Available online at www.sciencedirect.com
ScienceDirect
Procedia
Social and Behavioral Sciences
Procedia - Social and Behavioral Sciences 157 (2014) 183 – 195

International Relations Conference on India and Development Partnerships in Asia and Africa: Towards a New Paradigm (IRC-2013)

Indian Foreign Direct Investment: A Way to Africa

Anusree Paul*

Symbiosis School of Economics, Symbiosis International Univeristy, Pune, India

Abstract

Indian companies are entering into African domain largely guided by the market and resource seeking motives which promotes potential forward and backward linkage. 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 is seen. Most of the Indian FDI in African countries is through Greenfield investments and joint ventures that are desired by the host countries due to their contribution in creating new production capacity and generating employment, transfer of technology, etc. The identified factors that motivate Indian investors to invest in Africa are socio-cultural, host country policies, regional integration agreements, bilateral investment treaties, gross domestic product growth etc. Also language, culture, presence of Diaspora does play a significant role in attracting FDI in Africa countries. The relationship between India and Africa exists and functions at these multilateral levels that includes commerce converge.

Peer-review under responsibility of Symbiosis International University (SIU).

Keywords: Outward FDI; Bilateral Invetment Treaties; Competitiveness

1. Introduction

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.

* Corresponding author. Tel.: +91-8390856012; fax: +0-000-000-0000 .
E-mail address: anusree.paul@sse.ac.in, anusree.paul@gmail.com

Peer-review under responsibility of Symbiosis International University (SIU).
doi:10.1016/j.sbspro.2014.11.021

The relations between India and Africa have been guided by a long history of solidarity and 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.

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

The third phase spans the corporate globalisation era started from the late 80s to the present day and became the prime engine driving India-Africa relations with big Indian companies and their investment in Africa. To name a few both state-owned and private Indian companies such as Oil and Natural Gas Corporation (ONGC), Bharti Airtel, Reliance, Mahindra, Tata 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 support of South and most of it has gone to Africa. In the 1990s, a number of projects were initiated with Indian help. 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.[i]

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 by reviewing 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 has divided into four sections. In section 2, we have described about the factors that motivate Indian Indian multi-national corporations (MNCs) to invest in Africa. Section 3 explains the pattern and the sectoral distribution of Indian investment opportunity in Africa and finally section 4 concludes the study.

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

According to Dunning[ii], FDI emerges due to *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.

The *horizontal or market seeking FDI*[iii] 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