# India-Africa Trade and Investment Relationship: From Goods to Services

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**Please note that the views expressed in this article are authors' own, and do not necessarily represent the opinion of ICRIER.*

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The global financial crisis that had its roots in developed markets wrought enormous damage on countries across the globe. As a result of the crisis, emerging markets seriously began to explore options to safeguard themselves against future shocks, including the possibility of deeper economic and political engagement with other emerging markets. For example, BRICS members (Brazil, Russia, India, China and South Africa), successfully established a BRICS development Bank (New Development Bank or NDB) to provide an alternative source for credit flows aimed at financial stability, growth and development. Further, South-South Cooperation in terms of trade and investment increased and became a major source of growth and employment generation (CII/WTO 2013[1]). Likewise, India and Africa are seeking to enhance their historical ties to foster greater trade and investment flows in light of the changing geopolitical landscape. Post crisis, the India-Africa engagement has already touched new highs.

India and Africa together constitute one third of the World's population of which a majority are youth[2]. Several similarities bind the two regions. Africa is a continent with 54 countries, divided in six broad regions – North Africa, Central Africa, East Africa, West Africa, Southern African Customs Union (SACU) and other South

African Countries. Each region has distinctive natural resource endowments with varying levels of economic development and political stability. Between the 29 States and seven union territories in India too there is considerable variation in endowments and development. India's size and diversity means that it is often characterized as a subcontinent. Recent growth in India has been high and seen as a ray of hope in an otherwise flagging global economy. The International Monetary Fund (IMF) predicts that India will grow at 7.5 per cent in 2016 while for the different regions within Africa the estimated growth forecast ranges from 1.3 to 4.3 per cent (IMF 2015[3]).

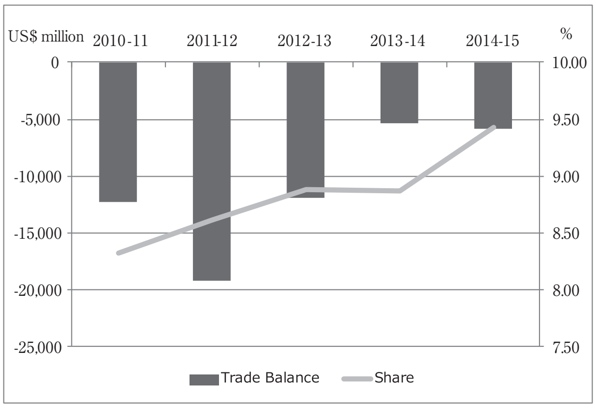
Following independence, both India and Africa adopted a common and shared approach at international fora. The post colonial troubles were similar and several studies have also highlighted that India and Africa have common futures (ORF 2015[4]). The historical trade and investment linkages were the result of robust inter-governmental and people-to-people relations. In the new millennium, there is potential for rejuvenating the relationship especially in view of the emerging global geopolitical landscape. This short paper discusses the current level of trade and investment flows between India and Africa and based on that makes suggestions for potential areas of collaboration.

## 1. India-Africa Trade Relations

Africa is a critical trading partner for India for two reasons – volume of trade and its composition. In 2014-15, Africa's share in India's total trade was about 9.4 per cent, marginally higher than in 2010-11 (Figure 1). Bilateral

[1] https://www.wto.org/english/tratop_e/devel_e/a4t_e/global_review13prog_e/india_africa_report.pdf
[2] http://thewire.in/2015/10/24/the-india-africa-relationship-is-beyond-strategic-considerations-13932/ (accessed on 22 January 2016)
[3] http://www.imf.org/external/pubs/ft/weo/2015/02/pdf/text.pdf
[4] http://www.orfonline.org/wp-content/uploads/2015/12/Common-Futures1.pdf

trade was valued at $71.5 billion in 2014-15, substantially more than the value of $5.3 billion in 2001.[5] India is a net importer of goods from Africa, although the negative trade balance has been declining in recent times (Figure 1) due to the fall in the value of imports from Africa on the back of falling commodity prices of oil and other minerals.




Source: Calculated from Directorate General for Foreign Trade (DGFT), Department of Commerce, Government of India

Figure 1: Trade Balance and Share of Africa in India's Total Trade (2010-11 to 2014-15)

East Africa accounts for a majority share of India's exports while India's imports reflect a preference for the West African region (Table 1). This is due to composition of the trade with these regions. The West African region, particularly Nigeria accounts for the bulk of India's oil imports. Compared with this, India exports refined petroleum products to East African countries including Mauritius and Kenya. Other key items of import include African cash crops such as shelled cashews, vegetables, nuts, coffee, tea and minerals such as gold, copper, coal, rock phosphate, etc. India's exports largely consist of vehicles, drugs and pharmaceuticals, engineering products and also a few agricultural products such as basmati rice.

The pattern of trade between India and Africa reflects the natural resource advantage of Africa as predicted by the classical theories of international trade. The balance of trade in favour of Africa in goods vis-à-vis India is based largely on Africa's commodity exports. India on the other hand has emerged as a major global player in services. India ranked as the 8th largest exporter and importer of commercial services in 2014 (WTO 2015[6]). Bilateral services trade data however are not readily available. Global sector wise services trade data show that while India is a net exporter Africa is a net importer of services. Table 2 reveals that in the category 'other services' including construction, financial services, telecommunication and business services India's exports to the rest of the world were in excess of US$ 61 billion in 2014. This is India's top export category and at the same time it is also the top category of services import for Africa, reflecting enormous potential for trade in services.

Table 1: Region-wise India's Trade with Africa in 2014-15

| **Region** | **Exports (US$ Million)** | **Share (%)** | **Imports (US$ Million)** | **Share (%)** |
|---|---|---|---|---|
| Central Africa | 1,251.26 | 3.81 | 265.82 | 0.69 |
| East Africa | 10,152.26 | 30.91 | 1,441.99 | 3.73 |
| North Africa | 5,711.68 | 17.39 | 4,065.83 | 10.52 |
| Other South African Countries | 3,214.03 | 9.79 | 5,259.43 | 13.61 |
| Southern African Customs Union (SACU) | 5,532.43 | 16.85 | 7,567.23 | 19.59 |
| West Africa | 6,980.27 | 21.25 | 20,034.56 | 51.86 |
| **Total Africa** | **32,841.93** | | **38,634.86** | |

Source: Calculated from Directorate General for Foreign Trade (DGFT), Department of Commerce, Government of India

[5] Calculated from Directorate General for Foreign Trade (DGFT), Department of Commerce, Government of India and CII/WTO (2013)

[6] https://www.wto.org/english/res_e/statis_e/its2015_e/its2015_e.pdf

Table 2: India and Africa's Global Trade in Service in 2014
(US$ Million)

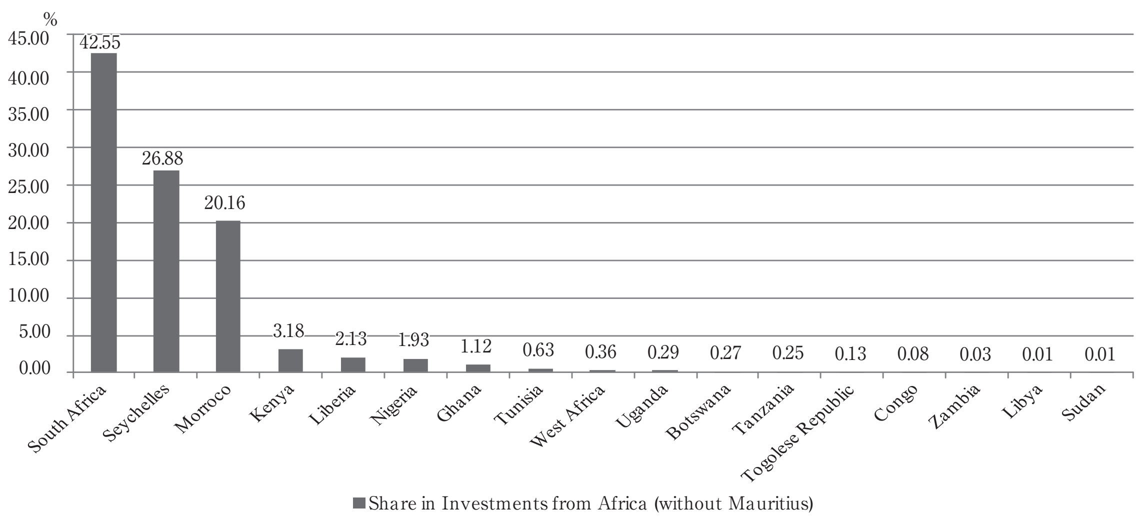
| Region/Category | Export | Import | Trade Balance |
|---|---|---|---|
| ***India*** | | | |
| Services | 156,209 | 147,888 | 8,321 |
| Goods-related services | 383 | 246 | 137 |
| Transport | 18,627 | 77,256 | -58,630 |
| Travel | 19,700 | 14,596 | 5,105 |
| Other services | 117,499 | 55,790 | 61,709 |
| ***Africa*** | | | |
| Services | 106,760 | 183,710 | -76,950 |
| Goods-related services | 1,970 | NA | |
| Transport | 29,470 | 71,040 | -41,570 |
| Travel | 42,580 | 25,900 | 16,680 |
| Other services | 32,740 | 86,050 | -53,310 |

Source: Calculated from United Nations Conference on Trade and Development (UNCTAD) Statistics.

## 2. India-Africa Bilateral Investments

In India, the data for inward foreign investments is available with the Department of Industrial Policy and Promotion[7] and outward investments is available with the Reserve Bank of India[8]. Bilateral investments between India and Africa have grown substantially over the last decade and show one interesting feature. Mauritius is the single largest investor from Africa to India and also the top source of all foreign investments into India. It is well known that these investments originate in other countries and are routed through Mauritius to leverage tax advantages rather than being driven by conventional reasons of efficiency or market expansion (Box 1). Between April 2000 and September 2015, the total investments from Africa were around $92 billion of which 99.2 per cent were routed through Mauritius. Excluding Mauritius, the total investment from Africa during the same period amounts to just $683.9 million. South Africa, Seychelles, Morocco, Kenya and Liberia are key investors from Africa. Figure 2 shows the share of different African countries in the total investments into India from Africa. Mauritius is excluded since the large inflows from there dwarf the other source countries into insignificance. The issue of Mauritius is dealt separately in the Box.

A majority of the investments from African countries (excluding Mauritius) are directed towards the drugs and pharmaceutical sector. This includes investment in manufacturing as well as wholesale and retail trading of drugs. Other key sectors of investment include construction, maintenance and other allied activities, hotels and rooming and lodging services, data processing and software services, among others.




Source: Extracted from DIPP, Government of India.

Figure 2: Share of African Countries in Total Investment from Africa to India from April 2000 to September 2015 (Excluding Mauritius)

[7] http://dipp.nic.in/English/Default.aspx

[8] https://www.rbi.org.in/

**Box 1: Decoding Mauritius - A Route for Foreign Investments**

As reflected in the available data, 90 per cent of Indian overseas investments in Africa and almost 99 per cent inward investments from Africa are directed to or via Mauritius. A majority of the investments made via Mauritius are not by companies that are of Mauritian origin but by companies that are directing their investments into India through a subsidiary in Mauritius. The companies are essentially availing the tax advantages offered in Mauritius and since India has a Double Taxation Avoidance Agreement (DTAA) with Mauritius, such investments escape taxation in India as per the Indian tax rates and laws. Under the Income Tax Act 1961 of India, there are two provisions, Section 90 and Section 91, which provide specific relief to taxpayers to save them from double taxation. Section 90 is for taxpayers who have paid the tax to a country with which India has signed DTAA. When compared with India, tax rates in Mauritius are significantly lower – the corporate tax rate is about 15 per cent in Mauritius while it is over 30 per cent in India and the capital gains tax in Mauritius is 3 per cent while it is higher in India. Therefore, Mauritius is regarded as ‘tax haven’ and companies interested in investing in India often direct their investments via Mauritius making use of the DTAA between India and Mauritius.

Routing investments through Mauritius has often attracted criticism and has led to disputes with the Indian tax authorities. Mauritius is considered as a route to avoid taxes and many companies including Vodafone have faced the tax authorities for non-payment of tax in India under the aegis of the DTAA with Mauritius. Despite this, with a share of 34 per cent in India’s total inward investment, Mauritius continues to be the most popular source of routing investments in India.

With regard to investments in Africa, India has emerged as a major investor from the developing world, surpassing even China in recent times. The spatial coverage of Indian investments is vast covering a large number of countries such as Mozambique, Egypt, South Africa, Kenya, Sudan, Tunisia, Benin, Burkina Faso, Chad, Djibouti, Guinea Republic, Sierra Leone and Swaziland, among others. In all, Indian companies have invested in around 40 African countries. Like with inward investments, a large majority of the investments are directed towards Mauritius, although the ultimate destination could be different. Between July 2007 and May 2015, almost 21 per cent of total Indian overseas investments were in Africa, of which 89.5 per cent were accomplished via Mauritius. Nearly 20 per cent of these investments are made by two large Indian companies. In 2014 ONGC Videsh Limited made an investment of $2.6 billion in Mozambique while Reliance Industries Limited made an investment of $6.7 billion in Mauritius in 2010. The skewness in the investment data suggests a need for diversification. Opportunely, a number of Indian companies are now establishing presence in Africa in the financial, insurance, real estate and business services and wholesale, retail trade, restaurant and hotel services.

### 3. International Agreements

India and Africa are members of several international fora. Besides India has concluded or is negotiating agreements with various African nations. India has both Bilateral Investment Promotion Agreements as well as DTAAs with several African countries including Egypt, Kenya, Libya, Mauritius, Morocco, Sudan and South Africa, among others. India is also negotiating trade and investment agreements with different African nations or regions. For example, India-Egypt Preferential Trade Agreement, India-Mauritius Comprehensive Economic Cooperation Agreement and India-Southern African Customs Union Preferential Trade Agreement are under negotiation, to name a few.

Although an enthusiast for the multilateral process, the new realism of regional and bilateral agreements has resulted in India having negotiated and concluded several comprehensive economic partnership agreements with Japan, Korea, Singapore and Malaysia. India is also negotiating with countries and blocs such as Thailand and European Union. More recently, India’s upgraded its engagement with Association of South East Asian Nations (ASEAN) from just goods’ liberalisation to include services and investments thus launching the ASEAN-

India Comprehensive Economic Cooperation Agreement. In the backdrop of the 'Look East, Act East' initiative of government, it is likely that India's engagements with East and South East Asia will continue to expand. At the same time, the government has enacted policies to enlarge India's activities with Western markets through the 'Look West' policy.

Parallel to this, Africa's effort to integrate within the continent is likely to boost international trade among the countries in the African continent. Africa has several trade agreements or ongoing negotiations within the region such as the Southern African Customs Union (SACU) and the Tripartite Free Trade Area and with other countries and regions such as the European Free Trade Association, European Union and Turkey, among others. Interestingly, while a majority of African trade integration is within Africa, India has integrated across different regions, particularly East and South East Asia. Therefore, there is a window of opportunity for businesses in third country markets to explore possibilities of economic engagement with India and Africa through each other.

## 4. Going beyond Goods: Potential Areas for Future Engagements

The above discussion highlights that while trade and investments flows between India and Africa are already large, their trade baskets are diversifying and services are gaining importance. In terms of investment, Africa is the single largest investor in India, globally, though a majority of the investments are made via Mauritius, a tax haven. Bilateral agreements have a strong role to play in this context. The growing bilateral engagements have made it more attractive for third country's to exploit trade complementarities between India and Africa and establish presence in either/both the markets using their respective bilateral agreements. Some of the potential areas for investment are listed below:

a) Food processing industries: India is importing a cash crops from Africa, while the processed food products are being exported from India to Africa. There is scope for investment in food processing industries in India considering the sector enjoys incentives from the Indian government. Food processing is one of the priority sectors for India. The government allows 100 per cent foreign direct investment in the sector and companies can establish production networks in the food value chain. A lot of investment is coming in the food processing in India and therefore it is a potential area for enhancing trade and investment between India and Africa.

b) Information and communication technology (ICT): There are clear complementarities in this sector. While India is one of the largest exporters of services, Africa is a net importer. Indian companies have an established competitive advantage in IT/ITeS. According to the Network Readiness Index Report (2015)[9], Africa fairs poorly in terms of the environment for ICT. In September 2015, the Indian government and ICT companies visited Africa to explore opportunities in the market. Given the overall importance of technology in the growth process, there is potential for Indian companies to invest in Africa in this sector.

c) Financial services: There are a large number of Indians residing in Africa. Moreover, since the levels of trade and investments have increased, there is scope for establishing physical presence of banking and financial institutions in African countries. The Third India Africa Forum Summit (IAFS) in October, 2015 saw India commit to a $10 billion line of credit to Africa at concessional rates. India's cumulative line of credit to Africa after the first two summits was around $7.4 billion that helped in building infrastructure. Establishment of Indian financial institutions in Africa will further assist in strengthening the business relations between the two markets.

d) Knowledge-based services: Both India and Africa boast of a large share of youth in their respective populations. India is acclaimed to have a large English speaking population that formed the basis for the success of the Business Process Outsourcing (BPO) Industry in India. As India inevitably moves up the value chain in this realm, there is opportunity for Africa to fill the space vacated by India. The presence of a large Indian population in Africa provides scope for establishing education

[9] http://reports.weforum.org/global-information-technology-report-2015/network-readiness-index/

institutes and skill development centers in Africa to exploit such future opportunities. In the past three years alone, 25,000 Africans have been trained or educated in India.[10] There is hence a scope for establishing joint training or education centers in Africa in collaboration with businesses so that the trained persons can be absorbed in the workforce. Skill development is a crucial input to developing the ICT capabilities in Africa. ORF (2015)[11] has highlighted that in Africa, government funding is geared towards university education rather than technical and vocation training. Therefore, this is an important area for private investment.

e) Health services: India is globally competitive in providing low cost health services. These can be offered to Africa through two routes – First, Indian companies can invest in health services sector in Africa and movement of professionals including health workers can be made easier. Second, the Indian government can offer easier access to African nationals on account of medical tourism to India. The two governments can collaborate to establish digital connection between the health centers so that the patients can locate and communicate with health professionals in each others markets.

## 5. Conclusions

Overall, the India -African economic relationship has made substantial progress, but there is vast potential. At one level, Africa could focus on diversifying exports beyond commodities by increasing awareness of the preferential treatment possibilities. Doing more value addition leveraging the foreign investment route shows promise for Africa. Geographical diversification in export markets will provide insurance against the downturn in China. India, on its part should focus on expanding the scope of its investments, both geographically and sectorally. Indian capital, skills and technology can be used to add value to African raw materials before these are exported, thus helping create jobs and profits in Africa. This will also be a politically expedient strategy. Overall, the India – Africa story is one that holds immense promise for the future. With young populations, abundant natural resources, good connectivity and strong ties, both continents can progress rapidly on the path of sustainable and inclusive development.

[10] http://thewire.in/2015/10/24/the-india-africa-relationship-is-beyond-strategic-considerations-13932/ (accessed on January 19, 2016)

[11] http://www.orfonline.org/wp-content/uploads/2015/12/Common-Futures1.pdf