RSIS Policy Brief
India’s Africa Policy: Toward a More Coherent Engagement
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EXECUTIVE SUMMARY

Recently, India has made significant advances toward increasing its economic and diplomatic footprint in Africa. While trade and investment between India and African countries are on a rise, India's Africa policy suffers from four critical weaknesses:

1. Both the Indian Government and Indian private sector companies have strategic interests in Africa. As key stakeholders, they should but do not keep each other's interests in mind, thereby preventing the formulation and implementation of a coherent Africa policy.

2. India's Africa policy is not supplemented by a strong and proactive diplomatic thrust.

3. In some instances, India appears to be emulating China's aid for resources strategy (by providing loans in exchange for access to the natural resources of African countries), which may not be the best approach to maintaining long-term relations.

4. Engaging with politically unstable yet resource-rich African countries could threaten India's interests in the long run and taint the perception of India's engagement with African countries. There are signs of this happening at present.

Some argue that India's democratic framework may serve as a strong base for enduring India-Africa ties. While this argument has its merits, India needs to develop a strong and coherent vision for its Africa policy so as to optimise its strengths and opportunities given the active presence of China in the continent.

For this purpose this paper recommends the following policy changes:

• The state should drive a coherent multi-actor 'Africa Policy'. This involves three critical steps:
  - Identifying the role of different Indian stakeholders (especially the Government of India and the Indian private sector) in Africa and assessing how each should engage with African countries on their own terms, but keeping the goals of India's economic diplomacy in mind.
  - Setting broad guidelines within which the private sector can act in Africa.
  - Developing a policy on how to engage with People of Indian Origin (PIOs) in East Africa.

• Energy policy should be placed within the framework of sustainable development:
  - Linking energy policy to trade and investment initiated by the private sector. There should be an optimisation of energy ties based on a relationship of mutual dependence.
  - Helping African countries regulate their energy sector to mitigate risks in energy-related deals.

• Indian Policy should be cast within not only a bilateral but also a multilateral institutional framework:
  - Giving as much emphasis to boosting economic engagement with African countries of the Indian Ocean Rim as it does to building defence ties.
  - Revitalizing the fairly inactive Indian Ocean Rim Association for Regional Cooperation (IOR-ARC).

Recently, India has made significant advances toward increasing its economic and diplomatic footprint in Africa. Heralding Africa as a continent which has the 'prerequisites to become a major growth pole of the world in the 21st century', Prime Minister Manmohan Singh stated at the second India-Africa forum last year that India was ready 'to work with Africa to enable it to 'realise its potential'.

According to statistics provided by the Ministry of Commerce, India's trade with Africa was around $42 billion in 2011 and India has also extended lines of credit to 5 Heavily Indebted Poor Countries. Despite its impressive rise India's trade with Africa is still well behind that of other actors like China which are engaging more actively with the continent. China-Africa trade was already close to $60 billion in 2010.

While both India and China are significant economic actors in African countries (see figure 1), China remains much ahead of India (see figures 2 & 3). India's Africa policy was given an economic impetus post its liberalisation in 1991. Since then, trade and investment ties between India and African countries have been on the rise. By and large, India's engagement with African countries is driven by the presence of natural resources, a search for new markets supported by diplomatic initiatives and strategic partnerships.

At its current stage, India's Africa policy suffers from four critical weaknesses. First, the state and the private sector are both active in the continent, but do not necessarily keep each other's interests in mind. Second, Indian policy is not supplemented by a strong and proactive diplomatic thrust. Third, in some instances, India too appears to be emulating China's aid for resources strategy (by providing African countries with resource-backed loans), which may not be the best approach to maintaining long-term relations with African countries. Fourth, engaging with politically unstable yet resource-rich African countries could threaten India's interests in the long run and taint the perception of its engagement with African countries.

There are signs of this happening at present. Some argue that India's democratic framework may serve as a strong base for enduring India-Africa ties. While this argument has its merits, India needs to develop a strong and coherent vision for its Africa policy so as to optimise its strengths and opportunities given the active presence of China in the continent.
INDIA’S STRATEGIC AND ECONOMIC INTERESTS IN AFRICA

Historical Relations: Relations between India and Africa are said to date back to ancient times. They were contoured around trade relations between India and the Eastern littorals of Africa. Colonialism brought an end to this trading system, but carried large numbers of People of Indian Origin (PIOs) to African countries as workers and artisans. This added a new dimension to Indo-African ties as several Indian leaders, especially Mahatma Gandhi, took up the issue of discrimination against non-whites. While Gandhi was an icon for Indo-African relations, India’s first Prime Minister Jawaharlal Nehru gave these relations a political foundation. His association with the Non-Alignment Movement, which focused on its anti-racist and anti-colonial agenda, struck an ideological chord among newly independent African countries. India and several African countries were members of the Group of 77 (G77) countries, which voiced concerns about the unequal terms of trade between the North and South. Towards the end of Nehru’s tenure, India-Africa relations took a back seat owing to a number of factors. One was India’s defeat in its 1962 war with China, which was a setback to its image as a leader. Another was its insistence on the adoption of peaceful means by African liberation movements, which were obtaining arms assistance from China.

Post-Cold War Relations: After it introduced an economic liberalisation programme in 1991, India’s foreign policy shifted from Nehruvian and Gandhian principles to pragmatic economic diplomacy. This shaped its relations with African countries as well. India began to view Africa through a strategic lens and realised that economic engagement with African countries could serve its national interests. Africa’s rich energy resources were attractive for a rapidly industrialising India. Further, the strategic location of East African littoral countries fitted very well with India’s need to maintain its traditional influence in the Indian Ocean region. Lastly, African countries were potential new markets for Indian private sector companies that had begun to look for opportunities abroad.
In the meantime, China was doing the same following its thrust for economic modernisation in the post-Mao era. With similar histories and similar pull factors drawing them to the continent, India and China inevitably brushed against each other. Despite China's more moneyed and coordinated engagement with African countries, India has still managed to maintain a significant presence in the continent. However, the manner with which it engages with African countries is fragmented and ad-hoc. Given India's economic and strategic interests in African countries, it needs a well-defined Africa policy and to shape its engagement with African countries.

**ECONOMIC INTERESTS**

Trade and investment footprint: dangers of becoming the ‘neo-colonial scrambler.’ India's economic activity in Africa has been mutually beneficial. The balance of trade is in favour of Africa, as it exports more to India than it imports (Figure 3). India's trade with Africa is well behind that of China, yet it is moving in an upward direction. While India's main imports from African countries consist of primary products, India's export basket includes a range of manufactured products, such as petroleum products, transport equipment and other forms of machinery (figure 4).

Indian companies have been investing in several sectors in Africa. Apart from energy, private sector companies are investing in telecommunications, agriculture, health, pharmaceuticals, infrastructure and Information Technology. China has also invested in these sectors. According to the International Monetary Fund’s (IMF) 2012 *World Economic Outlook*, the economies of the oil exporting, middle-income and low-income African countries are projected to grow significantly. The Economist Intelligence Unit forecasts that Africa will undergo rapid urbanisation and ‘consumerisation’ is beginning to grow. This will increase the disposable income of the African people, which will invariably boost demand for telecom and banking services. Thus these are tremendous opportunities for both India and China to capitalise on new African markets, where chances of them clashing are fairly high.

While Chinese and Indian firms have similar interests in African markets, they function in completely different ways in African countries. Unlike Chinese companies, which are mostly state-owned or state-controlled, Indian firms operating in Africa are largely privately owned or are under private-public partnership. They are less vertically integrated than Chinese firms and prefer to procure both materials and labour from local governments. Hence, the operation of Indian firms in African countries appears to be less ‘neo-colonialist’ than those of China. While international criticism remains relatively muted on the Indian engagement in Africa, letting the primarily profit-seeking private sector guide its way in African countries might change this. This is already being witnessed with India’s private sector engagement in Ethiopia’s agricultural sector.

The Ethiopian government under the leadership of Prime Minister Meles Zenawi, has leased vast amounts of land to Indian private sector firms like Karuturi Global, for low prices. While this stimulates agricultural development, several locals have been displaced. Further, the promise of job-generation for locals has benefited only few people, while many have been left unemployed. Several contracts given to Indian companies investing in the agricultural sector do not have clear regulations regarding working conditions for labour and there appears to be scant regard toward the environmental implications of projects. Integration with the local fabric is one of India’s key strengths, which will soon fade if the private sector is left to engage with African countries without any state-led guidelines.

Energy Security: Risks of Engaging with Politically Unstable African Regimes. India’s rapid growth is producing an ever-increasing demand for energy. However, its domestic oil reserves are unable to sustain the rapid pace of its industrialisation and imports have become critically important. Africa’s proven oil sources are almost as large as those of Europe and Eurasia (144.4 billion barrels). The presence of energy sources in African countries has also been of major interest to China, which changed from being a major oil exporter to an importer during the 1990s. India and China have often brushed against each other while bidding for oil deals in African countries. China's deeper pockets and ability to churn out funds at a quicker pace than India have often enabled it periodically to outbid the latter when pursuing oil deals. A case in point is Angola. In 2004, India lost a deal to China when Angola’s state-owned Sonangol blocked India’s move to buy Shell's 50% share in Block 18 for about $620 million because China offered infrastructure funding of US $2 billion in return for oil deals.

Despite the competition between India and China for oil deals, it need not necessarily be a zero-sum game. In the past decade, India has diversified its sources of energy and energy ties with different African countries. 22% of India’s oil imports come from African countries. Despite losing to China in Angola, India has still managed to maintain...
energy ties with the country. India still imports 5% of its crude oil from Angola. Furthermore, India has signed a Memorandum of Understanding with Sonangol, in which both entities have a bilateral collaboration for the purchase of large crude oil consignments. In Nigeria, ONGC Mittal, (a joint venture of India’s public sector Oil and Natural Gas Corporation [ONGC] and the world’s largest steel company, Mittal Steel) struck an oil infrastructure deal worth $6 billion with the Nigerian Government. The deal won it rights to explore in two prosperous oil blocks OPL 279 and 289, in return for building an oil refinery, power plant and a railway line. While these are significant developments in India’s energy ties with African countries, they are very similar to the Chinese approach to securing oil deals. This can become a policy problem in the long run because of the risk aid-for-oil deals carry. Angola, Nigeria, Sudan, and the Democratic Republic of Congo (DRC) are a few of India’s top energy partners in Africa. These resource-rich countries are often plagued with unstable political regimes. They rely on the export of their natural resources to sustain their economies, which makes them vulnerable to economic uncertainties such as oil-price shocks. This can adversely affect Indian interests. India imports 70% of its oil and depends heavily upon Nigeria (11%). Hence, though India has been building up its energy ties with African countries, it carries the risk of relying upon politically unstable and economically vulnerable regimes that may undermine its interests in the long term.
**STRATEGIC INTERESTS**

Sustaining Regional Influence in the Indian Ocean Region: Countering China’s on-shore economic strategy. With the Indian Ocean as its backyard, and 70% of its trade carried by sea, maintaining a strong position in the Indian Ocean is critical to India’s national interests. Old historical ties have given India a traditional long-standing influence in the region. It has a considerable naval presence in the region and has defence cooperation agreements with Madagascar, Mauritius, Mozambique, Seychelles, South Africa and Tanzania. Coupled with increasing its naval presence, China is engaging in a massive on-shore strategy to enhance its economic influence in the region. In February 2009, Chinese President Hu Jintao travelled to Mauritius and Seychelles. During the visit, he launched a five-point proposal, which underpinned a strategy that straddled government and business interests and was supplemented by a strong diplomatic thrust. This included the need to keep up the momentum of high-level diplomatic meetings between the two countries, continuous support by the Chinese government to Chinese companies investing in Mauritius, reinforcement of cooperation between the two countries during the international financial crisis, and deepening cultural ties. China offered a line of credit worth US $260 million with low interest for the purpose of expanding the island nation’s airport. It also pledged to speed up the construction of an Economic and Trade Zone (ETZ) in the north of the capital, which it intends to use as a base for all its construction and infrastructure projects in Southern Africa. The construction of the ETZ would generate 40,000 jobs, with an agreement to allow 50% of its own labour due to the absence of skilled labour in Mauritius.

But China’s coordinated engagement is favoured by the Mauritian government. As Vice-Prime Minister and Minister of Finance for Mauritius Ramakrishna Sithanen has observed, Mauritius prefers China’s ‘different’ approach, in contrast to India’s more fragmented style, which has less backing from the state.\(^{10}\)

India’s External Affairs Minister S. M. Krishna visited Mauritius in July 2010 and signed four memorandums of Understanding (MOUs), on defence, tsunami warning systems and building up cultural ties. In contrast with the Chinese approach, there was no concrete proposal based on a detailed plan for economic, cultural and diplomatic engagement with Mauritius in the long run.

Similarly, in Mozambique, China is strengthening its ties by changing its approach of engagement and employing more locals in Chinese companies. It has also exempted over 400 Mozambican agricultural and other products from export tariffs to China, thus helping the mainly agriculture-based economy. In an investment seminar in Shanghai in 2010, Chinese business interests were reported to have pledged up to $13 billion in investments for the next 10 years.\(^{11}\) If the target is met, China will become Mozambique’s largest economic partner. Despite India’s strong trade and investment ties with Mozambique, India seems to be lagging behind. Krishna’s visit was long overdue as none of his predecessors had visited the country. In 2010, India’s bilateral trade with Mozambique stood at around $221 million and China was not too far behind, at around $200 million (figure 6). China is clearly increasing its economic footprint in African Indian Ocean Rim countries at a rapid pace.

China’s growing presence in Mauritius reflects its ability to exert influence in a region which has long-standing ties with India, and where 68% of the population is of Indian origin. India still retains strong bilateral trade relations with Mauritius, at around $900 million, well ahead of China, which stands at $545 million (figure 5).

Figure 5: Mauritius’ Trade with Main Partners (2010)

<table>
<thead>
<tr>
<th>Rank</th>
<th>Partners</th>
<th>US $ (Mn)</th>
<th>%</th>
</tr>
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<tbody>
<tr>
<td>1</td>
<td>European Union</td>
<td>2,122.04</td>
<td>36%</td>
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<td>2</td>
<td>India</td>
<td>899.007</td>
<td>15.5%</td>
</tr>
<tr>
<td>3</td>
<td>China</td>
<td>543.469</td>
<td>9.4%</td>
</tr>
<tr>
<td>4</td>
<td>South Africa</td>
<td>447.113</td>
<td>7.7%</td>
</tr>
<tr>
<td>5</td>
<td>United States</td>
<td>284.903</td>
<td>4.9%</td>
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</tbody>
</table>


Figure 6: Mozambique’s Trade with Main Partners (2010)

<table>
<thead>
<tr>
<th>Rank</th>
<th>Partners</th>
<th>US $ (Mn)</th>
<th>%</th>
</tr>
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<tbody>
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<td>South Africa</td>
<td>1,616.48</td>
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<td>3</td>
<td>India</td>
<td>220.202</td>
<td>3.8%</td>
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<tr>
<td>4</td>
<td>China</td>
<td>198.998</td>
<td>3.5%</td>
</tr>
<tr>
<td>5</td>
<td>Japan</td>
<td>120.595</td>
<td>2.1%</td>
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POLICY RECOMMENDATIONS

India has a unique position in Africa. Its strength lies in its soft-power capabilities, historical ties and a vibrant private sector that is scouting for opportunities to grow in Africa. At present, though India is making significant strides in the continent, the lack of an articulate Africa policy has resulted in a fragmented and ad hoc approach, which prevents it from optimising its economic engagement the continent. India needs political will to step this up.

The state should drive a coherent multi-actor ‘Africa Policy’. This involves three critical steps. Firstly, it must identify key Indian stakeholders in Africa and assess how each stakeholder should engage with African countries on their own terms, but while keeping the goals of India’s economic diplomacy in mind. Broadly, Indian stakeholders can be divided into three categories: this includes the State, the private sector and the Indian diaspora in Africa. A forum should be formed within which key stakeholders can coordinate and augment a sustainable Africa policy.

Secondly, the Government of India needs to set some broad guidelines within which the private sector can act in Africa. Indian firms must be obligated to adhere to labour laws and environmental regulations. They must also pay attention to social issues in the region. For instance, the pharmaceutical sector should be more deeply involved with local health issues and work on eradication of diseases like malaria.

Thirdly, the Government should develop a policy on how to engage with People of Indian Origin (PIOs) in East Africa. According to Harry Broadman, ‘ethnic networks’ would enhance trade and investment ties by overshadowing the ‘imperfections and asymmetries of market information’, given the fact that PIOs have immense local knowledge. At the same time, India’s engagement with the Indian community in Africa should not be exclusive to an economic elite with political connections. Indian policy on PIOs has shifted away from complete neglect, but only to selective engagement. In South Africa, as Sanusha Naidu observes, many who belong to the Indian community do not have a political or economic affinity to India. India can use its strengths in education and healthcare to help advance this section of society as a means to strengthen ancestral ties and win their affinity.

Energy policy should be placed within the framework of sustainable development. India should position its energy policy in Africa within the broader arena of India-Africa relations. This means linking energy policy to trade and investment initiated by the private sector. Furthermore, the optimisation of energy ties should be based on a relationship of mutual dependence. India’s need for energy sources is matched by Africa’s own need for investment, technology and capacity building in order to extract resources. While infrastructure development is something India is already pursuing in countries like Nigeria, these efforts must be supplemented by transference of skill and technical knowhow to develop African oil companies themselves.

While India is prepared to share with Africa its knowledge and expertise in exploration, distribution, refining, storage and transportation, it needs effective planning and implementation. One way this can be pursued in the oil and gas sector is through Petroleum India International (PII), which was set up to provide technical, managerial and human resource development (HRD) services in the upstream as well as downstream sectors on a global basis. Dispatching consultants would enable development of local capacity and also assure India of the stability of the sector and thus its energy interests.

India must also help African countries to strengthen their governance frameworks in the energy sector. This could be achieved by working in close coordination with the New Partnership for Africa’s Development (NEPAD), under its ‘Economic and Corporate Governance Programme’. This will minimise the risks involved in engaging with energy-rich African countries that possess weak and unregulated governance structures. By applying its experience of developing energy governance in a complicated domestic environment, India can help African countries develop their own natural resource sectors and thus assist them in building stronger governance institutions. While India does provide concessional lines of credit to NEPAD programmes, it could play a more active role in assisting African countries to build their local capacity to help stronger and more sustainable energy ties.

Indian Policy should be cast within not only a bilateral but also a multilateral institutional framework. India must give as much emphasis to boosting its economic engagement with African Indian Ocean Rim countries as it does to building defence ties. At a bilateral level, India needs to enhance the number of diplomatic visits to these countries and develop a detailed strategy of how it aims to enhance its diplomatic, cultural and economic engagement with these countries.

India must work toward revitalising the relatively inactive Indian Ocean Rim Association for Regional Cooperation (IOR-ARC). The institution was launched in 1997 to strengthen trade and investment ties between 19 Indian Ocean rim countries. The disparate nature of its membership coupled with the lack of a strong vision has prevented any tangible results from taking shape. India should capitalise on China’s non-membership in the IOR-ARC and use it a platform to augment its economic and defence engagement with East Africa at a regional level.

Overall, India needs to envision an Africa policy for long-term engagement with the continent. This requires a comprehensive analysis of India’s strengths, weaknesses, opportunities and threats in African countries. With a similar range of interests, both India and China inevitably cross paths in Africa, and while China may have deeper pockets, India’s strengths lie in her own experiences of
economic development and democracy. With its emphasis on training, capacity building and locally-integrative business structures, India’s engagement seems more true to its rhetoric of South-South cooperation than that of China. By and large, unlike in the case of China, the international community, and the U.S in particular, largely welcomes India’s engagement with Africa. Nonetheless, China is enhancing its profile in the region rapidly. India needs to ensure that its engagement with African countries is aligned to their developmental needs and social concerns. This will legitimise India’s presence in the region in the eyes of the African people, which will pave the way for stronger long-term ties.

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