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**AN EMERGING TREND IN TRADE AND INVESTMENT  
 RELATION BETWEEN INDIA AND AFRICA**

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**Abstract:**

*In recent times there has been a massive increase in the volumes of trade carried out between Africa and India. In the year 2017, the FDI flows into Africa saw a decline of 21% by an amount of \$42 billion. This was mainly triggered off by the falling prices of oil and a slump in the global market of the commodity. Soon this number of FDI into central Africa fell by 22% and an amount of \$5.7 billion. In the course of this paper, we shall take a look at these trade and investment patterns between the nations of Africa and India.*

**Keywords:** *Africa, Investment, India, Trade*

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**INTRODUCTION**

Companies often engaged in the practice of FDI as they feel that they are capable and motivated enough to do so. Makino et al (2002) have opined that there are two complementary points of views which happens to elucidate the mission of FDI: exploitation of asset and ones seeking assets. From the perspective of asset exploitation, FDI is seen as the way through which the company's proprietary assets are transferred across the borders. From the perspective of asset seeking FDI is seen as a way to attain strategic assets such as management and marketing expertise and technology that are easily found in the host country. Kindelberger (1969), Hymer (1976) and caves (1971) have done their research on the basis of the asset exploitation theory involving the FDI. In the process, they have explained that FDI is a tool through which the host nation's monopolistic advantage can be exploited. The theory of Internalization have explained that the FDI is a response from the various companies often triggered in the face of failure of the external market so that rent can be yielded and so that the companies may reduce the cost of the transactions across the borders (Buckley and Casson, 1976; Rugman, 1981)In the OLI framework that has been created by Dunning the idea of market power has

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been bridged with that of transaction of the cost approach and have further said that FDI is an initiative to exploit the advantage of specific ownership in the overseas markets with the help of internalization process [1].

### **AFRICA'S INTEGRATION INTO THE GLOBAL ECONOMY**

It is with the close of World War II that the different parts of the world have come together and have become a part of the global economy at various intervals of time. They had different speeds of doing so and had their trades based on varying factors. One thing was common in all of them, that each one of them was aspiring for a bigger and a better economic structure. This meant that they had to bring abundance in the manufacture and production of their goods and services so that they could be supplied for the global market. In this context, we see that East Asian countries integrated with the rest of the world market on the dint of their labor-intensive exports. In the same way, we see those countries from the earlier Soviet Union, soon after the decline of communism integrated with the rest of the world market on the basis of their natural resource-intensive exports.

In the same way, we see that the Sub-Saharan countries in Africa used their natural resources and their abundance so that they could integrate with the rest of the world economy. In the last couple of years, we see that the same instance can also be cited for national powers like India and China. Both China and India required a huge amount of minerals and energy so that they could continue and could sustain their process of growth. In 2014, for example, about 68 percent of SSA's exports were natural resource-intensive. (Figure 1) The exports from SSA to India and China followed similar factor intensity patterns as their exports to the rest of the world [2].

In the same context, we see that Indians and the Chinese exports are highly human-intensive since human labor is found in abundance in both these nations. This is a condition that is much truer for China as compared to India; nearly 85% of the nation's exports are human capital oriented.

### **THE GROWTH IN SOUTH-SOUTH ECONOMIC RELATIONS**

Just a while ago the western countries were the main partners of trade for Africa. However, in the last decade and a half, the list of the developed countries of the world has seen a change as India and China have displaced some of the top countries on this list. China has been successful in being the most prominent trading partner with India tagging just behind as the second most important trading partner. India's volume of trade with the SA is considered to be a mere fraction of the total volume conducted by China. However, the numbers and the figures of the Indian trade are on an ascent ever since [3].

Similar to the Chinese trends India happens to have a diverse volume of exports to the SSA as compared to her imports. The main item of the Indian exports is consumer goods an industry that is definitely human capital oriented in its nature. Her imports from Africa are mainly natural resources such as metals, crude oil and agricultural produce. A huge portion of the Indian trade is done with countries like Kenya, Nigeria, Tanzania and South Arica. Some of these commercial relations can be traced back to the colonial history of the nation.

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## **INDIA'S ENGAGEMENT WITH SUB-SAHARAN AFRICA**

At the beginning of the 21<sup>st</sup> century, the Indian Government made some very serious efforts so that she can improve her economic relations with different nations in Africa. In the year 2002 India began her program of the Focus Arica Program that engaged a total of 24 countries in Africa so that the business interactions between the two countries could be improved and that will benefit trade, better flow of information on investments and tenders done through the Indian missions in the various African nations [13]. The available information reveals the fact that from the year 2010 the relation between Indian and the various African nations has seen huge development [4].

The International Solar Alliance (ISA) and the Indian Africa Forum Summits are some of the best places that encourage the relations between the two nations. The Indian Africa Forum Summit was held for the first time in the year 2008. This was the place that identified the area of cooperation and alliance between the two countries. In the first summit, the Duty-Free Tariff Preference Scheme for the Least Developed Countries was launched by India. This resulted in an increase in the exports of items like cotton, copper ore and cocoa along with some other items from LDCs in the African countries to India. By the year 2013, there were 21 LDCs from Africa made use of the scheme of preference for exporting raw materials to India (Lucey, Schoeman & Makokera, 2015).

An Africa Forum Summit in the year 2015 discussed the main priorities for working in unison and removes poverty and also fines proper financing so that sustainable development can be attained. All these collaborative efforts find inspiration from the Agenda of 2015 and it's First ten Year Implementation Plan, The Sustainable Development Goals and also the Indian Government priorities. The summit also talked about certain other aspects such as the Indian technical Economic Cooperation (ITEC) and also the Pan Africa E-network that can play a major role in the development of the African people. The International Solar alliance 2017 laid its main objectives through the 23 projects of solar energy across the 13 African countries. The ISA is being helped by the AFDB [5].

## **TRADE BETWEEN INDIA AND SUB SAHARAN AFRICA**

The trade relations between the two said countries have developed and have improved in the last couple of decades. All the while China has managed to maintain its position as the leader in bilateral trade with the SSA countries, India has managed to secure the second most important position in the domain.

### **Evolution of Africa's Trade with Asia**

Since the beginning of the current century, Africa's trade with the other countries and their economies has seen huge growth. This was also a time when China and nay other countries of the world saw a huge economic development and they emerge as some of the most important economies of the world. These countries also came up with a huge demand for natural resources. This was the demand to which the African countries responded to in a rather pertinent manner. This led to bilateral trade between

Africa and the emerging economic powers of the world. In this entire practice, China soon became the most important player.

In the course of the last decade, China has maximized its volume of trade and investments made in the SSA countries. India is again not lagging behind in the domain and has yet again increased her investment in the region through various policies and projects like the Indian Foreign Trade Policy 2002 – 07.

In the year 2005, the SSA countries found themselves engaged in trade with several countries like America, France, Germany, and Britain. China was not a trading partner of these SSA countries and India was a minor partner. There however came a huge change by the year 2016, when India became the second most important trading partner of the SSA countries and China emerged as the most important trading partner both in the contexts of the exports and the imports. By the year 2005, India attained the position of the eleventh most important trading partner of SSA countries and China became the 5<sup>th</sup> most important partner. Since then Indian has attained the most dramatic growth and became the second most important partner of trade for the SSA countries by 2016. The same can be said in the context of the imports were yet again the growth of the Indian importance is worth noticing. The following table can illustrate the phenomenon with precision [6].

### **Composition of Trade**

It has been mentioned in the previous section that the imports of India for the SSA countries have been on a rise since the beginning of the 2000s and saw a minor drop in 2014 due to the crunch in the commodity market. The value of the imports increased from \$2.8 billion in the year 2004 to about \$10 billion in the year 2006. This was the trend that continued until the year 2014. In the last couple of decades, the Indian imports from the SSA countries have been restricted to the raw materials and the intermediate goods. It was from the year 2005 that India saw a greater pace of growth that also changes the nature of the Indian imports from the SSA countries. At the beginning of the 2000s, the stones and the gems were the major imports from the SSA countries to India however with time these stones and gems have been replaced by import crude oil from the SSA countries. Some other important import items are metals and products related to agriculture.

In the year 2005 the Indian imports from the SSA countries had a total; the value of \$4.1 billion out of which nearly 47% that came to an amount of \$1.9 billion consisted of glass and stone. These were imported from the SSA countries in the form of precious gems such as uncut diamonds. Out of the remains portion, nearly 40% of the imports consisted of the chemicals, metals and raw materials related to agriculture.

The exports from India to the SSA countries are really diverse. Beginning with the 200 the array has been wide and diverse such as ICT, electronics, telecommunication, and refines petroleum. In the year 2016, a survey revealed that the consumer goods comprised nearly 60% of the total exports of India to SSA countries (figure 5). The overall value of the export items saw a general rise when it finally

dropped in the year 2014 as a result of the fall in the prices of the goods. This makes it clear that India has an advantage and also increased aspirations in the African markets for the future [7].)

### **Distribution of Trade India's Major Trading Partners in SSA**

During the year 2017 – 18, Indian mainly imported from countries such as Nigeria, South Africa, Ghana, Angola and Botswana. It was found that more than 73% of the total Indian imports that were done from the SSA countries came from these countries. During this time countries like Zambia, Mozambique, Tanzania and Senegal also saw an increase in their share of the Indian imports. Some of these countries although did not happen to be a member of the top ten country list in the year 2004, saw a huge growth in their business volumes between the years 2010 to that of 2018 Prior to the year 2006, it was South Africa from where came the largest share of the Indian imports. In the year 2004 – 05 Nigeria just made a single percent of the Indian imports that (\$48 million) where South Africa has a major chunk of 65% of the Indian imports. However, it was the domain of crude oil that saw a huge import jump to India that pushed its total volumes to \$72 million in the year 2005 – 06 and to \$7 billion in 2006 – 07. This marks an increase of 59% in Nigeria's contribution of the Indian imports. Although there has been a drop in the Indian imports done from Nigeria, it still remains to be one of the top countries from where India does a majority of her imports [8].

In the year 2016 – 17 nearly 55% of the Indian exports to Africa were to the countries like Kenya, South Africa, Nigeria, Tanzania and Mauritius. These countries received a majority of the Indian exports. A third of the remaining volume of the exports reached the countries like Sudan, Mozambique, Ghana, Ethiopia, Senegal, Benin, Togo, Uganda and Coted'Ivoire. The four major African partners who have a strong cultural tie with India are Kenya, South Africa, Tanzania and Mauritius. The Indian ties with these countries could be traced back to the times of the colonial era. Some of the major Indian exports that reached these countries were ICT, electronics, textile, chemicals, telecommunication and refined petroleum. Although India is trying to diversify in terms of the African market for her exports, these are some of the top countries to have a demand for the Indian items [9].

In the last decade there has been a huge increase in the value of the Indian exports in the SSA countries. Countries like Ghana, Mozambique, Ethiopia and Sudan are some of the prime destinations for Indian exports in SSA. However their collective share is about 5%.

### **INDIAN INVESTMENT AND FINANCIAL FLOWS IN SUB SAHARAN AFRICA**

The recent United Nations Conference on the Trade World investment report has revealed the fact that the flow of FDI in Africa did see a depreciation of 21% in the year 2017 where the amount came to \$42 billion. This happened mainly because of the weak prices of the oils and a slump in the global commodity market. The inflow of FDI in central Africa also fell by 22% where the amount of deficit came to about \$5.7 billion. In West Africa the fall was by a margin of 11% and the amount came to about \$11.3 billion. This happened due to the depression in the Nigerian economy [14] [15]. The ESTE Africa also saw a decline of 3% and got about \$7.6 billion. It was Ethiopia that attained more than half of the flows that came to East Africa, an amount of \$3.6 billion. This was a little lower as compared to

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the previous year. In South Africa again there was a decline of 66% and the area attained \$3.8 billion. Countries like USA and UK holds the highest FDI stock in the country of Africa [10]. At the same time, developing-economy investors from China and South Africa, followed by Singapore, India and Hong Kong (China), are among the top 10 investors in Africa (Figure 6).

### **Indian Investments**

There has been a wide array of Indian enterprises that have made their presence felt and strong in the SSA countries. This improved the trade partnership and relations between the two nations since the beginning of the 2000s. Although the resource rich domain of the SSA countries did attract the industries that has been involved in the extraction of the natural resources the Indian entrepreneurs also recognized other domains of industries that could attract the interest of the Indian industries such as the alleys of construction, telecommunication, finance, IT, banking, food processing and healthcare

There are several factors that have improved the chances and the prospects of Africa as a domain of investment by the Indian companies and industries such as a growing population, economic boom and also an optimism of the people. This has led to a greater number of mergers and joint ventures between both the countries. Some noted business ventures between the two countries happens to be the Oil and Natural Gas commission, The Oil and Natural Gas corporation-Videsh Limited etc. The Indian industries are investing in several African companies and commercial domains. The Indian entrepreneurs have also invested in other domains such as the mining sector. The mining of iron ore, copper and zinc are lucrative business in Namibia, Liberia, South Africa and also Zambia. The Jindal Steel and Power has made important investments in the coal mining industry. Likewise, you can find about of other Indian companies that have invested in sectors like the IT, construction, auto, telecom, banking and finance and so on. Important Indian names that are making a difference in the African economy are those of Wipro, HCL, L&T, Tata and the ICICI bank [11, 14].

### **Impediments**

There is however certain hindrances that obstructs the business doing procedure of business firms from both the nations. These factors exist despite the improving trade relations between both the countries. The transaction costs are really high which acts as a major hindrance for the Indian exporters. The high insurance and the shipping costs are the other major areas of problem. This is why the Indian exports favour the on delivery basis for making their sales. The other major problem in the area is that the small and the medium enterprises in India that makes up nearly 40% of its market players are still unaware of the potential of the African markets. Hence the Indian economy market and its players must have a better knowledge about the African markets and its probable prospects. The point of getting a work permit and a visa for Africa is also a limitation.

### **PAST RESEARCH ON RELATION BETWEEN INDIA AND AFRICA**

Chakrabarty (2016) has researched the domain of the increasing partnership between Africa and India. In the era of post liberalization, the Indian policy towards the country of Africa made a shift from the

real of ideology to that of economic diplomacy. The economic facts of Africa have also seen a huge chance in the last ten years. Several countries in Africa have seen an economic growth in the era of 2000s. Since the beginning of the era Indian made an advanced activity with the African economy. In the course of the paper the scholar present an overview of the Indian trace and investment into in the African economy. Next the research delves into the three important dimensions of the Afro-Indian relations – security of food, energy security and Diaspora. The paper however negates the claims that India is trying to be the new colonizer of Africa where the Indian interest are limited to counter the influence of china and get more business and sources out of the country. The paper ends with the fact that more research must be done on this domain so that better data and information could be found in the domain so that the domain related to the Indo African economic and trade relations could be highlighted better an explained to the rest of the world [12, 16].

Mullen and Arora (2016) the 21st century is witnessing a substantial re-engagement of India and Africa. Though India and Africa have a history dating back millennia, bilateral relations for most of the 20th century were tepid as each focused inward, first on anti- colonial struggles and then on building up their independent countries. However, since the turn of the century India has re-engage with Africa as both experienced significant economic growth and face similar development challenges on their path towards sustained progress [13].

The paper in its course deals with the emerging relations of trade and investment between Africa and India. Considering the recent growth stats of India, it is only natural that she will be in need of a much greater volume of energy and natural resources, that happens to be in abundance in Africa. Additionally given the fact that Africa has a rather potential market for the Indian exports the prospects of the commercial ties between these two countries only happens to be increasingly brighter in the future. Yet there are potentially dangerous impediments and trying factors that can spoil this budding relation. This is why the Indian Government has taken special steps with which it can make q different for its own business community who can tap all the available opportunities in the African markets. Hence on the basis of all the findings and the revelations of this discussion it can be safely opined that Africa and its markets and its industries could be one of the major alleys of investment for the Indian industries and business fraternity in the coming future.

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