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Indian Multinational Enterprise FDI in Sub-Saharan Africa: An Eclectic Paradigm Approach

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Abstract

Indian FDI in Africa has expanded in recent years. This paper examines the foreign direct investment strategies of Indian MNEs in Sub-Saharan Africa using the Eclectic Paradigm. It investigates the reasons for location choice, the internalisation strategies of Indian MNEs in Africa, and their impact on economic development and industrialisation. This study explores the ownership, location, and internalization advantages of Indian MNEs. With these details, the results will elucidate the dynamics of South-South cooperation and the role of Indian MNEs in stimulating economic growth, creating employment opportunities, and facilitating technology transfer within Sub-Saharan Africa. It will contribute to international business theory, inform policymaking, and guide Indian MNEs in optimizing their investment strategy in Africa.

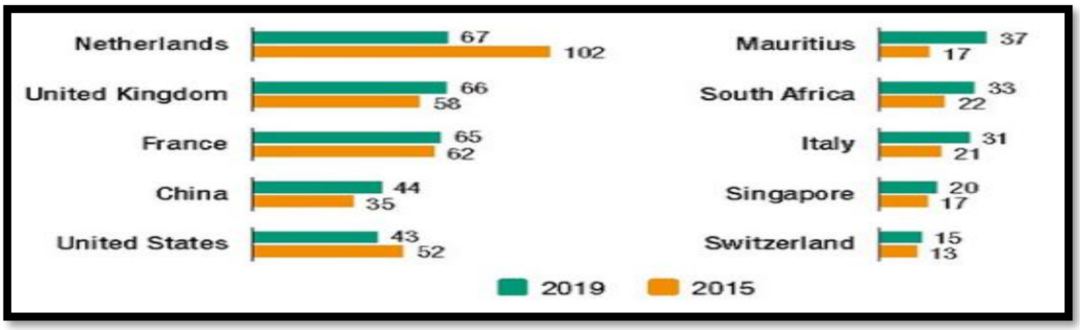
Keywords: Indian MNEs, Foreign Direct Investment, Sub-Saharan Africa, Eclectic Paradigm Approach, South-South Cooperation, Economic Development

1. Introduction

With its rich natural resources, Africa has long been the site of Western exploration. In the new age, exploration also benefits the continent. The money showered on the continent through FDI brings in more capital, generates more jobs, and fosters innovation. Amid the COVID-19 pandemic, Africa remained an attractive investment destination. The primary reason for the considerable investment being poured into Africa is its vast natural resources and young population, which give it enormous growth potential. The continent's overall GDP is expected to grow by 4% through 2025.

Africa has experienced a steady increase in FDI since the 1990s, but COVID-19 affected FDI, with a 40% decrease in 2020 and a 16% decrease in 2021. COVID-19 occurred at an inopportune time for Africa, as FDI had already been declining; it fell by 10% in 2019 as well. COVID-19 worsened as economies worldwide fell, and even commodity demand decreased. To study FDI, Africa is divided into five regions, and all regions experienced a decrease: North Africa (25%), Southern Africa (12%), West Africa (18%), and East Africa (16%). Central Africa was the only region to experience an increase in FDI, but it remained insufficient to raise overall FDI.

Table 1: Top 10 investors of FDI in Africa



Source: WIR, 2021

Table 1 shows that the three largest investors in Africa are the Netherlands, the UK, and France. We also observe that the Netherlands significantly decreased its FDI in the UK, whereas France increased its investment from 2015.

Egypt was the largest recipient in Africa; however, it received only 5.9bn in 2020, down from 9bn in 2019. Congo was the 2nd-highest recipient of FDI inflows and the only one to increase in 2020, which accounts for the rise in Central Africa's FDI. Sectors that attract FDI in Africa include mining, finance, agriculture, automotive, and consumer goods.

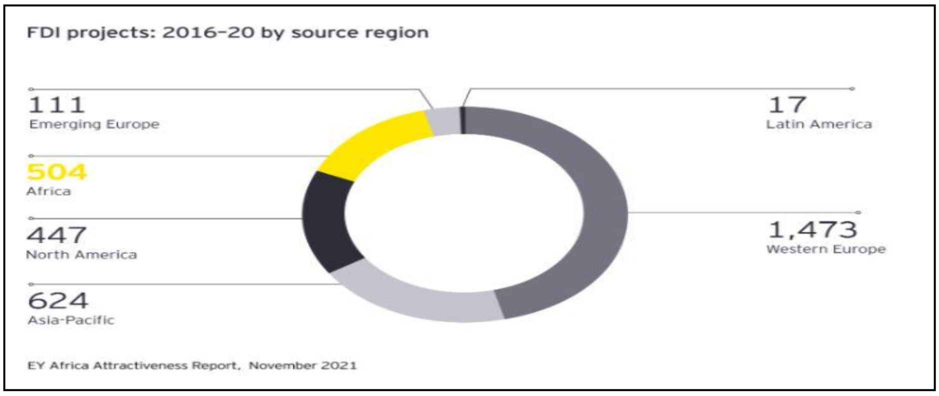


FIGURE 1: FDI projects by source region: 2016-20

Source: WIR, 2021

In 2020, FDI in Africa halved, making Africa the hardest-hit region. However, investment is increasing across various sectors. More FDI is being poured into service sectors such as technology, media, and telecommunications. This supports long-term sustainable job creation.

Around 75% of the investment in the continent comes from the Western world. A significant investment in the continent comes from its former colonizers, the Western European nations, which are already relatively saturated in terms of population and resources. Specific to jobs

FDI accelerated rapidly prior to 2020

Year	Projects	Jobs created ('000)	Capital invested (US$b)	Weighted score*
2016	605	121	92.5	200
2017	606	129	85.4	197
2018	745	190	78.0	245
2019	1,029	187	68.9	334
2020	516	70	28.5	166
Average	700	139	71	229

Figure 2: FDI accelerated rapidly before 2020.

Source: WIR, 2021

The capital, China, was the largest investor in Africa. (**Figure 1).** There has been a significant increase in FDI over the past few years. As shown in the figure, the continent experienced rapid growth, peaking in 2019, before the pandemic slowed it. (**Figure 2)**

FDI by sectors in Africa

Today's FDI is increasingly oriented toward service-based investments rather than traditional extractives. The former sector has received the highest FDI projects. Over the last five years, service-based sectors received the highest capital investment (45%), amounting to US$158 billion, of the three industry groups, created more jobs (55%, 0.4m), and accounted for (69%) of Africa's FDI projects.

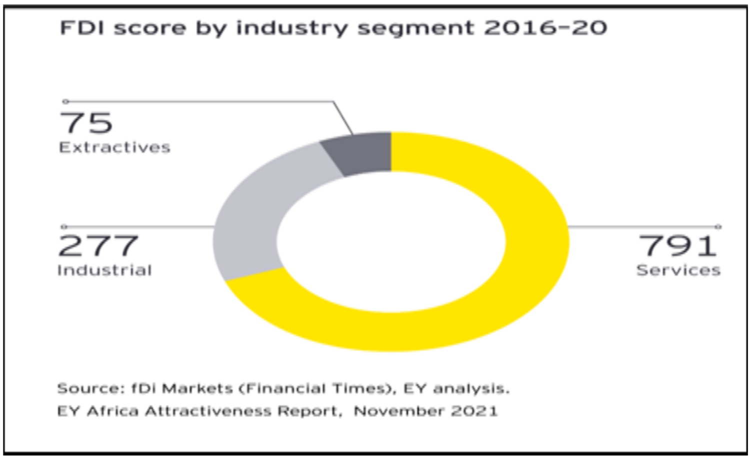


Figure FDI score by industry segment: 2016-20

Source: EY Africa Attractiveness Report, November 2022

Region-wise investment

The regional distribution of investment in the country is shown in the figure. A few major FDI hubs have emerged over the last decade. South Africa, the continent's most diverse economy, leads in FDI. It outpaced rivals Egypt and Morocco. South Africa, being more reliant on services and less on resource-based industries, attracted more investments during the pandemic. (refer to Figure 4).

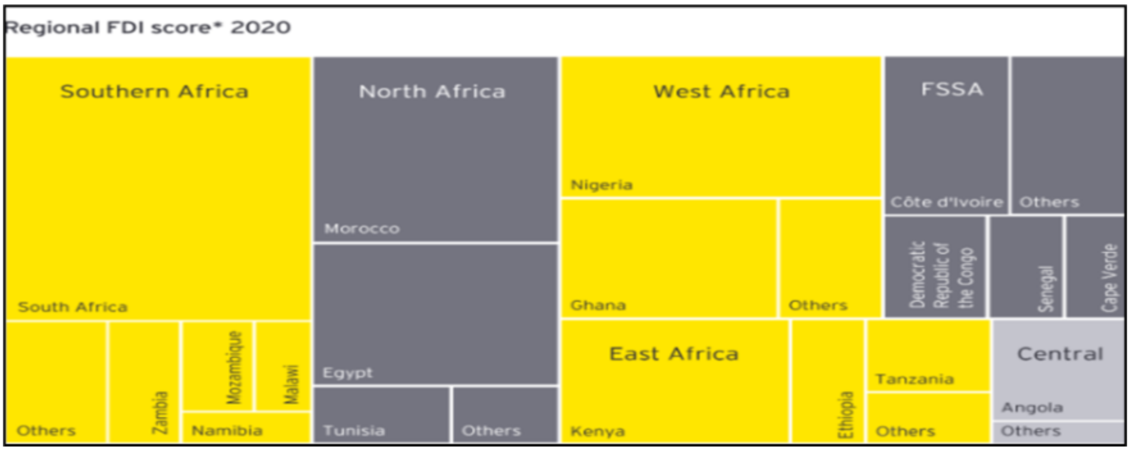


Figure 4: Regional FDI Score, 2020

Source:

2. Importance of the study

An investigation into Indian multinational enterprises' foreign direct investment in Sub-Saharan Africa, using the Eclectic Paradigm Approach, is important for several reasons. This study sheds more light on the increasing economic influence of Indian MNEs in Africa, a region that has become the most important for emerging markets. The motivations, strategies, and impact of Indian MNEs in Africa will be assessed. Researchers can acquire a significant understanding of the workings of South-South cooperation and its implications for economic growth.

Moreover, the paper contributes to the growing literature on emerging-market MNEs in Asia and Latin America. Using the eclectic paradigm, this approach emphasizes ownership, location, and internalization advantages, providing a framework for analyzing the investment decisions of Indian MNEs in Sub-Saharan Africa. The results can be helpful to policymakers in India and Africa in promoting FDI and improving the investment climate by enhancing cooperation between both regions.

The research findings have severe implications for the economics of development and industrialization in Sub-Saharan Africa. Understanding the role of Indian MNEs in fostering economic growth, providing employment opportunities, and transferring technology offers insight into best practices and areas for improvement. Hence, this study will guide Indian MNEs in making effective investment decisions amid the complexities of the African market and, accordingly, optimize their strategies.

The study contributes to the theories of international business, particularly in emerging markets. From a theoretical perspective, the Eclectic Paradigm Approach provides a robust framework for analyzing the complex interactions among Indian MNEs, African governments, and local stakeholders. In this manner, by testing and calibrating that framework, researchers may further their understanding of the dynamics driving FDI in emerging markets more broadly. In general terms, the study of Indian MNE FDI in Sub-Saharan Africa using the Eclectic Paradigm Approach offers valuable lessons on emerging-market investments, South-South cooperation, and economic development. Such findings would have significant policy implications for policymakers, businesses, and researchers wishing to boost economic growth, industrialisation, and collaboration between India and Africa.

Given the importance of Africa as an emerging FDI destination, this paper is a pioneering attempt. It significantly contributes to the sparse and disjointed literature on Indian FDI.

3. Literature review

The first theory of FDI can be traced back to Stephen Hymer's dissertation (1960), which introduced the MNE to FDI theory and emphasised the FDI activities of multinational businesses (Dunning &Rugman, 1985). Since then, several studies have examined the factors influencing MNE international activity and FDI (Buckley, 1990; Dunning, 2000; Buckley & Hashai, 2009; Rugman, 2010; Verbeke & Yuan, 2010).

The 'Ownership, Location and Internalisation Advantages Model,' also known as the OLI model of Dunning (1980), which focuses on ownership, location, and internalisation advantages (OLI), is applied in this study to critically examine Indian FDI in Africa.

Since Dunning first developed it in the 1980s, many FDI researchers have used this model as the underlying hypothesis. The eclectic paradigm, sometimes known as the OLI framework, was first developed by Dunning (1980) in his paper "Towards an Eclectic Theory of International Production: Some Empirical Tests." The eclectic paradigm and its resulting components can be used to characterize FDI and evaluate the activities of multinational enterprises (MNEs) (Blonigen, 2005, p. 383). In their paper, Sukalpa Chakrabarti and Ishita Ghosh (2013) investigate the nature and trends of foreign direct investment by India and China in Africa over the past decade. Anushrre Paul (2014) reports that most Indian FDI in African countries is through greenfield investments (GIs) and joint ventures (JVs), which host countries prefer for their contribution to creating new production capacity, generating employment, and transferring technology. In his paper, Mohammad Amir (2014) discusses how India has become an important 'Asian driver' within the 'new scramble for Africa.' This article highlights the geography of Indian involvement in Africa *in* terms of its growing scale, new patterns, and the emerging complex structure

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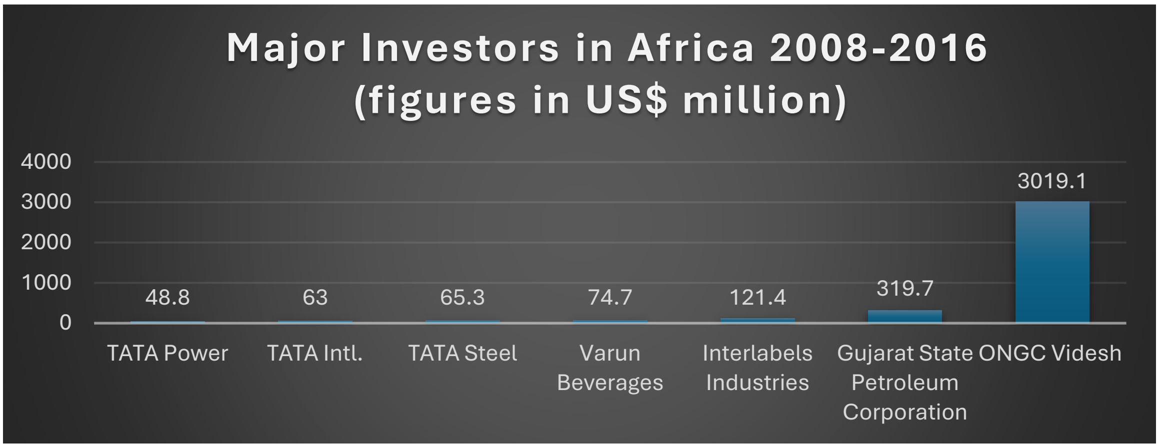
of Indian investments. In this chapter, Virk and Kudrat (2017) focus on the dynamics of the bilateral relationship between Africa and India. It begins with a brief history of Africa-India relations, followed by an in-depth analysis of present-day economic ties. In their paper, Sumati Varma, Ankur Bhatnagar, Swarup Santra, and Amit Soni (2020) adopt and extend the theoretical lens of institutional imprinting to international business research. It analyses a secondary dataset on Indian and Chinese foreign direct investment (FDI) flows to Africa, compiled for the period 2008-2018, to highlight the distinctiveness of Indian FDI.

4. Overview of Indian FDI in Africa

Historically, India and Africa's relations were built on their struggles against racial discrimination and colonization. Their trading and investment relations were limited, especially in the 1960s and 1970s. The first Indian company to invest in Ethiopia was the Birla Group, which made its investment in 1956. A few more Indian companies followed, but these numbers remained low due to strict foreign exchange policies. Following the post-1990 Indian economic reforms, India's investments in Africa experienced remarkable growth. According to the World Investment Report 2016, India was identified as Africa's 8th largest investor in 2014.

FDI outflows from India (2008-2016) were estimated at US$ 250.9 billion, of which Africa accounted for nearly 21%. India's FDI in Africa increased from US $3.2 bn (in 2008) to US$ 4.9 bn (in 2016). Both public- and private-sector companies made inroads into Africa's markets. Private corporations such as Bharti Airtel, the TATA Group, and Reliance have invested heavily in African countries.

Table 2: Major investors in Africa 2008-2016



Source: orfonline.org/India-investment-in-Africa

Large-scale public-sector investments in the mining, oil, and natural gas sectors dominate Indian investments in Africa. (Table 2).On the other hand, private-sector companies are continually investing in the petrochemical, FMCG, and manufacturing sectors. Mauritius has the highest Indian FDI flows in Africa, estimated at approximately US$47.6 billion from 2008 to 2016. A total of only US$ 5 billion was invested in the rest of Africa by Indian investors. This can be attributed to Mauritius's tax status due to its double taxation avoidance agreement with India. Then comes Mozambique, with Indian FDI outflows estimated at US$2.6 billion, most of which is attributable to a single state-owned Indian company, OVL, which acquired a stake in the Rovuma gas field. Overall, trade and investment relations between Africa and India continue to grow. However, substantial work is required to align the two nations' development and commercial interests. With a 6.4% share of Africa's total trade, India is the third-largest trading partner, after China and the United States. As of 2019-2020, the total value of Indian investment in Africa was $66.7 billion, projected to reach $ 150 billion over the next few years. India has mainly focused its investments in the primary commodities sectors of Africa, i.e., mining, oil, and gas, followed closely by the manufacturing sector, especially automobiles, and pharma. The most common modes of investment are joint ventures and greenfield investments. Several factors, including socio-cultural similarities and the presence of a large Indian diaspora, have spurred investment in Africa. The presence of RTAs and BITs (e.g., Sudan, Mauritius), as well as favorable host-country policies, also plays a role. However, a few large companies dominate investment in Africa. 80% of FDI has been made by the top 10, even though more than 600 companies have made investments in Africa over the past decade. ONGC Videsh alone accounts for almost 60%, followed by GSPC (6.3%), Interlabel Industries (2.4%), and OIL (2.3%). Furthermore, most of these companies have limited their investments to 1-2 African countries rather than scaling up.

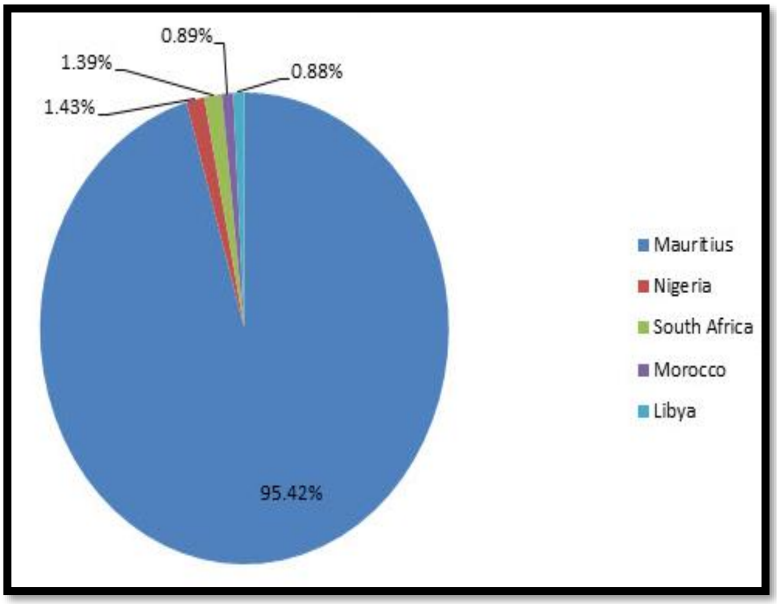
4.1. Major Indian Investors in Africa

Table 3: Geographical Spread of Major Indian Companies in Africa

Company Name	African countries where it has presence
ONGC Videsh	Congo, Egypt, Ivory Coast, Libya, Mozambique and Sudan
Gujarat State Petroleum Corporation	Egypt
Interlabels Industries	Kenya
Oil India Limited	Gabon, Libya, Nigeria
Coromandel	Tunisia
Indian hotels Company	South Africa
Gujarat State Fertiliser Corporation	Tunisia
Varun Beverages	Morocco
Tata steel	South Africa
Tata International	South Africa
Tata Power	Zambia

Source: RBI data

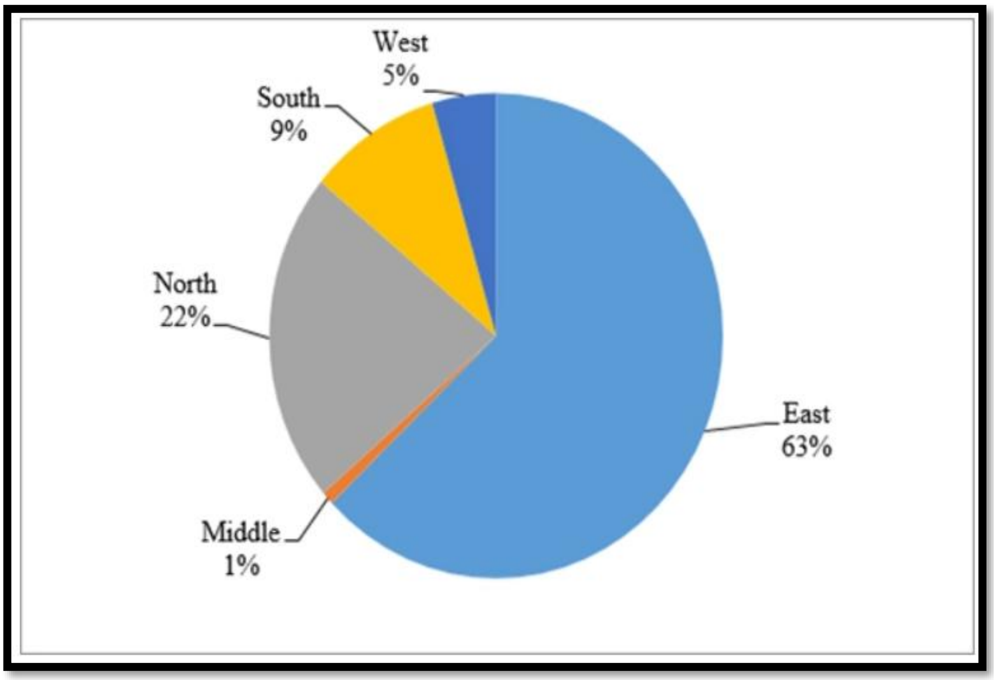
Another point of note is that most Indian investments (19% of total FDI) have been directed to Mauritius, owing to the Double Taxation Avoidance Treaty between the two countries. Being a tax haven, a significant part of the investment ultimately returns to India.



Graph: 1 Geographical Composition of Indian Investment in Africa

Source: RBI data

However, excluding Mauritius, most of the FDI is directed to North Africa (22%) and East Africa (66%). The lowest levels of FDI are in Middle African nations, such as the Congo, Chad, and Gabon. Though East Africa has traditionally been the highest recipient of FDI, investment in the North has grown by 4.5% over the past decade. Egypt is the second largest trading partner, followed closely by Algeria and Sudan. Exports to Morocco and Tunisia have also increased.



Graph 2: Top 5 Locations of Indian FDI Stock in Africa

The majority of FDI has been directed to the automotive and mineral fuels industries. The pharmaceutical, sugar, and organic chemicals, plastic, and cotton industries have also attracted investment, whereas FDI in steel, iron, and electrical equipment has declined.

5. OLI Framework

The OLI Framework is a three-tiered evaluation framework that firms can use to assess whether FDI in a particular foreign market is economically viable. The three parameters considered are Ownership Advantages (O), Localisation Advantages (L), and Internationalization Advantages (I). The framework can assist in answering the three critical questions of "why," "where," and "how" firms direct their FDI funds. The Eclectic Paradigm[5] suggests that foreign direct investment is beneficial for a firm to the extent that three types of advantages are present: ownership advantages (O), location-specific advantages (L), and internalization advantages (I). Ownership advantages are assets or advantages derived from the firm's specific characteristics or abilities. Location-specific advantages are those derived from a firm's location, such as the availability of critical raw materials or skilled labor. Internalization advantages are those achieved by internalizing a firm's operations.

Ownership advantages are intangible proprietary benefits, including ownership rights, licenses, patents, brand equity, managerial talent, systems, and processes. For Indian firms, many such ownership advantages offset the costs of investing in a distant land such as Africa. Such advantages either result in higher revenues or lower costs for these firms. For instance, Tata Motors established production plants in Africa to leverage economies of scale and brand recognition. Many other Indian firms across sectors, such as Infosys and Ranbaxy, could invest in Africa due to their strong financials.

Location Advantages- Location-specific advantages are grouped into economic, political, social, and cultural advantages. These refer to the advantages that the host country has over the investing company's domestic market and can be broadly categorized into three types: economic advantages (factors of production, size of the market, infrastructure costs, etc.), political advantages (political stability, FDI policies, etc.), and socio-cultural advantages (Language, openness to foreign culture and goods, etc.).ONGC Videsh tried to exploit the local benefits of abundant natural resources in Africa- petroleum, timber, natural gas, and coal. They also initiated local oil production in Nigeria and Sudan to exploit their proximity to petroleum-refining facilities. Firms in other sectors, such as Dr. Reddy's in the Pharmaceutical Industry, have also entered Africa to capitalize on the availability of a low-wage labor force.

Internalization advantages: These advantages signal whether a domestic company should invest in a particular foreign market and the appropriate mode of entry. Traditionally, large Indian firms have invested heavily in Greenfield investments in Africa, setting up subsidiaries and building operations from scratch. Tata Motors, Dr. Reddy's, Ranbaxy, and Larsen & Toubro are prominent Indian firms that have sought to leverage various ownership and location advantages by establishing production in African countries. The primary reason for this was the availability of cheap resources such as land, labor, and natural resources. Furthermore, Indian firms' capabilities and the lack of local strategic partners also motivated them to assume full control of their operations in Africa. Over the past two decades, however, as the African economy has expanded, Indian firms have also adopted an acquisition-and-merger strategy targeting African firms. For instance, Dabur entered the South African FMCG market by acquiring Discardia Trading and subsequently acquired the hair care, personal care, and creams business of the CTL group of Indian Multinationals.

6. Conclusion

Based on the "Ownership, Location, and Internalisation Advantages" (OLI) framework, this study examined Indian FDI in Africa. It is possible to comprehend the nature and justification of the investment decisions made by Indian enterprises by classifying Indian FDI according to the categories established by the FDI literature. This is crucial, given the ongoing criticism in Western media that Indian investments in Africa are an extension of colonialism and exploitation. Ownership, location, and internationalization advantages are all prominent in Indian FDI, with location advantage standing out as the most crucial factor for Indian MNCs.

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