OLI theory* of John Dunning (1981a, 1988). The OLI essentially holds that FDI is a result of firms possessing ownership-specific advantages (O) that they want to exploit in foreign locations (L), which they do through internalisation (I). Although these theories of FDI was largely developed based on the experiences of developed countries but it can well explain the motivational factors behind the trans-border expansion of developing countries’ firms (Dunning 1981b; Lall 1983).

According to the literature, the developing world’s MNCs, concerning ownership specific advantages (O), will tend to possess advantages that are less advanced, typically related to products in the mature phases of the product cycle, and mainly associated with low cost production, natural resources extraction, and an ability to cater to low margin markets. Concerning location advantages (L), MNCs will, as a consequence of their specific (O) advantages, tend to focus their activities in countries at the same or lower stages of economic development (Dunning et al 1986). Concerning internalisation factors (I), MNCs will tend to opt for joint ventures to access local market knowledge, technology and capital, thus, compensating for their inherent resource limitations (Lecraw 1981).

Considering the types of O-FDI, four key types of investment are distinguished: horizontal FDI, vertical FDI, strategic asset-seeking FDI, and resource seeking FDI (UNCTAD 2006). Horizontal or market-seeking FDI is motivated by the desire to obtain market access and avoid trade frictions in the

host countries. It is guided by the proximity-concentration trade off in which proximity to the host market avoids trade costs. FDI of this type occurs when firms decide to serve foreign market through local production rather than through exports.

The motivation behind the vertical or efficiency driven FDI in developing countries is international factor price differences. It takes place when a firm fragments its production process internationally, locating each stage of production in the country where it can be done at the lowest cost.

The third most important motive for outward FDI from developing countries is the strategic asset-seeking motive. Strategic asset-seeking FDI takes place when investors attempt to gain access to internationally recognised brand names and local distribution networks in order to strengthen their international competitive position. Strategic asset-seeking FDI also occurs in the form of technology-sourcing FDI when firms attempt to gain access to foreign technology by either purchasing foreign firms or establishing R&D facilities in 'foreign centres of excellence'.

Finally, the resource seeking FDI occurs when firms identify specific host country locations as an attractive source of natural resources at the lowest cost. Such FDI is usually associated with exports of resource-based products from the host country (Herzer 2011).

## 3. Factors Motivating India's O-FDI Destination to Africa

### Types and Objectives of O-FDI

As discussed in the previous section, according to Dunning, FDI emerges due to (i) Ownership Advantages or Firm Specific Advantage where the core competencies of a firm, usually intangible in nature which provides them with an edge to operate successfully in a foreign market. For example, advantages in the form of brand names, patents, technology, reputation, benefits of economies of scale, privileged access to inputs, etc. over the host country. Therefore, Indian MNCs might invest in African countries because the firm specific advantages either generates higher revenues and/or lower costs that can offset the costs of operating at a distant foreign location. For instance, Tata Motors has set up plants in Africa to supply to the domestic industry there because of economies of scale and brand name.

As regards to the location or country specific advantages of O-FDI, it is specific to foreign country that can be distinguished into economic advantages (e.g. factors of production, size of market, transport and other infrastructure costs), political advantages (e.g. political stability, policies on FDI) and social-cultural advantages (e.g. cultural similarity, language, and attitude towards foreigners).

Finally, in case of internalisation advantages, the multinationals have various choices on entry modes ranging from arm's length transactions in the market to establishing a wholly owned subsidiary. In circumstances where markets function poorly with high transaction costs, internalisation is the preferred choice to exploit both ownership-specific and location-specific advantages. In addition, internalisation of production insures product quality and protects property rights. This is evidenced by cross border acquisitions and the large number of Greenfield investments by Indian companies in various African countries.

The increasing numbers of home-grown Indian firms (e.g. Tata Group, Infosys, Ranbaxy etc.) and their improving ownership-specific advantages, including financial capability, are among the key drivers for them to venture into Africa.

While the OLI paradigm outlined answers the questions of 'why', 'where' and 'how' firms invest, the different objectives of FDI are – to serve the local market, increase efficiency, and/or have access to natural resources and cheap labour.

As we have discussed, horizontal or market seeking FDI is aimed at gaining access to new local and regional markets or to maintain existing ones. This is usually found in sectors where domestic firm productivity lags behind international levels. Presence of import restrictions by host governments also drives this type of FDI. In addition, overseas firms may want to invest locally because of positive environment or to save on operational costs such as transportation. For instance, investments by Tata motors in South Africa are market seeking because the cars built in South Africa are sold in the country.

The efficiency seeking FDI is commonly described as off shoring, or investing in foreign markets to take advantage of a lower cost structure and is driven by low resource and input costs. The purpose of this type of investment is to enhance the investing firm's global competitiveness and usually occurs in capital and technology intensive sectors. For example, a credit card company opening a call centre in India to serve US customers is a form of efficiency seeking FDI. Similarly, Ranbaxy undertaking Greenfield investment with a local partner to supply medicines to the African continent is efficiency seeking.

Resource seeking FDI is focused on extracting or refining natural resources such as petroleum, natural gas, or timber. The objective of such investment is to attain access to existing resources, such as ONGC Videsh, the overseas division of India's state-owned ONGC investing in Nigeria and Sudan to ensure access to resources to meet its energy needs.[3] Similar to China and other traditional investors in Africa, resource seeking motive is a crucial one for India as well. This is exemplified by its increasing presence in oil and other mineral rich countries such as Sudan, Nigeria, Libya, Ivory Coast and others in its quest for energy security (Sharma et al 2007; Hate 2008).

**Table 1: Objectives of FDI for Firms of Various Sectors**

| Impetus / Industry | Market Seeking | Resource Seeking | Efficiency Seeking | Companies |
|---|---|---|---|---|
| **Conglomerates** | ✓ | ✓ | ✓ | Tata Group |
| **Healthcare and pharmaceuticals** | ✓ | ✓ | ✓ | Ranbaxy, Dr. Reddy's, Biocon, Piramal Healthcare |
| **IT services** | ✓ | ✓ | | NIIT, Infosys, Wipro |
| **Manufacturing** | ✓ | | ✓ | Mahindra, Raymonds |
| **Oil, gas and energy** | ✓ | ✓ | ✓ | Reliance Ltd., ONGC, Suzlon Energy |
| **Engineering and Construction** | | ✓ | ✓ | Larsen & Toubro |

*Source: Indian School of Business-Vale Columbia Centre Ranking of Indian Multinationals*

Table 1 shows the objectives that firms pursue when they invest abroad. While conglomerates like Tata, aim to access markets, seek efficiency and at the same time ensure access to resources, manufacturing firms are more interested in securing markets and gaining efficiency by lowering costs.

## Socio-cultural Factors

Country specific advantages influence where a MNC will invest. Diaspora and language along with cultural similarities also stimulate international entrepreneurships by creating cross border social networks that serve an important role in helping entrepreneurs to circumvent the barriers to business relations and trade arising from imperfect local institutions in the host country. For instance, according to a survey, 48 percent of the surveyed firm owners who are of Indian ethnic origin are also African by nationality compared to only four percent who are of Chinese ethnic origin but also of African nationality (Harry 2007). Multinational enterprises (MNEs) prefer to invest in those countries where they already have network of sale or purchase because they know the culture, taste, law, business environment and above all the network with the business community. MNEs set up their overseas projects in those countries that are nearby and where they have already attained knowledge through trade.

Africa has approximately 2 million Indian descents Diaspora in the Anglophone countries in eastern and southern Africa. Till the mid-1990s the Indian government ignored the Indian Diaspora and as a consequence of which India barely reacted when Idi Amin expelled all people of Indian origin from Uganda in 1971. Now the changed outlook of the Indian government in the recent past has encouraged trade and investment linkages. African countries have proportionally higher number of Indians. South Africa, Mauritius. Kenya and Seychelles have a substantially high number of Indians. For instance, approximately 60 percent of Mauritius's population is made up of people of Indian descent.[4]

## Host Country Policies

FDI-related policies, changes in corporate tax rates and other fiscal incentives, privatisation policies of the host country help in determining the inward flow of FDI. South Africa, for instance, has in place political risk insurance cover for foreign investment which encourages companies to take the risk of investing in South Africa. According to UNCTAD (2006) Indian FDI appears to be relatively more influenced and driven by favourable host-country policies and incentives rather than home government's FDI-related policies.

## Regional Integration Agreements

Regional trade agreements (RTAs) increase market size and encourage inward FDI. Existing literature suggests that free-trade areas (FTAs) usually tend to encourage FDI both among signatory countries and, in areas that are closely integrated, also with respect to third-party countries. By enlarging the overall size of the market, these agreements tend to increase the scope for reaping economies of scale through FDI aimed at accessing local markets (so-called "horizontal" FDI) for both signatory and non-signatory countries.[5] However, this has not been the case in Africa with the aggregate FDI inflows into Africa as a percentage of the global FDI has declined. And further these inflows are skewed towards certain industries (mining for instance) and countries such as South Africa (Yang et al 2005).

### Bilateral Investment Treaties

BITs and Double Taxation Treaties (DTTs) encourage the flow of FDI. India has BITs with seven countries and DTTs with nine countries.[6] For instance, India signed a BIT with Sudan in 2003 and post that invested US$1bn in the oil sector.[7] India is now also the second largest exporter to Sudan. Prior to 2003, India was not a major investor or trading partner of Sudan. India also has a Bilateral Investment and a Double Taxation Avoidance Treaty with Mauritius which could have possibly contributed in increasing the inflow of FDI into the country.

### FDI and GDP Growth

Both, theory and empirical research have explained that there exists a positive relationship between FDI and GDP growth. GDP growth is an indicator that market is progressing and has potential to absorb FDI for rising demands. More growing markets provide relatively more opportunities for generating profits as compared to those, which are growing slowly or not at all.[8] But in Africa, a mixed picture can be seen with Angola having an annual GDP growth rate of 12.4 percent in 2008-09 but with a falling FDI inflow. At the same time, Equatorial Guinea had high annual GDP growth rate of 20.3 percent accompanied by an increase in FDI in the same period.[9] So while GDP growth can be a contributing factor, a number of other factors are responsible for increased FDI inflow.

### Political Economy Factors

Moreover, there is a growing recognition of the fact that countries on the eastern coast of Africa abutting the Indian Ocean – from South Africa to Somalia – fall under India's maritime strategic neighbourhood. It has been acknowledged that insecurity in the Indian Ocean region is growing, given the existence of fundamentalist, terrorist, and militant, separatist or extremist organisations and criminal syndicates involved in trafficking of drugs, arms and humans, and piracy (Beri 2008).

The growth in incidents of piracy in Somali waters in particular threatens the security of the Sea Lanes of Communications (SLOCs). The Indian Navy has been active in its diplomacy in the Indian Ocean, providing maritime security cover during the African Union summit in 2003 and the World Economic Forum in 2004 in Mozambique.

As mentioned earlier, Indian industry has realised the strategic importance of Africa, specifically in commercial terms. This is supported by the Indian government's fresh look at Africa with the initiatives of Focus Africa[10] and Team 9.[11] New economic initiatives launched by the African governments like the New Partnership for African Development (NEPAD)[12] have also attracted the interest of Indian investors.

There is a growing realisation that African economies are at a stage of development where India could offer the most appropriate technology and products at competitive prices. A recent study by the Federation of Indian Chambers of Commerce & Industry (FICCI) points out that it is "*high time India took a pragmatic assessment of the business opportunities offered by Africa.*" The success of the four India-Africa project partnership conclaves held in New Delhi since 2005 – the last one attracted 606 African delegates from thirty-three countries, and around 152 projects worth US$10.5bn were negotiated – is an indication of Indian industry's growing interest in Africa.

In April 2008, India announced duty free tariff preferential scheme for 49 LDCs, which has benefited 33 African countries. The Indian Technical and Economic Cooperation Scheme (ITEC) and Special Commonwealth African Assistance Programme (SCAAP) have been used to create goodwill for India by dispensing aid, technical assistance and training.

## 4. India's Investment Opportunity in Africa: Pattern & Sectoral Distribution

The overseas investment of domestic corporate sector through FDI has provided better footing to access global markets and networks, skills and technologies. It also enables to share research and development efforts and its outcomes. It also helps establish a brand image as a part of corporate strategy and utilisation of raw materials of host countries. Indian companies made overseas investment primarily motivated by either resource seeking or market seeking or technology seeking interests. Indian investments in Africa are mainly resource and market seeking types (Sadik et al 2001).

The increasing competitiveness of Indian firms and their interest to expand globally, particularly IT-related services and pharmaceuticals, are driving its outward FDI growth. India's membership in various regional integration arrangements also provides Indian firms with a favourable platform to strengthen their presence in these partner economies. India continues to pursue its strategy of signing bilateral investment treaties and trade agreements to encourage both inward and outward flow of FDI.

### Pattern of Indian O-FDI in Africa

The entry of Indian companies into Africa is largely market and resource seeking which offers much more potential in terms of promoting forward and backward linkages and in terms of impacting on competition in the domestic market. In the background of new trade policy and increasing economic cooperation with African countries, Indian entrepreneurs are increasingly seeking to expand their business activities and diversify their sources of natural resources, as well as their markets. Indian companies are investing in oil exploration and mining projects (gold, phosphates, and copper ores), as well as in manufacturing and services.

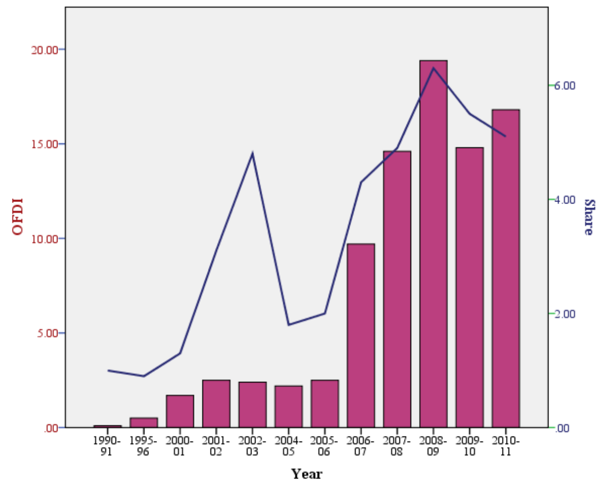
There has been a massive increase in O-FDI from India in last 15 years. According to the data released by the Ministry of Finance, Government of India, O-FDI from India increased from US$0.1bn in 1990-91 to US$16.8bn in 2010-11 (Table 2, Figure 1).

**Table 2: Total Outward FDI from India and India's share in Developing Economies' Total Outflow**

| Year | Outward FDI from India (US$bn) | Total O-FDI in Developing Economies (US$bn) | Share of India in Developing Economies (in Percentage) |
|---|---|---|---|
| **1990-91** | 0.1 | 11.9 | 1.0 |
| **1995-96** | 0.5 | 55.2 | 0.9 |
| **2000-01** | 1.7 | 134.2 | 1.3 |
| **2001-02** | 2.5 | 82.5 | 3.1 |
| **2002-03** | 2.4 | 49.7 | 4.8 |
| **2004-05** | 2.2 | 121.4 | 1.8 |
| **2005-06** | 2.5 | 122.1 | 2.0 |
| **2006-07** | 9.7 | 226.7 | 4.3 |
| **2007-08** | 14.6 | 294.2 | 4.9 |
| **2008-09** | 19.4 | 308.9 | 6.3 |
| **2009-10** | 14.8 | 270.7 | 5.5 |
| **2010-11** | 16.8 | 327.6 | 5.1 |

*Source: Various Issues of World Investment Reports (UNCTAD)*

**Figure 1: Total Outward FDI from India and India's Share in Developing Economies Total Outflow**




*Source: UNCTAD-WIRs*

As evident from Figure 1 and also from Table 2, the total outflow of FDI from India is increasing at a rate of 42.8 percent per annum which is statistically significant at 5 percent level of significance. The figure also reflects the continuous increase in the share of the Indian FDI to the total outflow of developing world.

Indian O-FDI shows major structural shifts during the past decade. India has become the world's 21st largest outward investor.[13] Since 2000, Indian firms have tended to use cross-border merger & acquisition (M&A) to enter into developed countries and using the route of Greenfield investments into developing ones as a part of their competitive strategy. FDI outflows from India have accelerated only in the last decade post liberalisation. Government policies in India as well as strong domestic growth are some of the key factors which have given confidence to Indian firms to pursue acquisitions abroad through the FDI route.

Based on the OLI paradigm, Table 3 shows the pattern followed by Indian multinationals in making investments abroad and looks at how reasons and strategies for entering foreign markets have evolved over the decades.

**Table 3: Evolution of Indian Enterprises**

| | First phase: pre 1990s | Second phase: 1990s | Third phase: 2000 onwards |
|---|---|---|---|
| **Ownership Advantage** | Adapted and scaled down technologies | Cost effective processes | Managerial expertise, low cost production and engineering ability |
| **Motivations** | Market- seeking | Trade supporting | Strategic assets and natural resource seeking |
| **Sectors** | Low technology: light engineering, palm oil refining, rayon, paper | IT services, pharmaceuticals etc. | Metals, pharmaceuticals, Auto, petroleum products etc. |
| **Magnitudes** | Small | Moderate | Large |
| **Entry Mode** | Greenfield | Greenfield | Acquisitions and Greenfield |
| **Destinations** | Asian and African low income countries | Similar to exports | Resource rich and strategic resource rich countries – south Africa, Nigeria, Singapore, UK |

*Source: Nagesh Kumar (2008)*

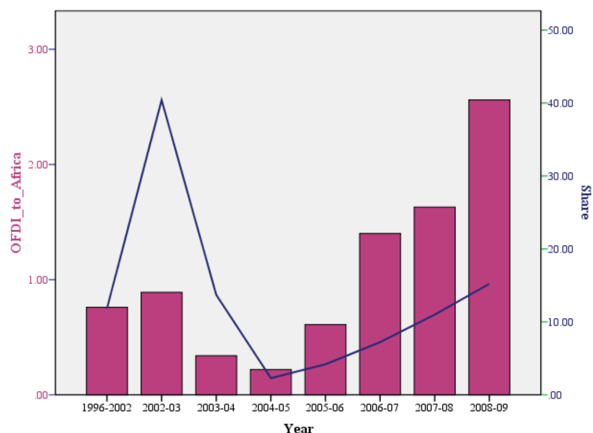
As evident from Table 3, in the pre-globalisation phase,[14] the Indian companies were more market seekers and hence targeted the Asian and African low income countries in small scale. The entry mode was Greenfield targeting intermediate products sector. With liberalisation policies in place, in the matured phase of globalisation, Indian MNCs with their managerial expertise and low cost production techniques have started entering into the resource rich and strategic resource rich countries where the magnitudes are large. The targeted sectors are IT services, pharmaceuticals, insurance, real estate, manufacturing etc.

Looking into the picture of Indian O-FDI in Africa, it is found that Africa's share in Indian FDI has increased in absolute terms from US$37.83mn to US$2.56bn during 1996- 2008. This signifies a 19.9 percent growth per annum which is significant at 10 percent level of significance. The trend although shows fluctuations during 2003-04 and 2004-05 India's FDI flows to Africa have fluctuated over the years as we can see from Figure 2. The figures of last five years, i.e. from 2004-05 onwards, reveal that the Indian outflow to Africa has significantly increased by 58.7 percent per annum. Fluctuations are highly evident during the early phase of the era.  For instance, 2002-03 saw a surge in investment while FDI flows in the subsequent two years were rather low.[15] Such fluctuations are due to large amounts of investments going to oil and infrastructure projects which require substantial initial fixed costs.

The increasing share of African investment to total outflow from India indicates the growing interest of Indian investors to African countries.

**Figure 2:  Indian FDI inflow to Africa and Share of O-FDI to Africa to India's Outflow**

(in US$bn)




*Source: Ministry of Finance, India*

Looking into the investment compositions of different African countries, it was found that Mauritius, Liberia, Sudan, Libya and South Africa received the maximum FDI from India in an average during last seven years (Table 4). The data of the table and the graph signifies that Mauritius is the top FDI receiving nation followed by Sudan, Liberia, Nigeria, Libya, Kenya and South Africa. Mauritius alone accounted for 86 percent on an average of total Indian FDI to Africa during last three years. Sudan has shown a falling trend whereas Nigeria and South Africa has shown a mild upward trend of Indian investments.[16]

**Table 4: Indian FDI to African Countries (in US$mn)**

| Country | 1996- 2002 | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 | 2008-09 |
|---|---|---|---|---|---|---|---|---|
| **Botswana** | 3.46 | --- | 0.05 | 0.02 | 0.02 | --- | 2.30 | 8.11 |
| **Burkina Faso** | -- | -- | --- | 0.05 | --- | --- | --- | --- |
| **Cameroon** | -- | 0.02 | --- | --- | --- | --- | --- | --- |
| **Ethiopia** | 0.54 | 0.57 | 0.22 | 0.20 | 1.80 | 1.80 | 2.52 | 1.49 |
| **Ghana** | 0.03 | 0.33 | 0.01 | --- | 0.66 | 0.66 | 1.69 | 1.09 |
| **Ivory Coast** | 0.01 | --- | --- | 7.24 | 6.85 | 0.39 | 0.27 | 0.50 |
| **Kenya** | 12.75 | 0.59 | 1.77 | 0.19 | 0.32 | 0.20 | 0.33 | 133.15 |
| **Libya** | 30.00 | --- | --- | --- | 25.28 | 75.00 | 0.02 | 12.67 |
| **Liberia** | 0.28 | --- | --- | --- | 154.94 | --- | 17.74 | 16.00 |
| **Mauritius** | 618.34 | 133.35 | 175.59 | 149.38 | 332.67 | 1162.79 | 1506.29 | 2086.97 |
| **Morocco** | 32.49 | --- | --- | --- | --- | --- | 0.44 | 2.65 |
| **Mozambique** | -- | -- | -- | 2.55 | 7.52 | --- | 3.23 | 3.77 |
| **Niger** | --- | --- | --- | --- | 0.01 | --- | --- | 0.50 |
| **Nigeria** | 6.69 | 4.08 | 2.16 | 7.53 | 4.30 | 11.64 | 27.20 | 237.00 |
| **Namibia** | 0.06 | --- | --- | 0.00 | --- | --- | --- | --- |
| **South Africa** | 21.56 | 0.07 | 0.79 | 2.88 | 10.42 | 23.29 | 46.19 | 12.37 |
| **Sierra Leone** | --- | --- | --- | 0.01 | --- | --- | --- | --- |
| **Senegal** | 22.24 | --- | --- | --- | 1.00 | --- | 0.03 | --- |
| **Sudan** | -- | 750.00 | 162.03 | 51.55 | 63.05 | 118.15 | 8.30 | 38.06 |
| **Tanzania** | 4.02 | 0.01 | 0.08 | 0.34 | --- | --- | 10.47 | --- |
| **Tunisia** | --- | --- | --- | -- | --- | 5.24 | --- | --- |
| **Uganda** | 2.44 | --- | 0.01 | 0.19 | --- | 0.00 | --- | 1.00 |
| **Zambia** | 2.35 | -- | --- | 0.11 | --- | --- | --- | 0.05 |
| **Zimbabwe** | 1.11 | --- | --- | 0.18 | 0.30 | 0.95 | --- | --- |
| **AFRICA** | 758.37 | 889.02 | 342.71 | 222.42 | 609.14 | 1400.11 | 1627.00 | 2555.37 |

*Source : http://finmin.nic.in/the_ministry/dept_eco_affairs/investment_div/invest_index.htm#Actual_Outflows (accessed on February 28, 2012)*

Factors that could be counted to understand the pattern of FDI to certain countries is the presence of Diaspora or proximity to the coast. Most countries like South Africa, Mauritius, and Nigeria are coastal countries and have either large markets, natural resources or purchasing power. Countries receiving US$0.1 to US$1mn are mostly located in East and Southern Africa such as Kenya and Tanzania. And in these countries a significant share of the population is of Indian origin with historical and cultural ties.

Further, most of the African countries, which see an inflow of Indian investment, are English speaking. Having a common language possibly makes it easier to set shop and become a part of the community. India's interaction with Africa must also take into account the costs of investing in politically risky countries. The security situation is further complicated by a general absence of transparent procedures for business. African countries that provide political risk insurance score more FDI from India. For instance, South Africa has a civil disturbance and terror cover provided by the South African Special Risks Insurance Association. At the same time Nigeria has been increasingly losing control of the oil rich Niger delta. There have been instances where Indian firms have shut shop in Africa due to political instability leading to stagnant markets. For instance, Raymond Woolen Mills

(Kenya) Ltd also shut down due to inadvertent investment climate which was aggravated by political instability in the country.

## Sectoral Distribution of Indian FDI in Africa

Looking into the sectoral composition of FDI outflow from India (Table 5), the financial, insurance, real estate and business services sector got highest attention (38.7 percent) followed by manufacturing (29.8 percent) during 2010-11.

**Table 5: Sector-wise FDI from India (Gross outflow)**

(in US$bn)

| Sectors | 2010-11 | 2011-12 (April-Sept.) |
|---|---|---|
| Financial, Insurance, Real Estate & Business Services | 6.5 | 2.2 |
| Agricultural, Forestry and Fishing Manufacturing | 1.2 | 2.0 |
| Manufacturing | 5.0 | 1.8 |
| Transport, Storage and Communication Services | 0.8 | 1.0 |
| Wholesale, Retail Trade, Restaurants & Hotels | 1.9 | 0.6 |
| Construction | 0.4 | 0.2 |
| Electricity, Gas & Water | 0.1 | 0.1 |
| Community, Social & Personal Services | 0.7 | 0.1 |
| Miscellaneous | 0.2 | - |

*Source: Reserve Bank of India*[17]
*April 2011 to February 22, 2012*

It has been argued that the O-FDI activity prior to 1991 was of market seeking type where Indian enterprises established a presence in other developing countries (Lall 1986; Kumar 2008). The liberalisation of O-FDI policy of India during the 1990s has provided an impetus for Indian firms to use O-FDI as a means of competitive strength and survival in the globalising world.

The sectoral distribution of India's total O-FDI indicates a rise in investments going into IT and related services especially towards the second half of 1990s. In addition, investments in the pharmaceutical sector have also increased in recent years. Another interesting point is that India's O-FDI in the extractive sector accounted for only 1.82 percent during the pre-1990s while this share has increased to 20.86 percent during 2001-04.[18]

Table 6 gives us a sectoral composition and sector wise percentage distribution of Indian investment in African region. As evident from the table there are 27 instances in total where Indian companies have invested in different sectors in Africa.

**Table 6: Sectoral Composition and Sector wise Percentage Distribution of Indian Foreign Investments in Africa**

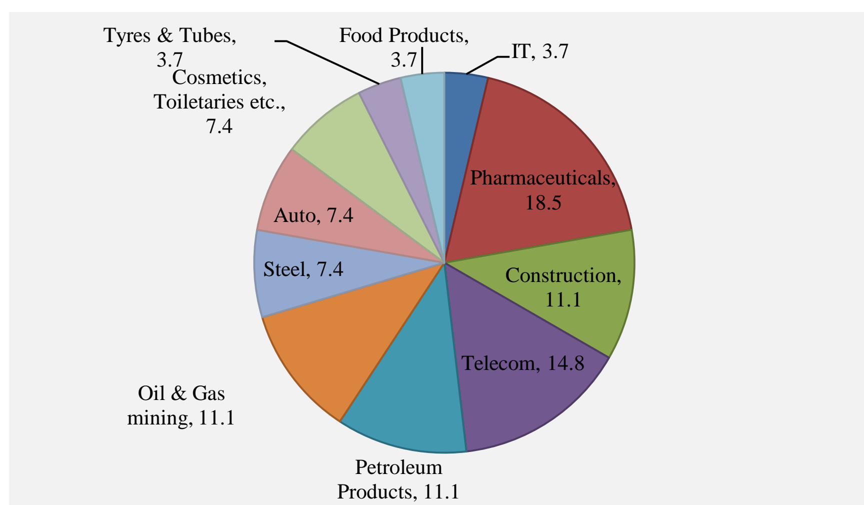
| Sector | Instances in Africa | Sector wise Percentage Distribution of Foreign Investments |
|---|---|---|
| IT | 1 | 3.7 |
| Pharmaceuticals | 5 | 18.5 |
| Auto Component | 0 | 0.0 |
| Construction | 3 | 11.1 |
| Telecom | 4 | 14.8 |
| Petroleum Products | 3 | 11.1 |

| | | |
|---|---|---|
| Oil & Gas Mining | 3 | 11.1 |
| Steel | 2 | 7.4 |
| Dyes | 0 | 0.0 |
| Paints | 0 | 0.0 |
| Machinery/Capital-Goods | 0 | 0.0 |
| Non Ferrous Metals | 0 | 0.0 |
| Auto | 2 | 7.4 |
| Cosmetics, Toiletries etc. | 2 | 7.4 |
| Tyres & Tubes | 1 | 3.7 |
| Diversified Products | 0 | 0.0 |
| Food Products | 1 | 3.7 |

*Source: Subramanian et. al (2010)*

Figure 3 is the diagrammatic representation of table-5. It is evident that the leading sectors are the pharmaceuticals and telecom sectors which accounted for 18.5 and 14.8 percent respectively. Other important sectors that are operational in Africa are construction, oil and gas mining and petroleum products which all accounted for 9 instances in total. Box 1 presents selected Indian MNCs who are operating in Africa since early 2000.

**Figure 3: Indian Investment in Africa by Subsectors**




*Source: Ibid*

**Box 1: Selected Indian MNCs in Africa**

| Year | Type of Investment | Value | Indian Firm | Country | Industry |
|---|---|---|---|---|---|
| **2002** | GI | US$12.5mn | ONGC Videsh & Oil | Ivory Coast | Oil, mining |
| **2002** | GI | US$766mn | ONGC Videsh | Sudan | Petroleum |
| **2003** | JV | 60 percent stake | Dr. Reddy's | South Africa | Pharmaceuticals |
| **2004** | JV | US$4mn | Dabur India | Nigeria | Household goods |
| **2004** | GI | US$600mn | ONGC Videsh | Angola | Petroleum |
| **2004** | M&A | US$48.2mn | Vedanta Resources | Zambia | Copper mines |
| **2004** | GI | N.A | Mahindra & Mahindra | South Africa and Egypt | Automobiles |
| **2005** | GI | US$6bn | ONGC Mittal Energy Ltd. | Nigeria | Infrastructure |
| **2005** | JV | 51 percent stake at IOIB | State Bank of India | Mauritius | Banking |
| **2005** | M&A | 500 million | HPCL | Kenya | Petroleum Refinery |
| **2006** | GI | US$80mn | Tata Steel | South Africa | Ferro Chrome |
| **2006** | JV | N.A | Cipla | South Africa | Supply of pharmaceuticals |
| **2006** | GI | 6 billion | ONGC Videsh | Nigeria | Coal, Oil and natural gas |
| **2007** | JV | US$70mn | Ranbaxy Labs. | South Africa | Pharmaceuticals |
| **2007** | JV | Undisclosed | Tata Consultancy Services | South Africa | IT and Business Services |
| **2007** | JV | US$1.5bn | Tata Steel | Ivory Coast | Iron Ore |
| **2007** | JV | 88.2 million | Tata Steel | Mozambique | Iron Ore |
| **2007** | GI | 1 billion | Reliance Industries | Egypt | Petrochemicals |
| **2008** | Line of credit | 640 million | Indian government | Ethiopia | Sugar |

*Source: Compiled by the Author*

*Note: JV: Joint Ventures; GI: Greenfield Investments; M& A: Mergers & Acquisitions*

As evident, Indian FDI to Africa is concentrated in oil, gas and mining in the primary commodities market. While in the manufacturing sector, we see a dominance of automobile and pharmaceutical firms. In 2007, Dr. Reddy's Laboratories Ltd, the Hyderabad-based pharma major panded its presence in Africa with the opening of its 40th overseas office in Lagos, Nigeria, in partnership with Phillips Pharmaceuticals.[19] Big pharmaceuticals companies such as Ranbaxy have signed joint ventures with local African company, which gives them the advantage of investing and developing local manufacturing capabilities (Barka et al 2011).[20]

The FDI in services sector is dominated by telecommunication firms. Telecom majors in India – Essar Group, Tata Communications and Reliance Communications, all of which have licenses for telecom services in African countries are looking for expanding their operations. Reliance communication is present in Uganda, Tata telecommunications in South Africa, Essar in Uganda and Kenya while Bharti Airtel is negotiating with MTN in Seychelles.

While, the most common way for MNCs to undertaken FDI is *via* M&As, greenfield investments (GIs) have been the dominant entry mode for Indian MNCs during the 1990s. However, in recent years, the overall trend is a rise in M&As rather than Greenfield investments.[21]

However, most of the Indian FDI in African countries are through GIs that are desired by the host countries due to their contribution in creating new production capacity and generating employment, transfer of technology, etc. Further, such investments can increase market competition as they are associated with investments in new facilities or expansion of existing ones and also provide long term benefits to the local economies.

Greater familiarity of a market and willingness to take risks are associated with firms willing to enter through GIs, the fact that India has had historical trade and investment ties with the region and increased market familiarity due to the large Diaspora could be a reason for Indian MNCs entering through GIs.

Greenfield FDI projects in Africa by Indian firms totalled 48 during 2002-05, while M&A during 1987-2005 totalled 15.68 percent of Indian investments are Greenfield investments, 23 percent are M&A and 9 percent are joint ventures.

**Table 6: Cross border M&A in Africa by India**

*(1987-2005, cumulative number of deals)*

| Host Economy | India |
|---|---|
| **Egypt** | 3 |
| **Mauritius** | 1 |
| **South Africa** | 3 |
| **Sudan** | 3 |
| **Zambia** | 3 |
| **Others** | 2 |
| **Total** | 15 |

*Source: World Investment Report, 2006, UNCTAD*

India is also aware of the competition it faces from China in Africa. Both China and India are trying to woo Africa, not only through trade and FDI but also through aid. Both the countries follow very similar aid strategy of monetary (grants and concessionary loans) and non-monetary (low cost technical assistance, access to training programmes, gifts of equipment etc.) aid. China’s investment strategy is different from India’s, as it follows a policy of neo-imperialist resource extraction. China makes resource-based investment and it is largely government-to-government. On the other hand, India’s investment is largely private sector driven and more locally integrated. China’s bilateral trade with Africa is almost double that of India’s, at US$60bn in 2008. China has followed an aggressive approach targeting resource rich countries such as Sudan, Angola and Congo. In fact, the huge Chinese presence has faced resentment in some African countries. For instance, Congo shut down three Chinese companies.[22] India’s presence is smaller and it is not perceived to just grab and run.

## 5. Conclusion

This paper is a primary attempt to identify the factors that have motivated Indian MNCs to invest in Africa and to fathom if they have followed a pattern. There is no denying that language, culture, presence of Diaspora does plays an important role in attracting FDI. Similarly few countries being

rich in resources by default attract investments, irrespective of the political risks involved. Countries also have strategic interests to protect. The relationship between India and Africa exists and functions at all these multilateral levels as politics and commerce converge. While we could claim that based on language and Diaspora, as well as proximity to the coast, Indian firms have followed a pattern, it generally seems that they have gone in wherever they could secure resources and saw an opportunity to capture the market. India has made investment in politically instable economies and also provided aid to promote development. But this is just the beginning.

Rich in both resources and votes in the UN General Assembly, Africa is immensely important for India. India is also aware of other giants such as the US, the EU and China that are also vying for the same resources and markets. India has been concerned about its energy needs and hence the renewed interest in Africa. However, it also needs to be cautious of the risks involved in investing in countries that are not politically stable. India as we saw, has mostly taken the route of GIs and JVs to gain market access and ensure that there are spillovers in terms of local development. Most of its investments have been focused in the coastal countries, which are easier to access than landlocked countries.

India has been present on the African continent for decades. In east and southern Africa, the large Indian Diasporas have facilitated business and cultural ties between the two countries. Given that India is flush with foreign reserves and the government has eased regulations and controls allowing firms to go abroad and has removed the US$100mn cap on foreign investment by firms, India has invested in an array of sectors, including financial sector as well as food processing and light manufacturing. FDI invested in the light-manufacturing sector typically has much greater multiplier effects than FDI invested in the extractive sector.

To conclude, India still has a long way to go in Africa in terms of both trade and investment as compared to other countries. Also there still a lot of unexplored business opportunities in the continent. A more extensive study to review the Indian policy towards Africa and detailed documents, which report the patterns and trends of outward FDI of India to Africa, is required. However, from a preliminary glance, it is evident, that India is there to stay. The investments will only get larger and slowly penetrate the continent. It seems, India will continue to court Africa at all levels and is set to give the other suitors a tough competition.

## Endnotes

[1] www.everyculture.com/Africa-Middle-East/Asians-of-Africa.html

[2] *The Economic Times*, November 10, 2011. Available in: http://econ-industry/indl-goods-/-svs/chem-/-fertilisers/tata-chemicals-eyes-more-africa-investments/articleshow/10682163.cms

[3] A large share of Indian FDI is in infrastructure sector, but mostly in the extraction sector.

[4] *The Indian Diaspora in other countries of Africa*, Report of the High Level Committee on the Indian Diaspora

[5] http://www.oecd.org/dataoecd/24/31/2956472.pdf, Accessed in December 2010

[6] Bilateral Investment Treaties- Mauritius, Sudan, Ghana, Zimbabwe, Djibouti, Ethiopia, Egypt
Double Taxation Treaties (DTT)- Mauritius, Libya, Ivory Coast, Kenya, Tanzania, Uganda, Zambia, Sierra Leone, Namibia

[7] Embassy of India, Khartoum, http://www.indembsdn.com/eng/india_sdn_partners.html (accessed on 15 June 2009)

[8] http://gdex.dk/ofdi/16%20Anwar%20Amar%20Iqbal.pdf

[9] African Economic Outlook,, http://www.africaneconomicoutlook.org/en/ ( accessed on 15 October 2009)

[10] Focus Africa Programme was initially launched on 31.3.2002 with focus on seven countries of Sub-Saharan African (SSA) Region, viz., South Africa, Nigeria, Mauritius, Tanzania, Kenya, Ghana and Ethiopia. With a view to further widen and deepen India's trade with Africa, the scope of this Programme was further extended with effect from 1.4.2003

to include Angola, Botswana, Ivory-Coast, Madagascar, Mozambique, Senegal, Seychelles, Uganda, Zambia, Namibia and Zimbabwe, along-with the six countries of North Africa, viz., Egypt, Libya, Tunisia, Sudan, Morocco and Algeria. Under this Programme, Government extends assistance to exporters and Export Promotion Councils etc. to undertake visits to countries in Africa to organize/participate in trade fairs and exhibitions hold B-2-B meetings etc. African trade delegations are also sponsored to visit India. These export promotion activities are conducted by various Export Promotion Councils and Apex Chambers with grant under Market Development Assistance (MDA) and Market Access Initiative (MAI) Scheme.

[11] The Government of India has set up the Techno-Economic Approach for Africa India Movement (TEAM-9 Initiative) to enhance India's commercial relations with the nations of West African region such as Mali, Guinea, Ghana, Equatorial Guinea, Chad and Burkina Faso. Under this, a cooperation mechanism was envisaged which would operate at governmental, institutional and private sector levels, sharing various types of expertise, intellectual and physical resource as well as economic opportunities for promoting welfare, growth and prosperity in these countries.

[12] NEPAD is aimed at promoting cooperation and mutual interests between Africa and other countries. It was launched in 2001.

[13] Authors' calculations, based on UNCTAD's FDI/TNC database, available at: http://stats.unctad.org/fdi.

[14] Pre-globalisation phase: pre 1990s; globalisation phase: 1990 onwards which can be further subdivided into early phase of globalisation (pre 2000) and matured phase of globalisation (2000 onwards).

[15] This surge could be attributed to large investments made by ONGC in Sudan and Angola.

[16] Although Mauritius is the top FDI receiving nation, a large share of the investments are simply re-routed through the country due to its tax haven status facilitated by the double taxation avoidance agreement with India. Similarly Sudan has seen a surge in FDI because of oil. This indicates the possibility that a large share of Indian FDI is flowing into countries with oil and mineral resources.

[17] http://rbidocs.rbi.org.in/rdocs/Speeches/PDFs/OV27022012.pdf

[18] See table 4 in Kumar-2008- RIS Discussion Paper #140

[19] Dr Reddy's already has presence in South Africa, Ghana, Sudan, Kenya, Uganda, Tanzania, Rwanda and the Democratic Republic of Congo.

[20] Business Standard (2007): Ranbaxy labs forms JV in South Africa to sell AIDS Drugs, Business Standard, February 07.

[21] Internationalisation of Indian Enterprises: Patterns, Strategies, ownership advantages and implications - Kumar (2008)

[22] Apparently the huge Chinese presence in the shape of small 'Chinatowns' has sparked local resentment and the local see China as someone who wants to exploit the resources without promoting local development.

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