

Talking point

India-Africa: a partnership with untapped potential

November 6, 2015

Africa is drawing a variety of investors in search of natural resources and fast-growing consumer markets. They are eager to benefit from some of the highest economic growth rates in the world – as two-thirds of the countries in the continent will grow at over 5% over the next 5 years – and favourable demographics. Africa's fast-growing, very young and increasingly urban population is currently estimated at 1.2 bn and set to exceed 4 bn by 2100, when around 40% of the global population will be living in Africa, based on projections from the UN. As the EU and China remain Africa's main trade and investment partners and President Obama has given momentum to the US-Africa partnership, India's involvement with Africa has been growing steadily. It is set to intensify further, based on the synergies of needs and interests.

India is in a good position to extend its reach in Africa

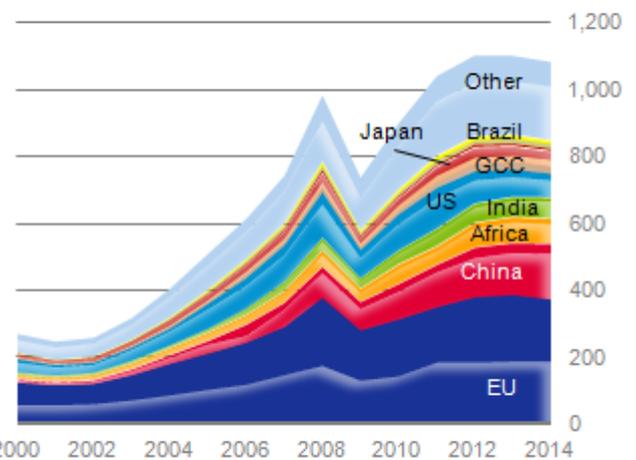
While no country can likely replace China's appetite for commodities, India is a large fast-growing economy, expected to grow more rapidly than China over the next years (7.5% vs 6.7% in 2016 according to the latest forecasts from Deutsche Bank). India's commodity hunger is likely to increase in line with the "Make in India" strategy proposed by Prime Minister Narendra Modi. It could partially mitigate slowing demand in China as the country pursues reforms away from investment towards consumption-led growth.

India's growth profile and development needs are similar to those of many African countries which can find parallels with India's development challenges rooted in linguistic, ethnic and religious divisions or colonial heritage. India also shares with 18 African countries a membership of the Commonwealth. With its companies typically inclined towards offering low-cost products and services, India is well-positioned to become an attractive trade partner and investor for Africa.

With trade openness revitalizing historical and cultural links, India-Africa trade has grown steadily in the past years (see green in chart). Bilateral trade amounted to USD 65bn (6% share of Africa's trade with the world) in 2014, up from USD 7 bn (3% share) in 2000. This is still only 40% of Africa's trade with China but now similar to the US. Most of India's trade with Africa takes place below the Sahara. Sub-Saharan Africa's exports to India reached USD 30 bn in 2014 (8% of total exports), overtaking the US (share of 6%). Two-thirds of these exports are oil and gas, 16% gold and other precious stones. India's main trade partners in Africa are Nigeria (USD 17 bn), South Africa (USD 9 bn), Angola (USD 6 bn) and Tanzania (USD 5 bn).

Bilateral trade: USD 65 bn, more than double 5 years ago

USD, bn



The white line separates the trade with SSA (lower part) and the trade with North Africa.

Sources: IMF DOT, Deutsche Bank Research

India needs increasingly large amounts of raw materials. It imported USD 195 bn worth of raw materials in 2014 and is particularly dependent on crude oil imports (34% of its total imports), precious metals, other minerals and agricultural products, e.g. cashews and cotton. India's total imports from Africa amounted to USD 33 bn, a small share (6%) of its total imports compared to its main providers China and the GCC (13% each). However, more than a quarter of India's oil and gas imports now come from Africa, particularly Nigeria and Angola, as part of an effort to diversify import origins. Nigeria recently replaced Saudi Arabia as the largest crude supplier to India.



Although India has lost out to Chinese oil giants in its search for oil supplies in Africa, Indian oil and gas companies are present on the continent. India is a significant market for a few African countries, including Tanzania, Nigeria, Botswana, Cameroon and Angola (see chart). It is now the largest buyer of Nigerian oil. The nature of Africa's exports is likely to change as the continent pursues efforts to process its raw materials and add value to its exports.

In turn, Africa imported USD 32 bn worth from India (5% of total African imports). Africa is a relatively small export market for India, which exports mostly to the US and the GCC (USD 45 bn to each in 2014), but some African countries import significantly from India, including Tanzania, Mozambique, Kenya and Mauritius. The nature of these imports varies according to the region, with East and Southern Africa receiving mainly refined petroleum products from India, Central Africa pharmaceuticals and North Africa vehicles. Electrical and industrial machinery are other Indian products exported to Africa. (The figures for Mauritius, an offshore financial hub, are not directly representative of bilateral trade since the country hosts a number of foreign companies, attracted by a conducive tax regime).

India enjoys a private sector which is rapidly getting global

A number of Indian multinationals already have significant interests and investments in Africa, in diverse sectors including ICT, energy, agribusiness, healthcare and automotives. Indian FDI into Africa exceeded USD 6 bn over the period 2003-2012, ranking fifth behind the US (USD 10 bn), the UAE, France and the UK. However, the figures for Chinese FDI are likely underestimated – according to calculations from McKinsey. India has approved USD 9 bn of concessional loans to Africa in the past decade and committed a further USD 10 bn over the next five years, according to Indian authorities. India's green-field investments in Africa amounted to USD 1.1 bn in 2014 (USD 6 bn from China), according to UNCTAD.

Some Indian conglomerates have been operating for decades in multiple African countries across a wide range of industries such as automobiles, telecommunications and hotels. Indian pharmaceutical companies also operate in Africa, providing generic medicine and vaccines at affordable prices. Other firms are looking at tapping growing African markets in the consumer goods area. Bollywood is also present in Africa with many Africans, especially in the East and South, very fond of Hindi films. Like various other countries, India is also looking at Africa as a place to grow food, attracted by massive amounts of cheap land, more abundant water resources and low farming costs while African authorities welcome both the investors and the influx of skilled Indian farmers, working as entrepreneurs and landowners.

There is momentum within India to catch up in Africa

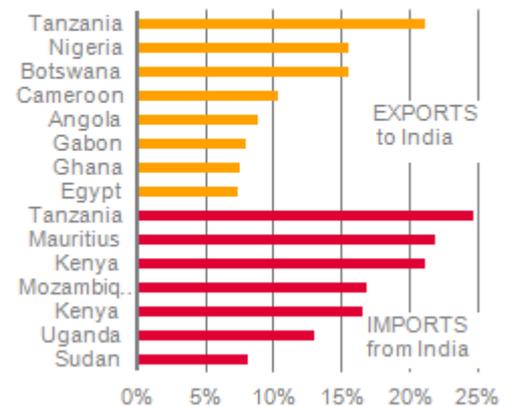
India is looking at boosting political and economic ties with the continent. Since taking office last year, PM Modi has taken a strategic approach to increase India's foreign policy engagement and broaden its trade partners. He has yet to visit mainland Africa. The India-Africa Summit was initiated in 2008 to strengthen bilateral relations and reduce India's reliance on Europe and North America. It took place for the third time at the end of October and New Delhi hosted representatives of most African states including Nigeria's M. Buhari and South Africa's J. Zuma.

There is also a significant Indian diaspora in Africa, estimated in excess of 2 million, that has been living in Africa for generations, especially in southern and eastern Africa (e.g. Kenya, Tanzania, Mauritius and South Africa). Still to be tapped, this diaspora enjoys strong entrepreneurial ties, owning distribution and commodities trading channels, manufacturing facilities and mines. South Africa hosts 1.15 million people of Indian origin who arrived around 1900 to work in plantations. Hosting a large number of Indians, Durban has been named the largest Indian city outside India. (Durban is also the place where Mahatma Gandhi practiced his non-violent struggle against colonial masters during his stay over 1893–1914, before leading the freedom movement in India).

Ties are also strengthening around security and capacity-building

India: A significant trade partner for some African countries

Share of exports / imports



Sources: IMF DOT, Deutsche Bank Research

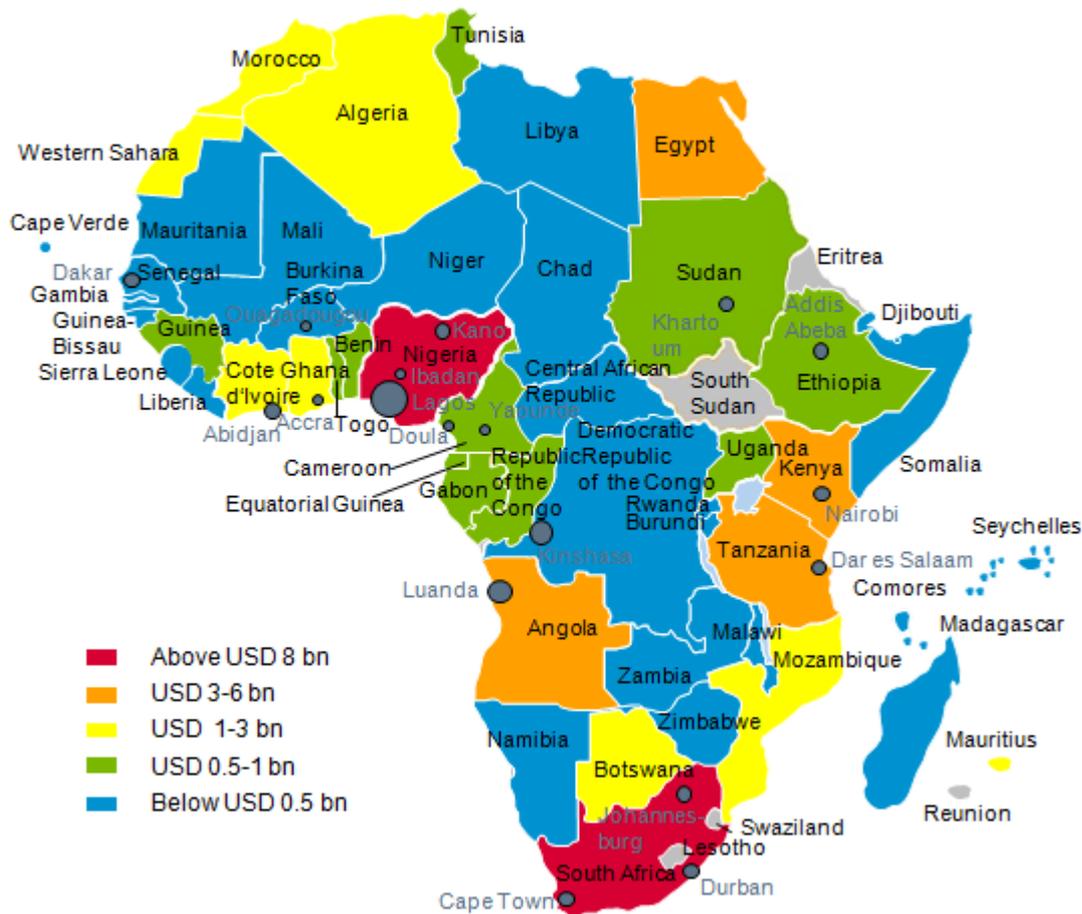
East African coastal states (from Somalia to South Africa, including the islands) are major partners in India's efforts to establish leadership in the Indian Ocean – in combating piracy, securing maritime routes and mitigating disasters. India is also one of the largest contributors to UN-mandated peacekeeping and other operations in Africa, with over 30,000 people involved since 1960.

India has emerged as a major development actor in Africa. Striving to build human capital in fellow developing countries, the country has offered 25,000 scholarships since 2011 for Africans to go and study on Indian campuses. India is also involved in setting up numerous vocational centres across Africa as it has already done in Ethiopia, Burundi and Rwanda. It has committed USD 600 m in grants towards areas such as education, technology and health-care. The world's largest democracy is also increasingly helping African governments on the democratic front, offering training on electronic voting systems, parliamentary procedures, federal governance, and an independent judicial system to strengthen the rule of law.

In a nutshell, India is already involved in Africa and the long-standing presence of Indian business communities on the continent is set to help expand trade and investment between the two countries as deficiencies in transport, logistics and the business environment are worked through. Those African countries with a larger share of private sector in the economy are more likely to attract Indian involvement. PM Modi has promised to make India more competitive in the global economy and Africa may play an important role in that endeavour.

Africa-India bilateral trade volume

USD bn



Sources: Deutsche Bank Research, IMF



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