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India's Economic Engagement with Africa¹

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1. Introduction

In recent years, India's economic partnership with African countries has been vibrant, extending beyond trade and investment to technology transfers, knowledge sharing, and skills development. Trade between India and the African countries dates back many centuries, to the time when Indian traders began to engage with countries along the eastern coast of Africa. On the political front, the liberation movements and postcolonial period laid the foundation for sociopolitical interactions between India and the African nations. It is relevant to note that the aforementioned ties were built on a very active Indian Diaspora community in the East Africa sub region.

India's booming economy, the appetite of its public and private sector enterprises for investment overseas, and its leadership in science and technology, have together shaped its policy toward Africa. As such, India is focused on intensifying economic and commercial ties whilst contributing to African countries' development through cooperation and technical assistance.

This paper briefly reviews trends in India-Africa trade, and examines Africa's potential for attracting Indian investment.

It assesses India's recent economic and technology boom and relevant lessons that can be learned by Africa's nascent technological firms and services.

2. India's Trade with Africa

Africa's bilateral trade with India has flourished rapidly during the past two decades, growing steadily from US\$ 1 billion in 1990 to US\$ 3 billion in 2000, then escalating massively to US\$ 36 billion in 2007-08. Since the global financial crisis, the level has dropped to its current level of around US\$ 32 billion (2010/11). The soaring trade volumes reflect a positive trade balance for Africa, as it exports more goods to India than it imports. India's imports from Africa grew from US\$ 587.5 million to US\$ 18.8 billion between 1990 and 2009, whilst its exports to the continent increased from US\$ 436.8 million to US\$ 13.2 billion during the same period.

This trend has been encouraged in part by 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.

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Disclaimer: The views and interpretations in this brief are those of the author and not necessarily those of the African Development Bank. The figures in the tables and in other parts of the document have been collected from different sources and may differ from the official figures of Government of India due to accounting period and other reasons.

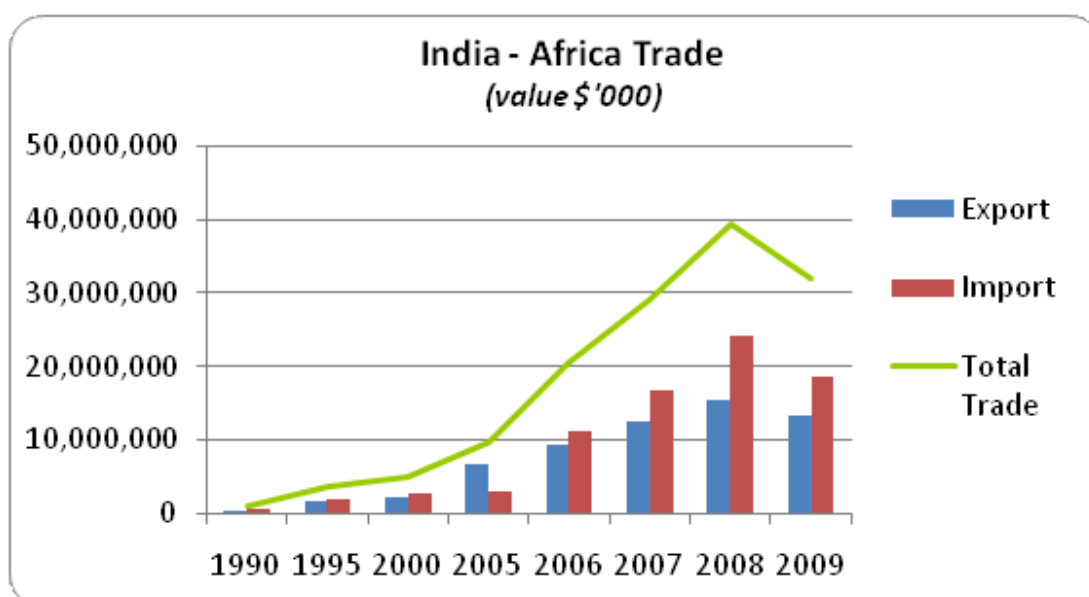
India – Highlights

With an estimated population of 1.19 billion (average age 26.2), India is the world's second most populous country after China. Based on GDP (PPP), in 2010 it was the world's fourth largest economy (IMF). India weathered the global financial crisis relatively well, achieving a projected real GDP growth rate of 8.3 percent in 2010/11. GDP per capita stands at US\$ 3,400 (2010 estimate). Economic growth has been driven by a strong increase in manufacturing and a rapid expansion in trade and investment. However, the unemployment rate stands at 10.8 percent and India's rank in the UNDP's 2010 Human Development Index is 119th of 169.

To improve the budget deficit, in 2010 the government reduced subsidies in fuel and fertilizers, sold a small proportion of its shares in some state-owned enterprises, and auctioned off rights to 3G radio bandwidth. The government expects to meet its target of reducing the deficit to 5.5 percent of GDP in 2010-11, down from 6.8 percent in the previous fiscal year.

Inflation rose in the first half of 2010 to 11 percent, owing to food price increases and industrial expansion, but decreased to single digits later in the year as a result of a series of Central Bank interest rate hikes.

Sources: World Bank, "Global Economic Prospects"; World Bank: World Development Indicators Database, Sept. 2010; IMF "World Economic Outlook Database" (2010); CIA World Factbook; Dun & Bradstreet India, various media sources)



Source: UN COMTRADE, AfDB

“India’s imports from Africa are predominantly crude petroleum, gold, and inorganic chemical products, reflecting India’s high demand for energy resources.”

“The top destinations of India’s exports are Nigeria, South Africa, Egypt, Kenya, and Tanzania, which together account for more than 50 percent of its total exports to Africa.”

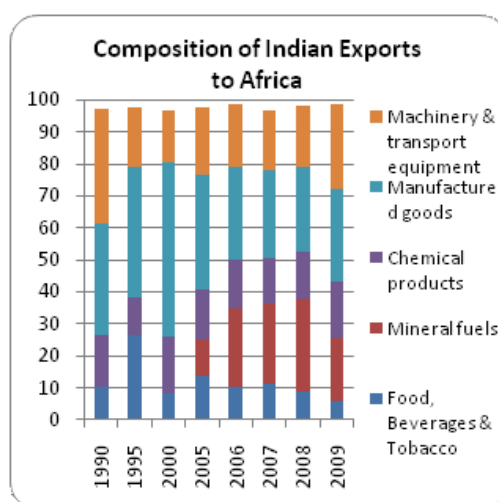
India’s imports from Africa are predominantly crude petroleum, gold, and inorganic chemical products, reflecting India’s high demand for energy resources. India is the world’s fifth largest consumer of energy, and this is expected to double over the next 20 years in the face of the country’s expanding economy and growing population.

However, India’s petroleum reserves have been stagnant at less than 0.5 percent of the world total, which helps to explain in large part the country’s high dependence on foreign oil. To diversify its sources of energy and become less reliant less on one global region (currently 75 percent of India’s oil is imported from the Middle East), India is increasingly engaging with African oil-producing countries, namely Nigeria, Sudan, Côte d’Ivoire, Equatorial Guinea, Ghana, and Angola. Consequently, Africa accounts for about 20 percent of India’s total import of mineral fuels. Other key African partners include South Africa, Egypt, Morocco, Tanzania, and Tunisia.

opportunities that exist in Africa to expand its production and export of finished gold and diamonds. For instance, South Africa is an important source of India’s imports of gold and diamonds, and is its fourth-largest trading partner.

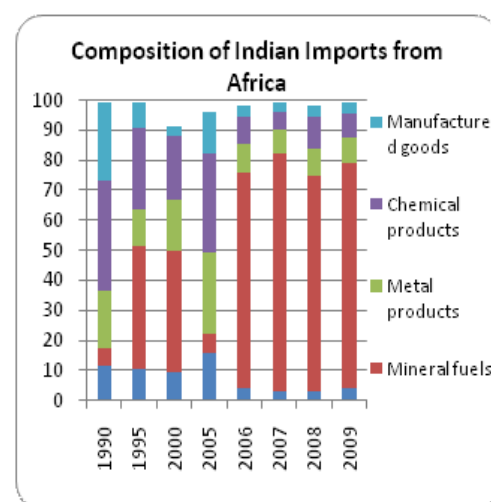
By contrast, exports from India are increasingly diverse and include manufactured goods, machinery, transportation equipment, food, and pharmaceutical products.

The top destinations of India’s exports are Nigeria, South Africa, Egypt, Kenya, and Tanzania, which together account for more than 50 percent of its total exports to Africa.



Source: UN COMTRADE, AfDB

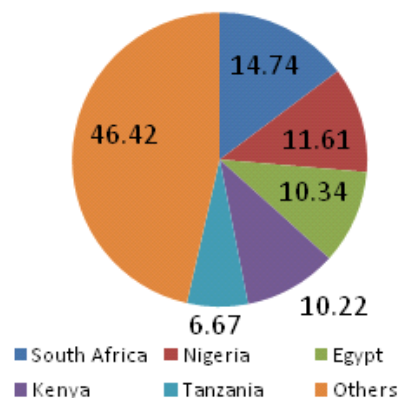
Apart from oil, gold and other metals dominate India’s imports from Africa. As the world’s largest jewelry producer and lead exporter of cut and polished diamonds, India recognizes the



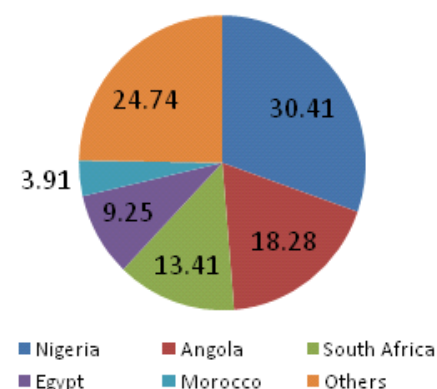
“While India continues to value its historically close and privileged relations with some Eastern African countries for example Uganda, it remains committed to build and strengthen its commercial and economic ties with other African countries ...”

“In absolute terms, Africa’s share of Indian FDI outflows increased from US\$ 243 million in 2000 to US\$ 2.4 billion in 2008.”

Top African Destinations of Indian Exports (%)



Top Indian Import Partners from Africa (%)



Source: UN COMTRADE, AfDB

While India continues to value its historically close and privileged relations with some Eastern African countries (as evidenced by significant populations of Indian origin in Mauritius, Kenya, Uganda, and Tanzania), it remains committed to build and strengthen its commercial and economic ties with other African countries (Southern and Western regions). The aim is not solely to broaden its trading activities, but also to cooperate and promote prime sectors considered as engines of development in Africa (e.g. agribusiness, pharmaceuticals and health, education, information technologies, water management and infrastructure).

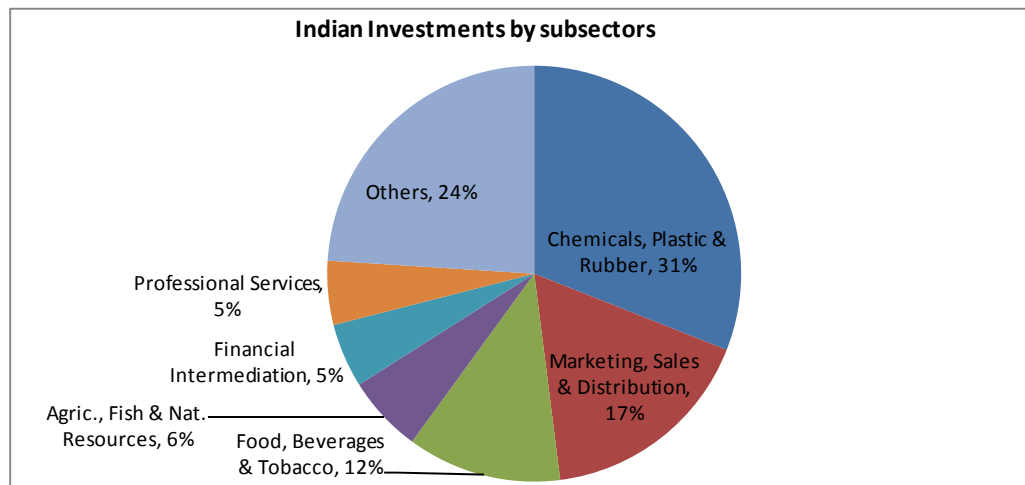
3. Indian Investment Opportunities in Africa

Given the relatively bright outlook for India (GDP is expected to grow by over 8 percent in 2010/11)¹ Indian entrepreneurs are increasingly seeking to expand their business activities and diversify their sources of natural resources, as well as their markets.

This new orientation has been the main driver of India’s engagement with Africa, with Indian companies investing in oil exploration and mining projects (gold, phosphates, and copper ores), as well as in manufacturing and services. In absolute terms, Africa’s share of Indian FDI outflows increased from US\$ 243 million in 2000 to US\$ 2.4 billion in 2008.²

1 Source: World Bank, “Global Economic Prospects”, 2010.

2 Sources: UNCTAD; OECD; Indian Ministry of Finance.



To meet the country's growing energy needs, India's Oil and National Gas Corporation (ONGC) acquired shares in oil exploration ventures in Libya and Nigeria, which account for 15 percent of India's oil imports. It also invested in Sudan's hydrocarbon sector (US\$ 690 million) and in offshore drilling in Côte d'Ivoire (US\$ 12.5 million). Indian oil companies are also venturing into Angola, Burkina Faso, Equatorial Guinea, Ghana, Guinea Bissau, and Senegal. There have been significant investments in other raw materials. Vedanta Resources invested about US\$ 750 million in a Zambian copper mine project, while Arcelor Mittal, which is the leading global steel company, launched a US\$ 1 billion iron ore mining project in Liberia, which is expected to create around 3,500 direct jobs and another 15,000 to 20,000 indirect jobs.³

In addition to the quest for natural resources and access to new markets, there are other factors that are leading India to Africa's doorstep. Investments and cooperation in development sectors such as agriculture, health, information and communication technology (ICT), education, capacity building, and skills transfer have also been the backbone of India's partnership with Africa. India's expertise in agro-processing and small farm mechanization (e.g. manufacturing and export of agriculture tractors, seed cum fertilizer drills, etc.) is of relevance to Africa's farming industry and could help African countries address their food security crisis.

AfDB – Exim Bank

The African Development Bank (AfDB) Group and the Export-Import Bank of India (Exim Bank) signed a Memorandum of Understanding (MOU) in November 2009 for co-financing projects in Africa. In addition to providing lines of credit (93) to African countries (47) with a total credit value of US\$ 3.4 billion, Exim Bank has been working closely with AfDB in providing advisory services and exchanging information on business and investment opportunities.

Source: AfDB

Indian investments are not only improving farm technologies and productivity in Africa; they are also promoting agro-business through technical assistance and skills transfers in order to improve the quality of infrastructure, increase access to microfinance, and scale up local entrepreneurship (small scale and gender based). For instance, the Indian government invested US\$ 15 million in Sierra Leone (in the form of a line of credit) for the development of commercial agriculture, including the purchase of a wide range of agricultural machinery and equipment. This investment is designed to address Sierra Leone's under-exploitation of agriculture resources and consequently its food insecurity issue.

In the area of health, Africa accounted for 14 percent of India's US\$ 8 billion pharmaceutical exports in 2008-09. Indian pharmaceutical companies, such as Ranbaxy Laboratories

³ Various media sources. See <http://www.arcelormittal.com/index.php?lang=en&page=49&tb0=30&tblng=1>

“In a joint venture in 2008 between Indian pharmaceutical company CIPLA, the government of Uganda, and Ugandan pharmaceutical manufacturer Quality Chemicals Industries Ltd., a US\$ 32 billion new plant was built in Kampala to produce anti-retroviral and anti-malarial drugs ...”

Limited, have established a presence in many African countries with the aim of providing a wide range of quality, affordable generic drugs. In a joint venture in 2008 between Indian pharmaceutical company CIPLA, the government of Uganda, and Ugandan pharmaceutical manufacturer Quality Chemicals Industries Ltd., a US\$ 32 billion new plant was built in Kampala to produce anti-retroviral and anti-malarial drugs. QCI is in this way able to leverage Indian technology and expertise to ensure that the manufactured drugs will meet the highest international standards. In respect to ICT, India has helped to

fund the development of various projects across Africa, such as its ambitious Pan-African e-Network Project, which was developed jointly by the Indian government and the African Union to promote online education and telemedicine programs across the continent (see box for more details). Furthermore, India's IT firms (e.g. Aes Technologies; IC India, Karro Technologies, Eastern Software Systems, and Comviva and Newgen Software) are exploring acquisition opportunities in the African telecommunications market, which was forecast to reach a value of around US\$ 22.5 billion by 2010.

Pan-African e-Network Project

This ground-breaking project, which was set up as a cooperative venture between the African Union and the government of India, was inaugurated in 2009. It aims to link major universities and centers of excellence in Africa and India and thereby extend higher education to some 10,000 students in Africa over a 5-year period. It also aims to link major African hospitals to 12 super-specialty hospitals in India to improve medical training, on-line medical consultations, and other facilities. In addition to tele-education and telemedicine, the project supports e-governance, infotainment, resource-mapping and meteorological services.

India undertook to provide seamless and integrated satellite, fiber-optic and wireless network, to connect 53 learning centers, 53 remote hospitals, 5 regional universities, and 5 regional hospitals in Africa to 7 leading universities in India and 12 super specialty hospitals. The Indian government has invested US\$ 1 billion in the project.

The project is considered a shining example of South-South partnership and the biggest project of distance learning and tele-medicine ever undertaken in Africa. A total of 47 African countries have already joined the project, which is now in its second phase, with plans to extend to all 53 AU member states.

(Source: www.panafricannetwork.com)

To help African countries set up development projects in a variety of sectors (e.g. agriculture, infrastructure, power, etc.), the government of India extends lines of credit (LOCs) through the Export-Import (EXIM) Bank of India to governments, banks,

and financial institutions at concessional rates. EXIM is due to set up a representative office in Addis Ababa, Ethiopia, to promote trade and investment flows between India and the East Africa sub region.

“Between 2003 and 2009, 70 Indian companies invested in 130 greenfield projects in Africa, totaling US\$ 25 billion; this represents close to 5 percent of total greenfield FDI projects in Africa ...”

This will be its third office in Africa. EXIM has approved the largest single line of credit to Ethiopia (US\$ 600 million) for the Tindaho Sugar Project. EXIM has 85 lines of credit, covering 47 countries in Africa, with a total value of US\$ 2.76 billion.⁴ EXIM also has in place a line of credit worth US\$ 25 million to the Eastern and Southern African Trade and Development Bank (PTA Bank), which is the regional development bank for the COMESA region. EXIM Bank has also participated in the equity of Afreximbank, the Development Bank of Zambia, and the West Africa Development Bank (BOAD).

Other potentialities for Indian investors in Africa include greenfield investments, merger and acquisition (M&A) purchases, public private partnerships (PPPs), bilateral investment treaties (BITs) and double taxation agreements (DTAs). Between 2003 and 2009, 70 Indian companies invested in 130 greenfield projects in Africa, totaling US\$ 25 billion; this represents close to 5 percent of total greenfield FDI projects in Africa (3,062 projects involving 1,752 companies).

Selected India-Africa Projects/Contracts Approved under LOCs

Country	Industry	Project	Amount	Year
Mozambique	Energy	Rural electrification projects in provinces of Gaza, Inhambane, Zambezia, and Nampula	\$ 30 million	2008
Sierra Leone	ICT	Modernization of Sierra Leone National Telecommunications Network	\$ 29million	2008
Chad	Agriculture	Cotton yarn plant, bicycle plant, steel bullet plant and plant for assembly agricultural equipment	\$ 50 million	-----
DRC	Transport	Purchase of buses, spare parts, and tools	\$33 million	-----

Sources: India-Africa Connect; CII-Exim Bank of India, AfDB

4. A Framework for Cooperation

Within the context of its “Aid for Africa” program, India offers technical cooperation to many African countries through the Indian Technical and Economic Cooperation (ITEC) and other related programs. ITEC allocates aid based on the importance (economic and/or strategic) of the recipient country for India; it also provides funding for the training of African personnel in India, for projects, technical assistance, study trips, and humanitarian assistance. India established the Special Commonwealth Assistance for Africa Program (SCAAP), which operates under similar modalities to ITEC but its coverage is restricted to those African countries belonging to the Commonwealth (i.e. 19 countries). In 2009-2010,

India provided assistance worth US\$ 16.8 million under ITEC, US\$ 1.8 million under SCAAP, and US\$ 24.6 million as direct aid to African countries.⁵)

The first Africa-India Forum Summit, held in New Delhi in April 2008, marked a new era of cooperation, with the Indian government pledging support to African countries through bilateral, regional, and continental initiatives. The Summit aimed to forge a strategic economic partnership between India and Africa in a number of areas, including trade, investments, energy, agriculture, regional integration, peace and security, and ICT. The cooperation framework agreed at the summit

⁴ Source: EXIM Bank -- <http://www.eximbankindia.com/press270510.asp>

⁵ Source: Indian Ministry of Foreign Affairs.

“The government of India, jointly with EXIM-Bank of India and the African Development Bank, initiated the first conclave to establish a dialogue platform between decision-makers in African countries and heads of Indian companies...”

“Learning from the success of IT-based economic growth in India could help African countries, especially those in Sub-Saharan Africa, to bridge the digital divide and improve their competitiveness in the global marketplace...”

and the initiatives/pledges to scale up investment and aid to Africa (e.g. US\$ 5.4 billion LOC and US\$ 500 million grants up to 2013) all reaffirmed India's aim to diversify its energy resources, increase market access for Indian products, and promote Indian investments in Africa.

Other initiatives on the part of the government of India to enhance trade and investment relations between the two regions include the following:

India–Africa Project Partnership Conclaves: The government of India, jointly with EXIM-Bank of India and the African Development Bank, initiated the first conclave to establish a dialogue platform between decision-makers in African countries and heads of Indian companies involved in engineering, consultancy, construction, and the supply of project equipment.

TEAM-9: In 2004, the government of India put in place the Techno-Economic Approach for Africa-India Movement (TEAM) for enhancing commercial relations between eight West African countries (Burkina Faso, Chad, Côte d'Ivoire, Equatorial Guinea, Ghana, Guinea-Bissau, Mali, and Senegal) and India. Under TEAM-9, India put in place US\$ 500 million lines of credit (LOC) to finance priority projects in the eight selected countries, targeting those projects that would increase trade with India and contribute to African socioeconomic development. It also aimed to promote technology transfers (agriculture, small-scale industries, pharmaceuticals, and ICT).

“Focus Africa” Program: The government of India launched this program in 2002-03 to increase the interaction between the two regions by identifying potential areas of bilateral trade and investment. It also supplemented the lines of credit (LOCs) which the government of India was extending to African countries.

India's Technology Boom – Lessons for Africa

Learning from the success of IT-based economic growth in India could help African countries, especially those in Sub-Saharan Africa, to bridge the digital divide and improve their competitiveness in the global marketplace. The Indian government's commitment to promoting the ICT sector, together with the inflows of private sector investments to this area, have helped to boost the Indian economy through increased export revenues (estimated at US\$ 73.1 billion in 2010). In India itself, such investments have led to a number of successful outcomes, including: broader access to telecommunications services, particularly mobile telephony; the building of effective institutions; improved infrastructure (transportation, energy); and improving transparency in the area of governance; and information sharing in the areas of health, agriculture, and education. The Indian experience in information technology, telecommunications sector, and research-based development could be transferred to African countries through the ITEC program and Indian private and public sectors investments in Africa.