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Outward FDI by Indian Companies in Africa: Motives and implications

Dr Ratna Vadra

Assistant Professor

Economics and International Business

Institute of Management Technology, Ghaziabad.

Email: rvadra@imt.edu

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ABSTRACT: India, which has drawn attention in recent years, is one of the most important emerging markets. India is building up its status as a pioneer in cooperation between South and South, just as it previously played a key role in the Non-Aligned Movement. If we're the foreign policy of India, collaboration between South and South has been an important pillar of India. Africa is now attracting rising Indian cooperation in growth. This subsequent paper explores the essence and pattern of Indian O-FDI. The paper also analyses the Indian FDI's roadmap in Africa by defining factors that inspired multinational Indian companies to invest in Africa. The paper is subsequently split into four parts.Section one is related to Introduction. Section 2 of paper describes about the factors that motivate 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.

KEYWORDS: **Africa, Emerging economies FDI , India, MNCs, Trade**

I. INTRODUCTION

For many years, India and Africa have shared close relations in the field of economic relations, and until mid-2000, mostly Indian investment in Africa was less. India is currently the eighth-largest investor in Africa according to the World Investment Report (2018). The overall foreign direct investment (FDI) outflows from India to the world are estimated at US$ 250.9 billion during the period 2008 to 2016. India's FDI flows to Africa are largely concentrated in Mauritius, accounting for approximately 19% of the world's Indian FDI flows. According to statistics cited in the 2017 African Economic Outlook, India is ranked second (after China) in terms of export share of imports with Africa.

If we look at Table 1, it reveals that the top ten recipients constitute more than 90 per cent of Indian FDI flows to Africa. Mozambique, with a share of around 52.9 per cent, tops the chart. Over 2008-16, some 597 Indian companies invested in Africa, with the top eleven accounting for around 80 percent of the total Indian investment flows. ONGC Videsh tops the list with investments worth $3.02 billion, followed by Gujarat State Petroleum Corporation, Oil India, Interlabels Industries, and Coromandel International.

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Table 1: Total Indian FDI flows and top 10 African Destinations:2008-16

TOP 10 AFRICAN DESTINATIONS FOR INDIAN OVERSEAS DIRECT INVESTMENT ('08-16), IN MN $

	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total	Share (%)	Main sectors in which India has invested
Mozambique	5.9	0.0	0.3	3.6	0.5	1.9	2,648.8	1.7	4.1	2,666.9	52.9	Oil and gas, coal
Egypt	423.8	7.5	13.5	24.0	62.7	40.8	14.4	9.3	6.8	602.9	12.0	Oil and gas, solar, Pharmaceuticals
South Africa	29.0	84.7	29.5	23.6	137.0	18.9	27.6	63.9	28.3	442.5	8.8	Hotels, Steel, IT, and FMCG
Tunisia						108.2			82.3	190.4	3.8	Manufacturing
Kenya	124.4	0.8	0.6	1.3	5.9	4.6	6.2	1.7	9.0	154.6	3.1	Manufacturing
Zambia	0.1	0.6	0.9	2.0	4.1	6.7	13.6	88.1	29.4	145.3	2.9	Manufacturing
Libya	24.5	12.9	52.5	3.5	0.6	27.4	7.4	0.1		128.8	2.6	Oil and gas
Ethiopia	1.0	3.5	3.0	4.1	2.8	4.0	42.7	14.1	21.1	96.4	1.9	Manufacturing
Morocco	2.5	1.1		38.0	4.9	5.8	10.7	13.7	19.4	96.1	1.9	Manufacturing
Sudan	55.5	16.2	13.9	0.0	0.0		0.0			85.7	1.7	Oil and gas
Sub Total	666.6	127.4	114.2	100.1	218.5	218.3	2,771.4	192.6	200.4	4,609.5	-	-
All Africa*	731.5	198.7	165.7	145.6	259.3	266.8	2,828.7	224.1	220.1	5,040.5	-	-
Share	91%	64%	69%	69%	84%	82%	98%	86%	91%	91%	-	-

SOURCE: AUTHOR'S ESTIMATES FROM RESERVE BANK OF INDIA'S DATABASE *EXCLUDING MAURITIUS

An analysis of Indian overseas investment data from the Reserve Bank of India shows that the total Indian FDI outflow from India to Africa from 2008 to 2016 was about $52.6 billion, or about 21% of Indian overseas investment outflows Indian investments in Africa could actually be much less than commonly believed. This is mainly due to the fact that over 90 percent of Africa's Indian investment is diverted to Mauritius, a tax haven, and much of Mauritius' Indian investment is simply 'round-tripped' back to India. It is therefore easier to remove Mauritius from the study, for a true image of Indian investments in Africa. The top five recipients, except Mauritius.

II. OBJECTIVE OF STUDY

1. This paper aims to look at the essence and trend of FDI between India and Africa
2. Another goal of the paper is to define the factors that have driven investment in Africa by Indian multi-national corporations (MNCs).

III. LITERATURE REVIEW

The traditional FDI theory emphasised three main ownership specific competitive advantages (technological, managerial, reputational etc.) of the investing firms as a key factor to exploit in foreign locations. The Internalisation Theory of FDI (Buckley et al 1976; Hennart, 1991) says that firms extend their activity to foreign locations, being efficiency seekers so that they can reduce the transaction costs of cross border activities. This idea of transaction costs is further elaborated by the OLI theory of John Dunning (1981a, 1988). The OLI 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 most of theories of FDI was largely developed based on the experiences of developed countries but it can explain the motivational factors behind the trans-border expansion firms in developing countries. (Dunning 1981b; Lall 1983).According to Dunning, FDI emerges due to Ownership Advantages or Firm Specific Advantage which provides companies with an edge to operate successfully in a foreign market. Some of the advantages are in the form of patents, brand names technology, reputation, benefits of economies of scale, privileged access to inputs, etc. over the host country. Indian multinationals might invest in African countries because the firm specific advantages either generates higher revenues and lower costs that can offset the costs of operating at a distant foreign location. For example Tata Motors has set up plants in Africa to supply to the domestic industry there because of economies of scale and brand name. Seeing the types of O-FDI, four key types of investment are as 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 mainly 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 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‟.

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).Drogendijk, Rian (2013) empirically test the degree of Chinese investments in Africa by systematically examining the explanatory value of existing theoretical motivations for foreign direct investment (FDI) for the period of 2003–2009. All else equal, the authors find that African countries enjoy a higher likelihood of Chinese outward FDI than the rest of the world. Moreover, they found that Chinese firms invest in African markets for market-seeking, natural resource–seeking, and strategic asset–seeking motives; hence, the motives for Chinese FDI in Africa seem to match those of Western firms' investments in global markets. Naudé, W. A.; Krugell, W. F, (2007) uses a cross-country econometric approach to identify the determinants for foreign direct investment (FDI) in Africa. It is concluded that geography does not seem to have a direct influence on FDI flows to Africa. Neither market-seeking nor re-exporting motives of FDI seem to dominate, with different policy instruments being significant in the different specifications. Okafor, Godwin; Piesse, Jenifer; Webster, Allan, (2015) in his paper is to examine the motivations behind Indian firms' outward investment. He tests whether these firms are investing abroad in search of market, resource, technology, strategic-assets, efficiency, etc. Outward FDI by Indian firms has increased considerably in recent years. Such investments have gone to more than hundred host countries and into various sectors. The higher volume of outward FDI following policy reforms requires examination of factors that have motivated Indian firms to invest in different host countries.

IV. FACTORS MOTIVATING INDIA'S O-FDI DESTINATION TO AFRICA

4.1 Market seeking FDI

Market quest is one of the key reasons for Indian OFDI. MNCs prefer to invest in countries that are greater in market size due to higher projected demand for their goods. Market-seeking FDI can also be accomplished by entering new markets, pursuing new business prospects internationally, extending their brand in the global market and diversifying across various overseas markets as businesses aim to grow their global footprint. The market-seeking FDI is primarily the entry of Indian companies into Africa. Due to the liberalisation of regulations and the reduction of entry barriers in African countries, this has increased. Africa's economy remains untapped. There are also a number of recent market-seeking examples.

Investment by Tata engines in South Africa is looking for a market because the cars produced in South Africa are sold in the region. Bharti Airtel Ltd. acquired Zain Africa BV in 2010 to join the African market. Similar recent examples of Indian companies' market-seeking outward FDI include the following investments by (Infosys BPO Ltd. (Mccmish Systems LLC, USA), HCL Technologies Ltd. (HCL Technologies (Shanghai) Ltd.),) Wipro Ltd. (EN Think Inc, USA; Wipro Chengdu Ltd., China), Kerala Ayurveda Ltd. (Ayurvedic Academy Inc., USA), Gitanjali Gems Ltd.(Gitanjali USA Inc.) , Mahindra & Mahindra Financial Services Ltd. (Mahindra Finance USA LLC).

4.2 Efficiency seeking FDI

The second significant motive for FDI companies is to pursue productivity. MNCs are searching for lower costs of input and output (UNCTAD, 1998; Braconier et a, 2005; Bellak et al ., 2008). The movement of capital from developed high-wage countries to developing low-wage countries comes under the efficiency-seeking FDI. The Indian pharmaceutical company Ranbaxy is finding productivity by investing in Greenfield with a local partner to supply medicines to the African continent. Latest investments by Elgi Equipments Ltd. (PT Elgi Equipments, Indonesia Bajaj Auto Ltd. (PT Bajaj Auto Indonesia), Tata Motors Ltd. (Tata Motors (Thailand) Ltd.), TVS Motor Company Ltd.

4.3 Resource seeking FDI

One of the key reasons businesses invest abroad is to search for natural resources , low cost labour. This form of FDI is referred to as FDI's resource-seeking motive. Some of the examples are such as ONGC Videsh, India's state-owned ONGC 's overseas division investing in Nigeria and Sudan Resource looking for inspiration is a critical one for India. This is demonstrated by its rising presence in oil and other mineral-rich countries like Sudan, Nigeria, Libya, Ivory Coast and others in their search for energy security. Jindal Petroleum Ltd., Confidence Petroleum India Ltd. (Surya GIO Gas Indonesia), Indian Oil Corporation (Suntera Nigeria 205 Ltd.), Indian Oil Corp. Ltd. (The Suntera

4.4 Strategic Asset Seeking

The last motive for MNC to go for investment abroad is Strategic asset seeking.Technology-seeking outward FDI can be a valuable technique for securing firm-specific benefits and creating sustainable competitive advantage (Athreye and Godley, 2009). Aurobindo Pharma Ltd. (Aurobindo Pharma USA Inc. NJ), Alkem Laboratories Ltd. (S&B Pharma Inc., USA Reliance Polyolefins Ltd. (MPM Bioventures IV, USA), Ashok Leyland Ltd. (ADES Holdings Inc., USA; Albonair GMBH , Germany), Godrej Industries Ltd. (Medquist Holdings Inc., USA),Larsen & Toubro Infotech Ltd. (GDA Tech Inc., USA) have invested in technology-seeking FDI:

V. INDIAN COMPANIES IN AFRICA

India has been one of the African continent 's premier investors. Today the relations between India and Africa are cooperative and multidimensional. Deeply rooted in history, nearly all domains of human enterprise are now protected and have geographic and international importance. India is making sustained efforts to enhance, deepen and diversify these activities in the future. India's major investors in Africa include Tata (automobile, IT, lodging, and ferrochrome plants), UB Group (breweries, hotels), Mahindra (automobile), and a number of pharmaceutical companies like Ranbaxy, CIPLA, etc., as well as IT companies and some mining investments. South African investment is also increasing.

There is also growing South African investments in India led by SABMiller (breweries), ACSA (upgradation of Mumbai airport), SANLAM and Old Mutual (insurance), ALTECH (set-top boxes), Adcock Ingram (pharmaceuticals) and Rand Merchant Bank (banking). The presence of Indian banks in South Africa (State Bank of India, Bank of Baroda, Bank of India, EXIM Bank and ICICI Bank) The majority of Indian adventures abroad, including in Africa, would take the form of acquisitions, mergers and joint ventures.

A number of Indian firms, led by the likes of Ratan Tata (Tata Group), Lakshmi Mittal (ArcelorMittal), Ravi Ruia (Essar Group), Sunil Mittal (Bharti Airtel), Adi Godrej (Godrej Group), Onkar Kanwar (Apollo Tyres) and Mukesh Ambani (Reliance Industries) rapidly rose to become leading international players.

5.1Information Technology

India's leading companies in information technology are spending more in Africa. They are eager to gain consumers and raise market share in a continent. The key reason why Indian IT companies have invested in Africa due to African economies' increasing growth potential and their burgeoning technology interest. Companies such as Tata Consultancy Services, Infosys and Wipro, HCL and Tech Mahindra are rapidly expanding their workplace base and distribution centres in a sector

5.2Telecommunications

Africa stands on the radar of many Indian firms seeking to grow their business. The $10.7 billion deal by Bharti Airtel to buy Kuwaiti-based Zain 's African properties is the biggest overseas acquisition by an Indian company in Africa. It provides the Indian business with a presence in 15 African nations. In 15 African countries, Bharti now has a presence and has diversified its offerings to include money transfers and Internet connectivity. The cost of making calls has been reduced by fierce competition with local African companies to a fraction of what it was five years ago.

5.3Heavy Metals

Indian companies have invested extensively in African heavy metals. Tata is likely to have the most diversified presence in Africa. It founded Tata Afrika Holdings with headquarters in Johannesburg, South Africa, in 1994. It produces 130,000 tonnes of high-carbon ferrochrome from its plant in Richards Bay, South Afrika; it has a commercial vehicle assembly plant in the province of Gauteng; its Taj Hotel Group operates the five-star Taj Cape Town and Taj Pamodzi in Lusaka, Zambia, and Joekels Tea Packers, South Africa's second-largest tea company, is a significant part of its Tata Global Beverages group. Tata also participates in Africa's renewable energy programmes, while Tata Chemicals Magadi in Kenya is Africa’s largest exporter of soda ash.

Arcelor Mittal South Africa has been the largest liquid steel manufacturer on the continent, with an annual output of 7.8 million tonnes from its Gauteng plants. Arcelor Mittal, with mines in Algeria, Mauritania, Senegal, South Africa and a $1 billion plant in Liberia, is also the largest iron ore mining company operating in Africa. Zimbabwean steel producer Zisco was taken over by Essar Steel in 2010, and the company is now active in many other ventures, including business process outsourcing (BPO) operations in Africa. Other major Indian investors in African resources include Coal India in Mozambique, Vedanta Copper Mining in Zambia, Varun Rare Earth Mineral Industries in rare earth minerals in Madagascar, and Jindal Steel and Power in Mozambique and South Africa.Six years ago, Apollo Tyres, one of India's largest tyre manufacturers and distributors, bought out Dunlop Tyres International South Africa and in the process acquired Dunlop's rights in 33 African countries. They invested $80 million in upgrading and expanding our operations. The company makes tyres for both passenger and commercial vehicles from its plants in Durban and Ladysmith, and distributes several brands, including some imported from India, around Africa.

5.4 Pharamaceuticals

In Africa even the Indian pharmaceutical industry is very involved. Indian pharmaceutical companies primarily pursue strategy of entering with their African companies through joint ventures, which makes it possible to manufacture drugs locally. Indian companies can also, in some cases, open subsidiaries or enter into distribution agreements with local companies. In 2008, in Uganda,

CIPLA has entered into a joint venture to open a production unit for anti-malaria drugs with Quality Chemicals Industries Ltd. Another big firm, Ranbaxy, another Indian corporation, operates under the name Sonke in South Africa, while the South African divisions of Lupin and CIPLA are respectively known as Pharma Dynamics and CIPLA Medpro. India is now the world's largest generic pharmaceutical manufacturer. Africa is a natural fit for Indian companies that provide critical drugs, especially antiretroviral and anti-malarial drugs, at a fraction of producers' costs elsewhere. The Indian pharmaceutical company Cipla lowered the cost of HIV-positive patients' drugs per patient ffrom around $10,000 to $400 per year, earning enormous goodwill in a continent where HIV/AIDS is still rife. Africa accounts for 16 percent of total Indian pharmaceutical exports. India's pharmaceutical giant Ranbaxy Laboratories, which was the first to set up operations in Africa in 1977, opened its second plant near Johannesburg in 2010. Cipla has announced a $36 million upgrade to its plant in Durban and has recently formed a joint venture in Uganda.

5.5 Agriculture Business and Mining

An significant part of Indian investment in Africa is also driven by agriculture. Nearly 80 Indian companies have invested around US$ 2.5 billion in Africa's agricultural sector based on data provided by the governments of some African countries. The large arable land of Africa is another draw for Indian agricultural enterprises. Now the world's largest exporter of roses, Karuturi Global has made investments in Ethiopia and Kenya. Also significant is investment in the mining sector , especially in diamonds where India has become a major centre for cutting and polishing. In order to secure diamond resources, some relate this new position to the investments made in Africa. The Sourcing India Ltd of Surat Rough Diamond has entered in an agreement with the Zimbabwean government for US$1.2 billion worth of rough diamonds. It has also signed an agreement with the Angolan company Endiama.

VI. CONCLUSION

The world class infrastructure, wide open spaces and 'five-star' lifestyle of Africa in general and South Africa in particular, has become a big attraction for Indian businesses. Due to the special ties between India and Africa, this may well be a marriage made in heaven. The growing number of Indian entrepreneurs are being drawn to what Africa has to offer; in exchange, the Indian presence provides just the fuel for its own economic development that the continent needs. Africa is a continent with a huge population, spread over arable land, with little or no infrastructure, a rising middle class, a major opportunity for industry. Could Indo-African economic relationships

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