India aims to deepen economic ties with Africa

By Shotaro Kumagai
(kumagai.shotaro@jri.co.jp)
Senior Economist
Economics Department

Summary

1. India is increasingly asserting itself as the leader of emerging countries. This reflects India's growing dissatisfaction with the international order led by developed countries, and India is trying to increase its clout on global issues by deepening cooperation with other emerging countries. Among these other emerging countries, India is emphasizing its relations with Africa in particular, and is trying to deepen those relations by, for example, hosting international conferences, but whether it can gain the trust of other countries depends on whether it can deepen its economic ties in real terms, such as trade, investment, and aid.

2. Currently, India's economic relations with Africa are concentrated in specific countries and sectors, and India's presence in the continent is limited compared to China's. India's main exports to Africa are petroleum products, transport equipment, and pharmaceuticals, and its main export destinations are large economies such as Nigeria and South Africa. Its main imports, meanwhile, are mineral resources such as crude oil, coal, gold, and diamonds, with key suppliers being Nigeria, South Africa, and Angola, which are rich in these resources. Against the backdrop of economic growth in both India and Africa, trade is expected to expand over the medium to long term, though there has been no noticeable increase in direct investment or aid. As China revamps its foreign policy, the scale of its lending to Africa and the number of Chinese workers in the continent have declined sharply in recent years, and gap in terms of presence between India and China is narrowing as a result.

3. When considering the future outlook for the economic relationship between India and Africa, it is important to look at the economic growth and business environment in each of them. In Africa, population growth, urbanization, expansion of resource exports, and economic integration within the continent are the drivers of economic growth. However, it needs to be noted that African countries are at risk of economic downturn due to inflation, monetary tightening, and political instability. In addition, for India to tap into Africa's economic growth, it will need to raise its international competitiveness by improving its business environment, but with the Bharatiya Janata Party (BJP) led by Prime Minister Narendra Modi now lacking a majority in the Lok Sabha (lower house), it will not be easy to carry out bold institutional reforms that are controversial.

4. Amid growing interest in India-African business, Japan is trying to expand exports to Africa from Japanese companies in India and promote cooperation between Japanese and Indian companies in the African market. However, given the economic environment surrounding India and Africa, it will be necessary for Japan to support efforts to develop soft and hard infrastructure in India and to consolidate peace and stability in Africa before expanding exports from India and pursuing collaboration between Japanese and Indian companies.

Introduction

In India, a general election for the Lok Sabha (lower house), which is held once every five years, took place from April to June 2024. The results were a surprise, with the Bharatiya Janata Party (BJP) led by Prime Minister Narendra Modi losing a significant number of seats, but as most expected, the NDA (National Democratic Alliance), which is headed by the BJP, retained its majority, allowing the Modi government to embark on a third term(1).

The BJP aims to further strengthen India's presence in global economics and politics by 2047, the 100th anniversary of the country's independence. On the economic front, it is expected to overtake Germany and Japan in nominal GDP to become the world's third largest economy in the next few years, and the BJP has set a goal of making it the world's second largest economy and a developed country by 2047.

Politically, it is also asserting its aspiration to be a major power, and has its sights set on usurping China as the "leader of emerging countries." In 2023, India hosted the Voice of Global South Summit and, as chair of the G20, welcomed the African Union, a grouping of 55 countries located on the African continent, as a permanent member of the G20. Going forward, it is expected to continue to deepen its relations with other countries by hosting the Fourth India-Africa Forum Summit and participating in the G77+China meeting, which will be attended by representatives of numerous emerging countries.

There is no doubt that India will bolster its economic and political presence globally over the medium to long term. However, it is necessary to bear in mind that whether it can gain the trust of emerging economies as their leader will hinge on whether it can deepen its economic relations with other countries in real terms, such as trade, investment, and aid. Of particular importance in this regard is the relationship with Africa, where there is a concentration of low-income countries and which is attracting attention as a supplier of mineral resources to India and an export destination for Indian products. For this reason, the Indian government has repeatedly stated that its partnership with Africa is of paramount importance, and African countries have also expressed a positive attitude toward deepening economic relations with India, as doing so could bring various benefits to them(2). The future of economic relations between India and Africa will also affect the development of operations in India by Japanese companies that are considering expanding their business into Africa.

With the above issues in mind, in this paper I will explore the current state and future outlook of economic relations between India and Africa. Since 2023, the term "Global South" has become increasingly widely used by the Japanese media, but given that 1) the definitions of "Global South," "emerging countries," and "developing countries" remain ambiguous(3) and that 2) the Indian government is cautious about using the term "Global South"(4) as it wishes to fend off criticism that its frequent use unnecessarily incites confrontation between developed countries and emerging/developing countries or that it gives an unpleasant impression to some countries, in this paper I will use the term "emerging countries" for countries other than developed countries.

1. Reasons India aims to become the "leader of emerging countries" and is building relations with Africa

Here I will explain why India aims to become the "leader of emerging countries," and provide the reasons it is stepping up its involvement in Africa. To begin with, it can be pointed out that China is no longer representative of emerging countries, as its nominal GDP per capita has reached the $12,000 level. On the other hand, India's nominal GDP per capita is still low, as it is at the $2,000 level, and the country suffers from the same economic and social problems that most emerging countries do.

However, these factors do not sufficiently explain India's aspiration to become the leader of emerging countries. To understand India's intentions, it is necessary to grasp what specific practical benefits India can derive from establishing a position as the leader of emerging countries.

(1) Dissatisfaction with the international order led by developed countries

As a background factor to India's efforts to strengthen solidarity with emerging countries, it can be pointed out that dissatisfaction with the international order led by developed countries has grown among emerging countries worldwide. The specifics of this can be inferred from the readouts of international conferences attended by numerous emerging country representatives, such as the G77+China Summit held in Cuba in September 2023 and the Third South Summit held in Uganda in January 2024. Emerging countries have expressed strong concern about unilateral measures taken by developed countries that could adversely affect the short-term economic growth of emerging countries, such as 1) the introduction of unilateral measures to address climate change, 2) rising prices of food, energy, fertilizers, and other commodities due to economic sanctions against certain countries, and 3) protectionist trade and investment restrictions that violate WTO principles (Table 1).

In addition, despite the fact that gaps between developed and emerging countries have widened in various areas due to the worsening of the sovereign debt problem in emerging countries and the expansion of the global digital divide since the beginning of the COVID pandemic, the amount of ODA contributions by developed countries has remained below the target set by the United Nations (0.7% of GNI), and there is growing frustration that mechanisms for correcting disparities are not functioning sufficiently. Emerging countries are therefore calling for the scrapping of unilateral measures that could adversely affect them, and for developed countries to support the economic development of emerging countries even more ac-

Table 1 Concerns about and dissatisfaction with the international order among emerging countries

Concerns and dissatisfaction among emerging countries	Concrete examples of concerns and dissatisfaction shown on left	Requests for alleviating concerns and dissatisfaction
Unilateral measures by developed countries that adversely affect emerging countries	Unilateral measures under the banner of responding to climate change (example: introduction of carbon border taxes)	Scrapping of measures that could adversely affect emerging countries
	Introduction of economic sanctions on specific countries and resultant increase in prices of food, energy, and fertilizers (example: economic sanctions on Russia and accompanying rise in resource prices)	
	Introduction of protectionist measures in violation of WTO rules	
Expansion of economic disparities between developed countries and emerging countries	Worsening of sovereign debt problem in emerging countries since the COVID pandemic	Cooperation from developed countries in restructuring or reducing external debt of emerging countries
	Widening of global digital divide and accompanying expansion of educational and technological disparities	Acceleration of technological transfer from developed countries to emerging countries and support for human resource development
	Acceleration in outflow of money and human resources from emerging countries to developed countries	
Inadequate essential support for reducing economic disparities between emerging countries and developed countries	$4 trillion gap in funding required for achieving SDGs	Increase of ODA contributions by developed countries
	Low ODA contributions by developed countries (short of target of 0.7% of GNI)	
	Lack of international financial structure for meeting the financing needs of emerging countries	Comprehensive reforms to international financial institutions

Source: Prepared by JRI based on The Group of 77, "Outcome Document adopted by the Third South Summit" tively than before, including through cooperation in the restructuring of sovereign debt, an increase in ODA, and the acceleration of technology transfer.

Like other emerging countries, India is clashing with developed countries on various fronts. Therefore, by building solidarity with emerging economies, India seems to be trying to pave the way for developed countries to seek to understand India's position and accept terms that are favorable for India. The following three points can be cited as the elements of the confrontation that India faces with developed countries:

The first is the response to climate change. While developed countries are strongly urging India, the world's third-largest CO_2 emitter, to take appropriate measures, India opposes the introduction of the carbon border tax in Europe(5), and has also been moving slowly in developing a domestic emissions trading market and introducing a carbon tax. India's declared position is that a significant expansion in financial assistance and technical cooperation from developed countries is essential for achieving decarbonization, and at international conferences, it has called on developed countries to step up support for emerging countries, with itself at front of mind.

The second is action for trade and investment liberalization. Developed countries are calling on India to reduce import tariffs and ease restrictions on foreign investment in the service sector, as they are keen for their companies to expand their operations in the Indian market, which offers great potential over the medium to long term. India, however, has maintained a cautious stance toward rapid economic liberalization, citing concerns about widening trade deficits and negative ramifications for domestic employment.

The third is economic relations with Russia. After Russia launched its military invasion of Ukraine, the G7 urged India to join them and others in imposing economic sanctions against Russia. However, India expanded imports of cheap crude oil and fertilizers from Russia in an effort to curb domestic inflation, causing friction with the G7(6). Controlling inflation is extremely important for emerging countries, including India, which have a nominal GDP per capita of around $2,000 and face challenges such as poverty and hunger. Consequently, India is trying to deflect criticism from developed countries over the expansion of its oil trade with Russia by emphasizing solidarity with emerging economies that have adopted a "neutral" position over the situation in Russia and Ukraine.

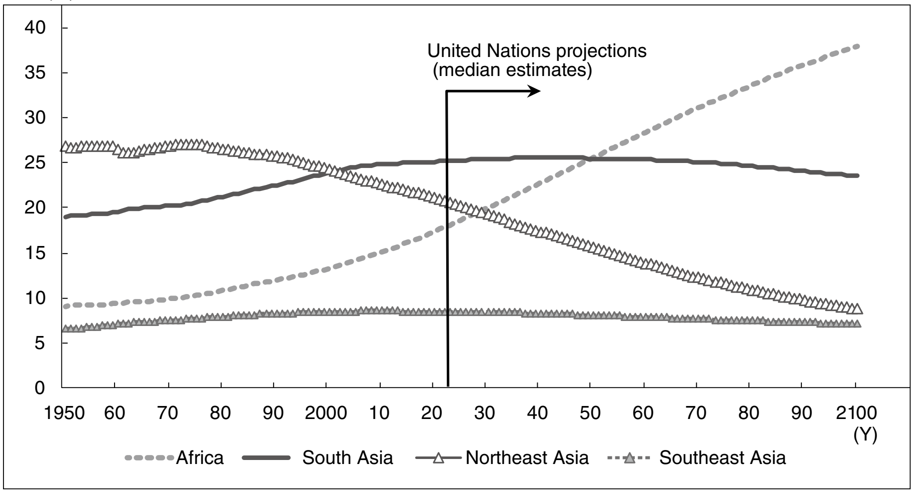
(2) Importance of Africa for India

Although India has not formed alliances with any specific countries/territories and pursues a multi-directional foreign policy to build good relations with other countries, in recent years it has placed particular emphasis on its relationship with Africa among emerging countries. This is evident from 1) Prime Minister Modi's repeated statements that his country's partnership with Africa is of paramount importance, 2) India's establishment of one embassy or consulate after another in African countries(7), and 3) India's leadership in the campaign to admit the African Union to the G20 as a permanent member. India attaches importance to Africa for the following three reasons:

The first is that Africa's presence in global economics and politics will increase in the future. Over the past few decades, the increasing importance of emerging countries in the world economy has been largely driven by the economic growth of Asian emerging countries, with Africa's share of global GDP remaining flat at around 3%. However, due to factors such as the slowdown in the Chinese economy, which had been the main engine, and rapidly declining birthrates and aging populations in ASEAN countries, the driving force provided by Asian emerging countries has been gradually weakening, and there is a growing possibility that the world economy will pivot to Africa, where there is still a lot of room for development.

Based on population projections from the United Nations, Africa's share of the world's population is expected to rise from just under 20% today to about 40% by the end of this century (Fig. 1),

Fig. 1 Share of world's population by region



Source: United Nations"World Population Prospects 2022"

and the continent's influence is likely to increase in various fields, including global issues such as the environment, food, and energy, where cooperation between developed and emerging countries is essential. Therefore, building good relations with populous African countries such as Nigeria, the Democratic Republic of the Congo, Ethiopia and Tanzania is important for India as a means of boosting its global economic and political clout.

The second is that Africa is important as a source of mineral resources. In addition to mineral fuels, the continent has an abundance of minerals that are vital for India as it strives to develop its transportation machinery and electronics industries, such as platinum and zirconium, which are used as catalysts for the purification of automobile exhaust gases, cobalt and manganese, which are used as materials for lithium-ion batteries for EVs (electric vehicles) and ICT equipment, and industrial diamonds, which are used in abrasives (Table 2). Consequently, deepening relations with the major producers of these mineral resources to help ensure stable supplies is crucial for the sustainable development of India's manufacturing industry.

For oil and gas, India currently relies mainly on imports from Middle Eastern countries and Russia, with Africa only accounting for a limited share of total imports. However, against the backdrop of 1) growing concern about excessive dependence on Russia as the proportion of crude oil imports from Russia has reached about 30%, and 2) heightened risk of destabilization of crude oil and gas supplies from the Middle East amid ongoing tensions over the Israel/Palestine issue, it is becoming increasingly important for India to secure suppliers that can replace imports from Russia and Middle Eastern countries. Therefore, deepening relations with African countries with abundant oil and gas resources, such as Nigeria and Angola, is essential for India to enhance the stability of its energy imports.

The third is Africa's potential as an export and investment destination. With population growth and rising income levels, demand in the continent for consumer goods related to food, clothing, and shelter, as well as durable goods such as automobiles and home appliances, is expected to continue to expand. The average nominal GDP per capita in Africa is still low at the $2,000 level, and the number of automobiles sold per capita is limited, but in the next decade or so it is projected to reach $3,000-4,000, which, based on what has occurred in other countries, is regarded as a benchmark for the acceleration of motorization. While India is ahead of Africa in terms of industrial clusters, India is confronted with challenges such as creating jobs and narrowing its trade deficit[(8)], and India's

Table 2 Africa's share of reserves and production of mineral resources (2023)

Resource	Example use	Africa's share of reserves (%)	Africa's share of production (%)	Main African production areas
Platinum	Catalysts for exhaust gas purification	90.4	77.0	South Africa, Zimbabwe
Cobalt	Batteries	59.1	75.7	Democratic Republic of the Congo, Madagascar
Tantalum	Seminconductors, optical lenses	N/A	67.1	Democratic Republic of the Congo, Rwanda
Manganese	Batteries, special steel	35.5	65.2	South Africa, Gabon
Industrial diamonds	Cutting tools, abrasives	39.7	55.6	Democratic Republic of the Congo, Botswana
Chromium	Special steel	35.7	43.9	South Africa
Titanium	Jet engines, power generation turbines	23.5	39.5	South Africa, Kenya, Mozambique
Zirconium	Catalysts for exhaust gas purification	16.6	39.4	South Africa, Mozambique, Senegal
Bauxite	Aluminum, abrasives	24.7	24.3	Guinea
Copper	Electric wires, electronic substrates	10.1	15.5	Democratic Republic of the Congo, Zambia
Gold	Jewelry, electronic devices	30.3	12.3	South Africa, Ghana

Source: Prepared by JRI based on USGS, "Mineral Commodity Summaries 2024"

economic and social stability will be affected by whether it can capture African demand through exports and direct investment.

2. Economic relations between India and Africa

India is trying to deepen its relations with African countries through bilateral high-level exchanges between government officials, by hosting international conferences, and so on, but to gain the trust of each country, it will need to deepen economic ties in real terms, such as trade, investment, and aid.

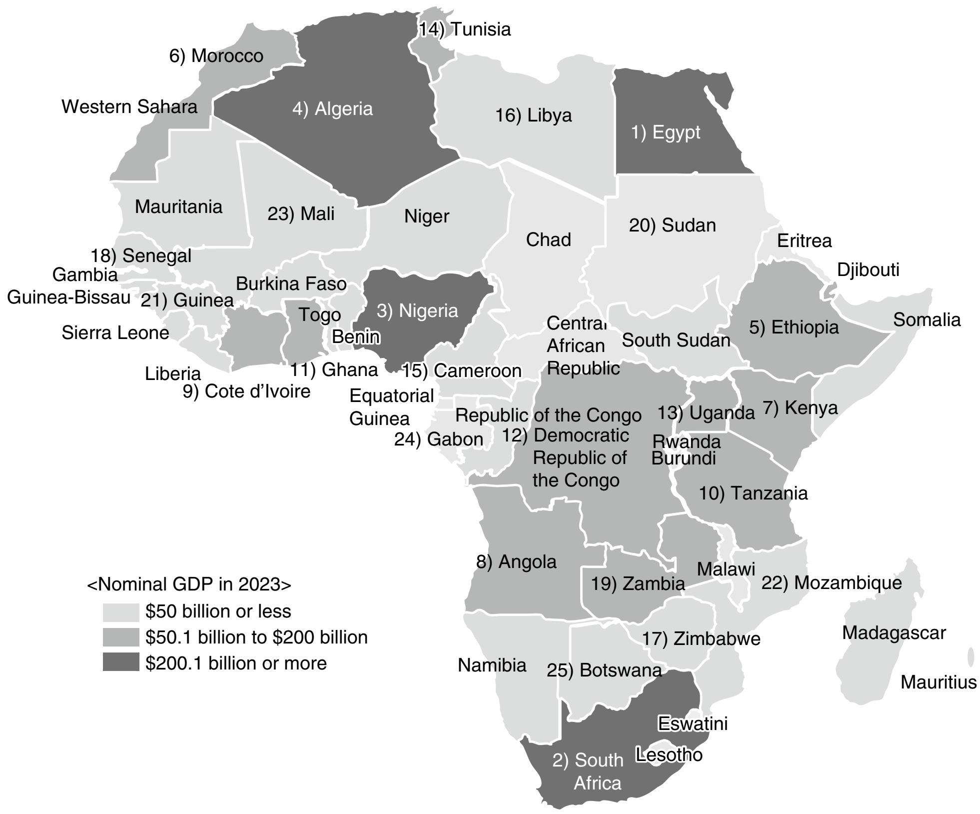
Below I will look back on the history of India-Africa relations, and describe the current nature of economic relations. Note that while the regional classification of "Africa" differs depending on the context and statistics, the analysis in this paper covers all the countries located on the African continent, as the goal is to grasp the relationship between India and Africa from as broad a perspective as possible (Fig. 2, Table 3 and 4).

(1) History of India-Africa relations

The relationship between India and Africa can be broadly divided into three periods: 1) the British colonial period, 2) the Cold War period after India's independence, and 3) the period after the end of the Cold War (Table 4).

First, an examination of the British colonial period reveals that many Indians migrated to African countries under British rule, such as South Africa, Mauritius, and Kenya, as "indentured servants," an arrangement forcing them to provide labor to their masters for a certain period of time, and they worked on plantations and in road and railway construction[9]. Since a large number of Indians remained in Africa even after their time as indentured servants ended, more than two million people of Indian descent still live in Africa, mainly in South Africa and Mauritius[10], and there exist official and informal networks of Indian businesses. Many of the enterprises founded by Indian immigrants and their descendants have become leading multinational companies in Africa, and Indian firms, alongside French ones, are viewed as candidates for business alliances in Africa. For example, Bidco Africa, a major food and daily consumer goods company operating in 17

Fig. 2 Map of Africa with nominal GDP of each country (2023)



Source: Prepared by JRI based on IMF, "World Economic Outlook 2024 April"

African countries, mainly in the eastern part of the continent, was founded by Kenyan of Indian descent Bhimji Depar Shah[11], while the Madhvani Group, a large Ugandan conglomerate that sells food and daily consumer goods, as well as operating in the manufacturing, IT, and hotel sectors in African countries, was started by Muljibhai Madhvani, who was born in Gujarat, India, and moved to Uganda as a teenager[12].

Since independence, India has supported independence and national movements in African countries and partnered them in participation in the Non-Aligned Movement, a group of nations that rejected alignment with either the U.S. or the Soviet Union. And after the 1962 India-China border war, during which the Democratic Republic of the Congo, Ethiopia, Libya, and Nigeria were the only African countries to support India's claims, India became conscious of the benefits of deepening engagement with Africa as a means of countering China.

Thus, the focus of cooperation between India and Africa until the Cold War was mainly political and ideological, but after the end of the Cold War, the focus shifted to regional cooperation for economic development[13]. An initiative that attracted attention in the 1990s was the establishment of the IOR-ARC (Indian Ocean Rim Association for Regional Cooperation), a broad regional alliance the main purpose of which was economic cooperation among countries bordering the Indian Ocean. In addition to India, the African states of Kenya, Madagascar, Mozambique, Mauritius, South Africa, Somalia, and Tanzania are members, and the association continues to engage in regular dialogue to promote cooperation among member countries in six priority areas: 1) maritime security, 2) promotion of trade and investment, 3) fish-

Table 3 GDP, nominal GDP per capita, and population of major African countries (2023)

Number in Fig. 2 (map)	Country name	Nominal GDP	Population	Nominal GDP per capita	Nominal GNI per capita	World Bank income classification	UN-designated LDC (least developed country)
		2023			2022	2024	2024
		USD billion	Million people	USD	USD		
①	Egypt	394	106	3,728	4,100	Lower-middle-income country	
②	South Africa	378	62	6,138	6,780	Upper-middle-income country	
③	Nigeria	375	222	1,688	2,160	Lower-middle-income country	
④	Algeria	245	46	5,324	3,920	Lower-middle-income country	
⑤	Ethiopia	160	106	1,511	1,020	Low-income country	LDC
⑥	Morocco	144	37	3,889	3,670	Lower-middle-income country	
⑦	Kenya	109	52	2,113	2,170	Lower-middle-income country	
⑧	Angola	94	37	2,566	1,880	Lower-middle-income country	LDC
⑨	Cote d’Ivoire	80	31	2,572	2,620	Lower-middle-income country	
⑩	Tanzania	79	63	1,254	1,200	Lower-middle-income country	LDC
⑪	Ghana	76	33	2,318	2,380	Lower-middle-income country	
⑫	Democratic Republic of the Congo	67	100	673	610	Low-income country	LDC
⑬	Uganda	52	45	1,139	930	Low-income country	LDC
⑭	Tunisia	51	12	4,192	3,830	Lower-middle-income country	
⑮	Cameroon	49	29	1,711	1,640	Lower-middle-income country	
⑯	Libya	45	7	6,576	7,260	Lower-middle-income country	
⑰	Zimbabwe	32	16	1,993	1,710	Lower-middle-income country	
⑱	Senegal	31	18	1,729	1,620	Lower-middle-income country	LDC
⑲	Zambia	28	21	1,381	1,240	Lower-middle-income country	LDC
⑳	Sudan	26	48	537	760	Low-income country	LDC
㉑	Guinea	23	15	1,529	1,190	Lower-middle-income country	
㉒	Mozambique	21	34	630	440	Low-income country	LDC
㉓	Mali	21	23	886	850	Low-income country	LDC
㉔	Gabon	21	2	9,290	7,530	Upper-middle-income country	
㉕	Botswana	20	3	7,642	7,430	Upper-middle-income country	

Notes: The numbers on the map are rankings for nominal GDP. LDCs (least developed countries) are designated by the United Nations (UN) based on three criteria: 1) GNI per capita, 2) HAI (Human Asset Index, indicator of level of human resource development), and 3) EVI (Economic Vulnerability Index, indicator of level of economic vulnerability). Some countries have graduated from low-income countries to lower-middle-income countries, but are still designated as LDCs. This is because whereas the World Bank revises its income classifications every year, the UN only revises its LDC list once every three years.

Source: Prepared by JRI based on IMF, “World Economic Outlook 2024 April,” World Bank, United Nations

Table 4 India-Africa relations

Period	India-Africa relations: Major events	
British colonial period	Many Indians migrated to African countries under British rule as "indentured servants," and worked on plantations and in road and railway construction	
From Indian independence until the 1980s	India supported independence and national movements in Africa	
		India supported independence movement in Kenya (Mau Mau rebellion)
		India condemned South Africa for its apartheid policy at international conferences
		India supported the campaign of the African National Congress, a South African political party opposed to apartheid, and the South West African People's Organization, a political party in Namibia that called for independence
	During the Cold War, belonged to the Non-Aligned Movement, rejecting alignment with either the U.S. or the Soviet Union	
		Summits of the Non-Aligned Movement (1st in 1961, 2nd in 1964)
	India started to move closer to Africa after the India-China border war (1962) to seek the support of the international community	
		Indira Gandhi traveled to African countries in 1963-1964
1990s and onwards	India and Africa began collaborating through various regional cooperation frameworks	
		In 1995, the Indian Ocean Rim Association for Regional Cooperation (IOR-ARC) was established *IOR-ARC was renamed IORA (Indian Ocean Rim Association) in 2013
		In 2002, India's Ministry of Commerce and Industry launched the Focus Africa Program, an initiative aimed at expanding trade and investment ties with Africa
		In 2003, IBSA (India-Brazil-South Africa) was established
		In 2003, India began providing low-interest loans to African countries through the India Development Initiative, the country's international cooperation framework for supporting infrastructure development in emerging countries
		In 2004, India launched the Pan African e-Network Project, building a network of universities and hospitals in India and Africa for telemedicine and distance learning
		India-Africa Forum Summit (1st in 2008, 2nd in 2013, 3rd in 2015)
		In 2017, India released a vision document for an "Asia-Africa Growth Corridor" in cooperation with Japan, with the aim of developing infrastructure in Africa

Source: Prepared by JRI

eries management, 4) disaster risk management, 5) academic, scientific and technological cooperation, and 6) tourism promotion and cultural exchange.

Furthermore, in the 2000s, India launched a series of varied and distinctive frameworks for African development. In 2002, it rolled out the Focus Africa Program, which aims to expand trade with and investment in Africa, and the following year, it established the Pan African e-Network Project to support telemedicine and distance learning in Africa. And since 2008, the India-Africa Forum Summit has been held three times. The number of countries participating in the summit has increased from 14 at the first round (2008) to 54 at the third (2015), and the event has seen discussions on comprehensive cooperation[14]. In 2017, meanwhile, a vision document for an "Asia-Africa Growth Corridor" was released in cooperation with Japan. The idea is to develop a major artery connecting the growth zones in Asia and Africa[15], and this initiative shows how regional cooperation is becoming geographically broader in scope.

And in recent years, India has increased its influence in real terms by supplying vaccines through COVAX, an international vaccine-sharing framework established in response to the COVID pandemic, and providing technologies used in its digital public infrastructure[16].

(2) Current nature of economic relations 1): Africa as seen from India

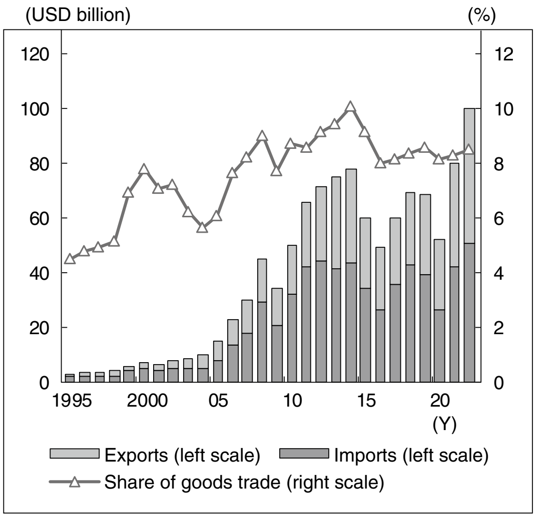
Although various initiatives have been launched to bring India and Africa closer together, economic relations between India and Africa are concentrated in specific areas.

First, with regard to trade, the value of goods trade between India and Africa increased from about $7 billion in 2000 to about $100 billion in 2022 (Fig. 3). The value of trade with each African country is roughly proportional to the size of its economy (Fig. 4), with major partners being Nigeria, South Africa, Egypt, and Tanzania.

Petroleum products are India's biggest export to Africa, making up about 40% of the total, and are followed by transportation machinery, grains, and medical products, each of which accounts for just under 10% (Fig. 5). While India is a country dependent on crude oil imports, it also has a thriving oil refining industry turning out products for export. It sells petroleum products to African countries with large economies and energy demands(17), such as South Africa, which lacks crude oil resources, and Nigeria, which does not have oil refining capacity(18). As for transportation machinery, South Africa, which has a nominal GDP per capita in the $6,000 range, a relatively high level among African countries, and Nigeria, which has a population of more than 200 million, are the main export destinations. Regarding grains, countries with populations of around 10-20 million, such as Benin, Senegal, and Togo, are major export destinations, but exports have been declining recently following India's introduction of rice export restrictions in 2023 to stabilize its domestic food supply(19).

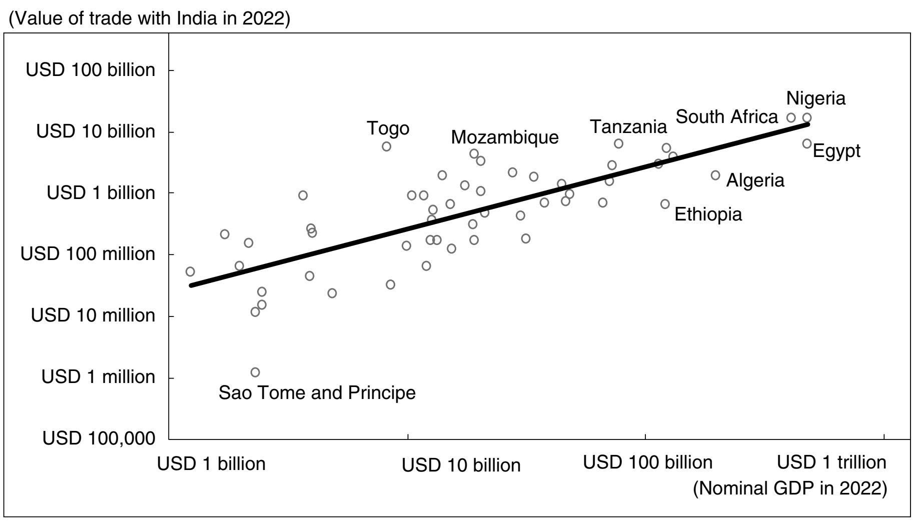
Turning to imports, mineral fuels are the top item, just as in exports (Fig. 6). The bulk of them are crude oil imports from countries such as Nigeria, Angola, the Democratic Republic of the Congo, and Mozambique. There are also coal imports from South Africa(20). As for precious stones, which are the second biggest import after mineral

Fig. 3 India-Africa trade



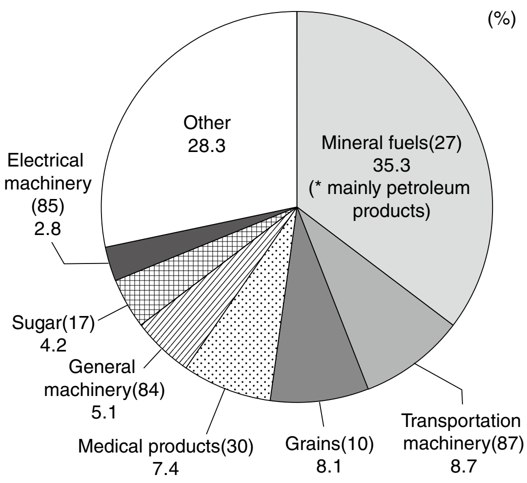
Source: Prepared by JRI based on data from UNCTAD Stat

Fig. 4 Nominal GDP and value of trade with India for each African country (2022)



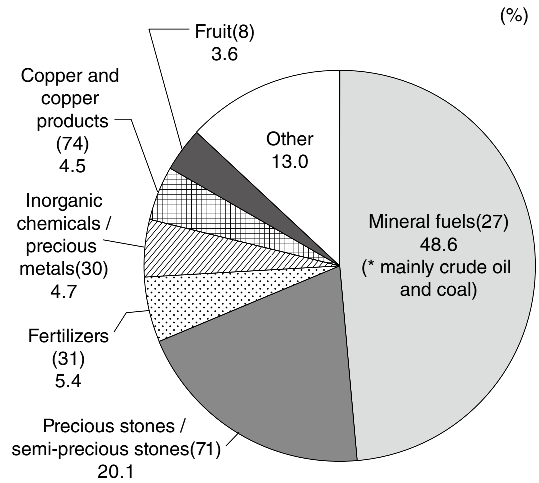
Source: Prepared by JRI based on data from UNCTAD Stat, IMF

Fig. 5 Share of Indian exports to Africa by item (2022)



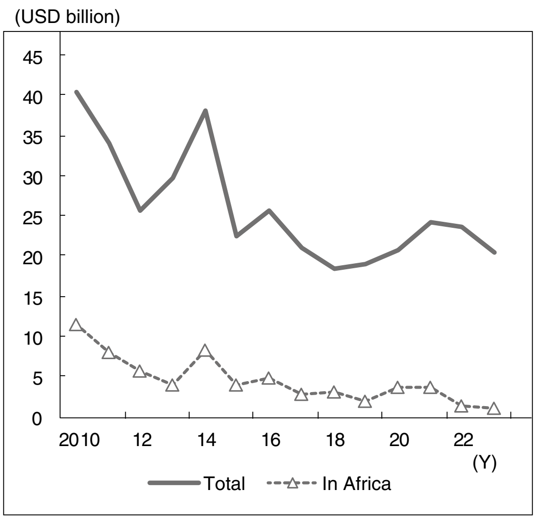
Notes: Numbers in parentheses are HS 2-digit codes.
Source: United Nations

Fig. 6 Share of Indian imports from Africa by item (2022)



Notes: Numbers in parentheses are HS 2-digit codes.
Source: United Nations

Fig. 7 Foreign direct investment from India



Source: Prepared by JRI based on data from the Reserve Bank of India

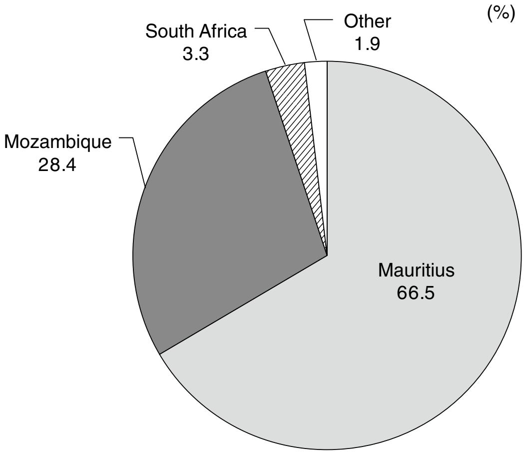
fuels, gold, diamonds, and platinum are imported from South Africa, Guinea, Ghana, and other countries. India then uses them to produce jewelry, which it exports all over the world.

Next, looking at India's direct investment in Africa[(21)], we find that there has been no significant change in direct investment in Africa even as trade in goods has expanded. In fact, the value of investment has actually declined recently (Fig. 7). A number of reasons for this can be pointed to, such as that 1) manufacturing companies prefer to develop their business through exports rather than direct investment due to the various challenges in the business environment in Africa, 2) investment in Mauritius for the purpose of tax avoidance has decreased due to the revision of the tax treaty between India and Mauritius in 2016-2017[(22)], and 3) since 2022 the environment for financing overseas investment has deteriorated against the backdrop of global monetary tightening. Regarding investment destinations, Mauritius still accounts for about 70% of India's investment in Africa even since the disappearance of some tax incentives (Fig. 8). Aside from Mauritius, the main investment destinations are resource-rich countries such as Mozambique and South Africa.

By company, the largest Indian investor in Africa in recent years has been ONGC Videsh, which is a subsidiary of state-owned oil and gas company ONGC[(23)] engaged in the exploration and development of oil and natural gas overseas (Fig. 9). In Africa, the company operates in Libya, South Sudan, and Mozambique, and in recent years has expanded its investment in natural gas development in Mozambique[(24)].

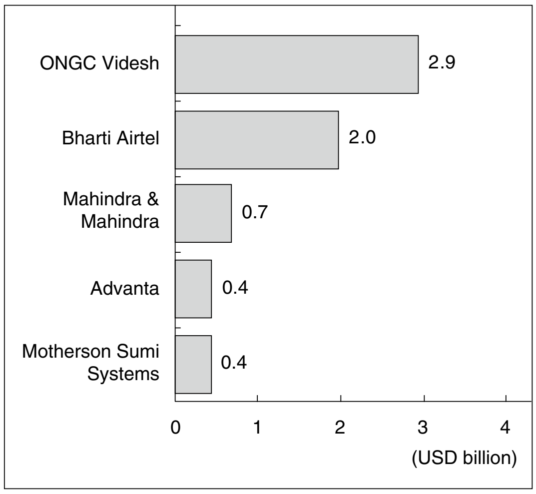
The next biggest investor is telecommunications giant Bharti Airtel. In 2010, the company

Fig. 8 Share of Indian foreign direct investment in Africa by country (2020-2023 total)



Source: Prepared by JRI based on data from the Reserve Bank of India

Fig. 9 Indian foreign direct investment in Africa by company (2020-2023 total)



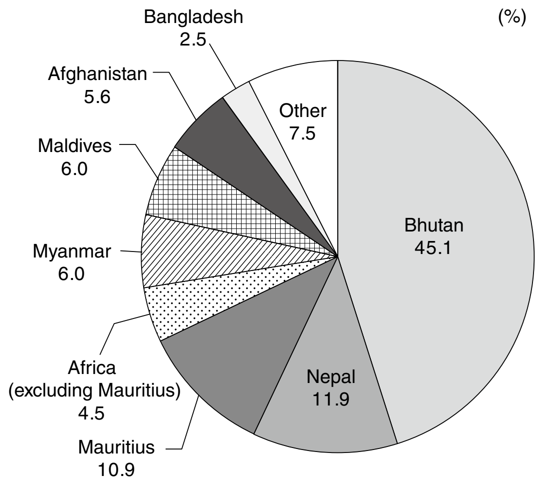
Source: Prepared by JRI based on data from the Reserve Bank of India

established a subsidiary to handle its African business, which it rapidly expanded by acquiring operations in 15 African countries from Zain, a mobile phone operator from Kuwait. Recently, the firm has been ramping up its investment to grow its mobile money business.

Next on the list are Mahindra & Mahindra, a core company of Indian conglomerate Mahindra Group that manufactures automobiles in South Africa, Advanta, a major seed provider, and Motherson Sumi Systems, an automotive parts manufacturer established as a joint venture between Sumitomo Wiring Systems and a local firm in India. Besides these, other moves that have attracted attention are the exploration of gold veins in Tanzania and the acquisition of a lithium mining area in Mozambique by Deccan Gold Mines, which is engaged in the development of gold mines(25), and the operation of a Tanzanian port by conglomerate Adani Group.

Finally, with regard to foreign aid, India concentrates its aid on countries that are important for its security, such as Bhutan, Nepal and Myanmar, which border both India and China, and Afghanistan, which lies to the west of Pakistan. India's investment in Africa excluding Mauritius accounts for only 5% of the total (Fig. 10). In addition to

Fig. 10 Share of India's foreign aid by country (FY2016- FY2024 total)

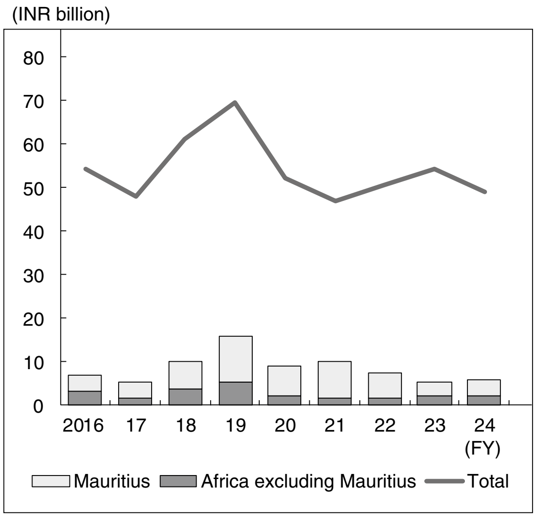


Notes: Planned amounts for FY2024
Source: Prepared by JRI based on data from the Ministry of Finance

the importance of addressing economic and social issues within India, such as unemployment and the resulting poverty and hunger, fiscal restructuring is also an urgent task for the country, and there has been no significant change in the foreign aid budget even as the scale of public finances expands in line with economic growth (Fig. 11).

Overall, while India has made clear its ambition to become the "leader of emerging countries," progress in economic relations between India and African countries has been limited to trade.

Fig. 11 India's foreign aid



Notes: Planned amounts for FY2024
Source: Prepared by JRI based on data from the Ministry of Finance

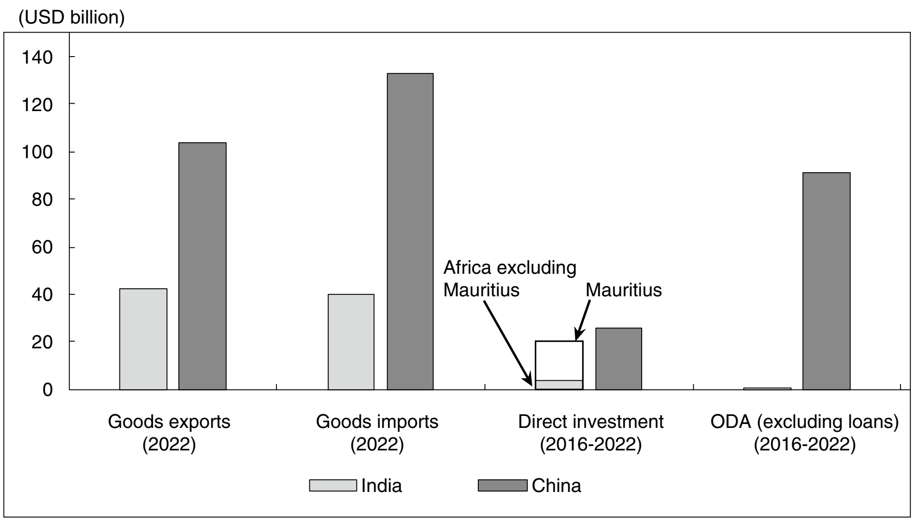
(3) Current nature of economic relations 2): Comparison of India and China in Africa

Next, I will compare the presence of India and China in Africa. To sum up in advance, India's ties with Africa are limited compared to China's in terms of trade, investment, and aid (Fig. 12).

With regard to trade, India-Africa trade has increased 15-fold in the past 20 years, but it still lags far behind trade between China and Africa. With the exception of Togo and Botswana, India's share of imports is lower than China's in every African country (Fig. 13). And by item, India only enjoys a relatively competitive position in the African market in pharmaceuticals, petroleum products, and grains (Fig. 14), and African countries import most other goods from China. Even in the case of pharmaceuticals, an area in which India is highly competitive, given that India is dependent on imports from China for 70-80% of the raw ingredients, it cannot necessarily be said that India has a stronger presence in the African market in this field than China does[26].

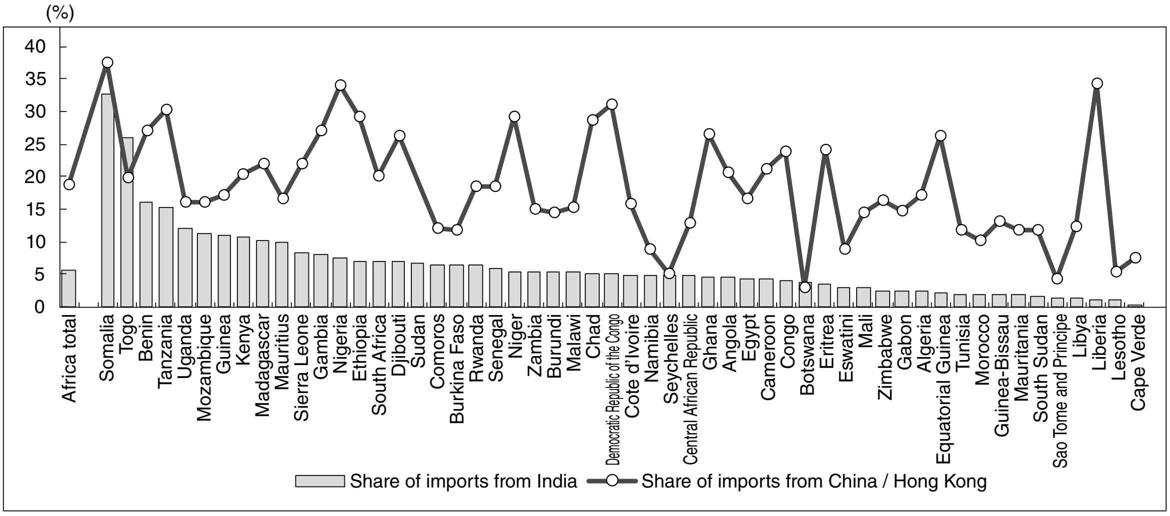
The proportion of imports from China is higher

Fig. 12 India's and China's economic relations with Africa compared



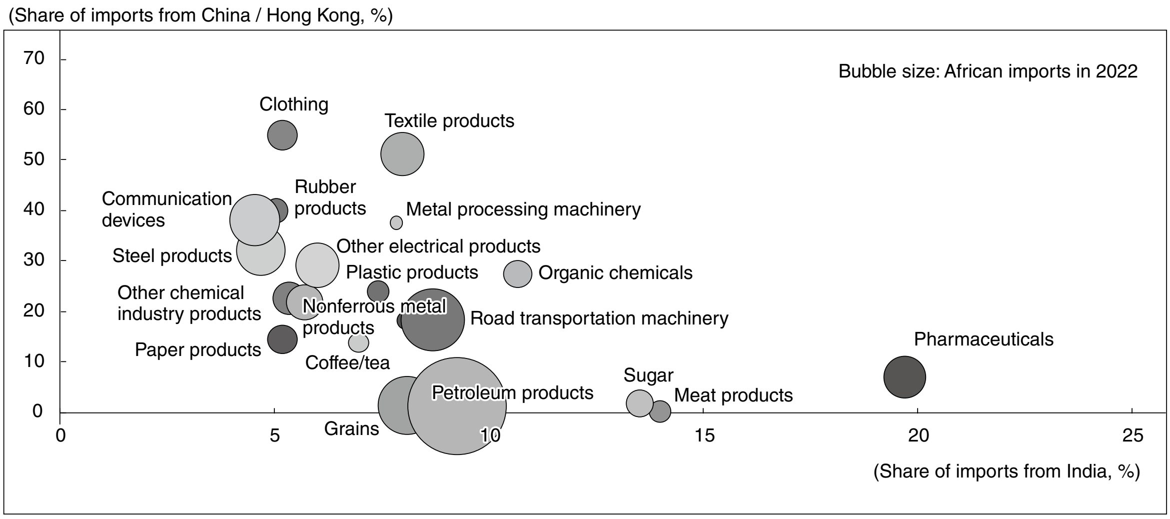
Notes: Indian ODA figures are for FY2016-FY2022. Figures for goods imports/exports are totals for Africa. Figures for China's ODA to Africa are estimates based on China's ODA share in 2013-2018.
Source: Prepared by JRI based on data from UNCTAD Stat, Ministry of External Affairs, Reserve Bank of India, China-Africa Research Initiative

Fig. 13 Share of goods imports from India and China / Hong Kong in African countries (2022)



Source: Prepared by JRI based on data from UNCTAD Stat

Fig. 14 Share of African imports from India and China by item (2022)

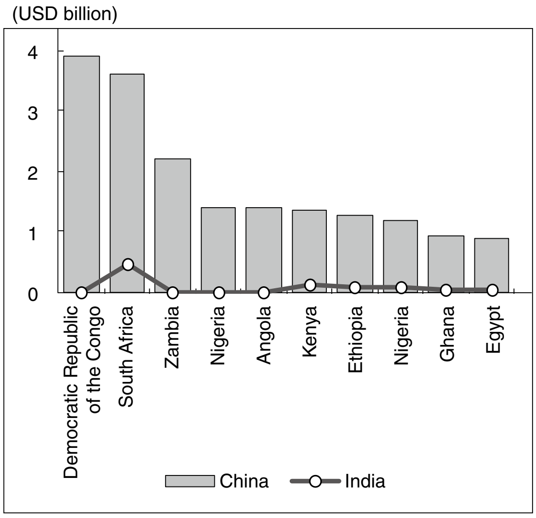


Notes: Plot of SITC 2-digit items accounting for more than 5% of African imports
Source: Prepared by JRI based on data from UNCTAD Stat

than that of India, not only for capital-intensive products such as communication devices and steel products, but also for labor-intensive manufacturing products such as clothing and paper products, which at first glance seem to be an area in which India is competitive. As a reason for this, it can be pointed out that whereas in China it is possible to reduce costs through mass production, it is difficult for India to boost its competitiveness by enlarging factories because plants over a certain size are subject to stringent restrictions on the dismissal of workers(27).

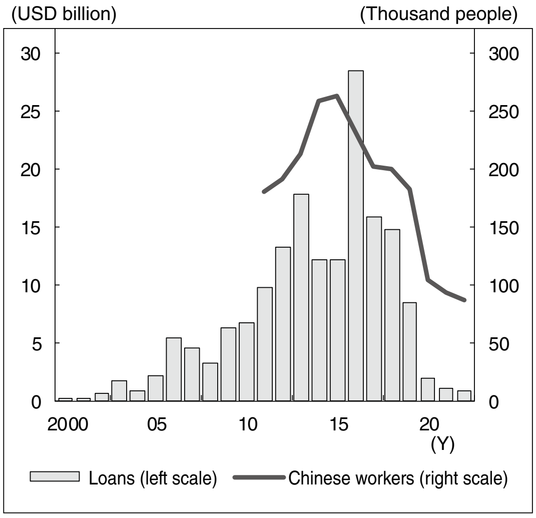
Looking at direct investment, there is no significant difference between India and China in total investment, but this is due to the fact that investment in Mauritius, a conduit for routing investments into India, is extremely large. If Mauritius is excluded, India's investment in Africa is about one-sixth of China's (Fig. 15), and Indian investment in China's major investment destinations, such as the Democratic Republic of the Congo, South Africa and Zambia, is negligible.

Fig. 15 Direct investment in Africa from India and China (2016-2022)



Source: Prepared by JRI based on data from the Reserve Bank of India and the China-Africa Research Initiative

Fig. 16 Chinese loans to Africa and number of Chinese workers in Africa



Source: Prepared by JRI based on data from China-Africa Research Initiative, Global Development Policy Center

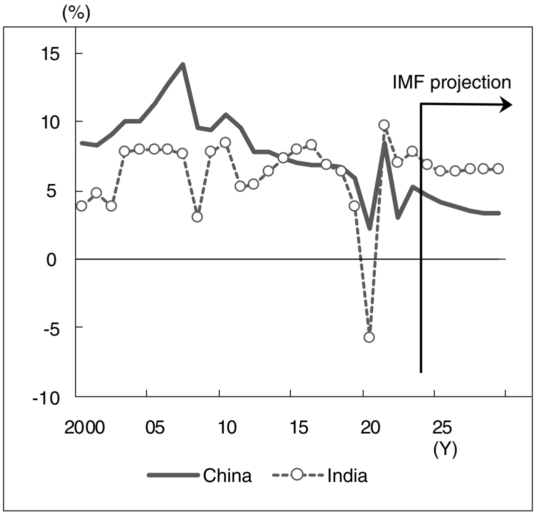
One reason India's investment in Africa is limited compared to China's is that India lags far behind China in the production of EVs (electric vehicles) and electronic devices, which are key sectors in driving investment in resource development in Africa. With EV sales reaching six million units in 2023[28], China is accelerating resource development in Africa to ensure a stable supply of minerals such as cobalt and lithium, whereas India, which still sold less than 100,000 EVs in the same year[29], has not yet begun full-scale moves to acquire resource interests overseas.

Thus, while at present there is a large gap in terms of presence between India and China in Africa, there is a growing possibility that the gap will narrow due to the following two changes surrounding China:

The first change is in China's foreign policy. Against the backdrop of 1) the worsening sovereign debt problem in emerging countries and 2) a decline in the foreign exchange reserves that fund China's external loans[30], China is rethinking its traditional foreign policy of emphasizing quantitative expansion[31]. As a result, lending for infrastructure development in Africa and the number of Chinese workers on the continent have fallen sharply in recent years (Fig. 16). For Angola, one of Africa's major oil-producing countries, China has been particularly active in providing external loans, such that Angola's external debt and the ratio of that debt to its nominal GNI surged from $26.8 billion and 35% in 2010 to $65.3 billion and 148% in 2020. This caused the country to fall into difficulties repaying principal and interest[32], so China drastically reduced its lending for infrastructure development in Angola, which led to the number of Chinese workers there dropping from about 50,000 in the 2010s to the 6,000 level recently.

The second change is the slowdown in China's economy. As China emerged as the "world's factory" through the first half of the 2010s, its growth continuously surpassed that of India (Fig. 17), and this rapid growth contributed to the surge in trade between China and Africa. However, with supply chain restructuring accelerating against the backdrop of the intensifying U.S.-China confrontation and rising labor costs, compounded by worsening problems in the real-estate sector as well as a more rapidly declining birthrate and aging population, China's economy increasingly appears to be losing steam. The IMF predicts that China's real

Fig. 17 India's and China's real GDP growth rates



Source: Prepared by JRI based on IMF, "World Economic Outlook 2024 April"

GDP growth will slow to the +3% level toward the end of the 2020s, while India, which is attracting attention as a manufacturing hub to replace China, will see its growth stay in the +6% range. As India and China swap places in terms of economic growth and the restructuring of manufacturing supply chains continues, the gap between India's and China's presence in Africa is expected to shrink in the future.

3. Factors that will determine the pace of expansion in economic relations between India and Africa in the future

Given the absence of expansion of direct investment and aid from India to Africa until now, while economic relations between the two are likely to continue to expand for the foreseeable future, the focus will be on trade rather than direct investment and aid. When looking ahead, economic growth and the business environment in India and Africa are the areas to which attention should be paid. India and Africa both have great growth potential, but at the same time, they face various economic deterioration risks and challenges in their business environments, and it is not a foregone conclusion that their economic relations will proceed in the direction of expansion.

(1) Factors on the African side

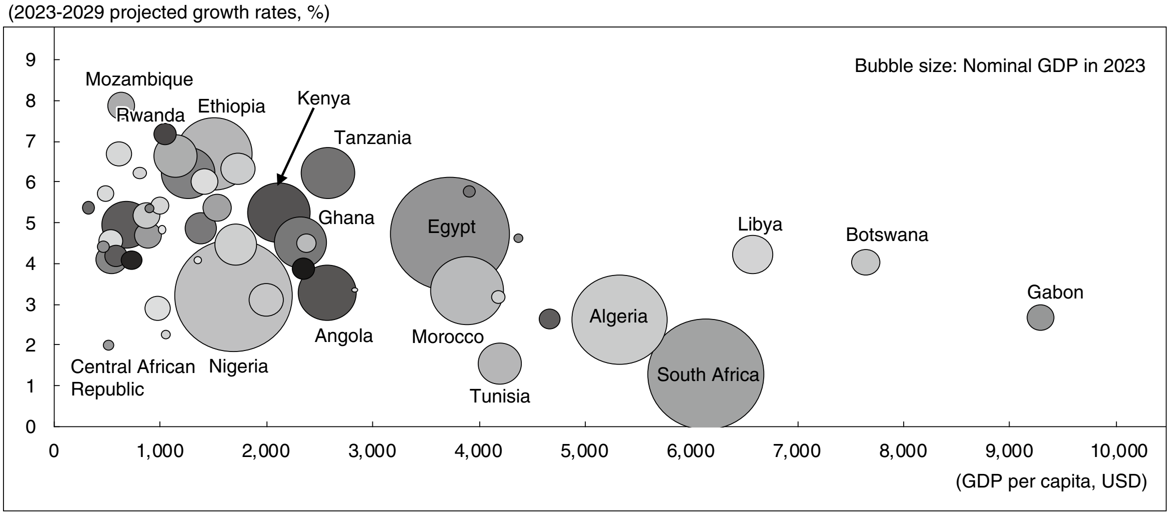
First, looking ahead to the future of Africa's economy(33), population growth, expansion of the middle class, urbanization, resource export growth, and economic integration within the continent will be the engines of medium- to long-term economic growth in each country. According to the IMF's latest economic outlook, three countries are expected to grow especially fast through the end of the 2020s: Mozambique, Rwanda, and Ethiopia (Fig. 18).

First, in the case of Mozambique, large-scale LNG (liquefied natural gas) production is planned in the northern part of the country, and the IMF predicts that the country's real GDP growth rate will reach the +10% level by 2027-2028, when LNG exports will begin.

Next, Rwanda, which continues to grow at a rapid clip thanks to political and social stability following ethnic reconciliation, and is often referred to as the "African miracle," is expected to keep growing at around +7% as the country develops as a hub for ICT-related industries. President Paul Kagame, who won a fourth term in the presidential election held in July 2024, allegedly taking 99% of the vote, aims to take the country into the upper-middle income bracket by 2035 and the high income bracket by 2050 by pursuing "Vision 2050," a national development strategy centered on human resource development, agricultural development, and urbanization(34).

As for Ethiopia, its economic growth is expected to hold steady at about +7%, driven by higher exports due to low labor costs and the concentration of labor-intensive manufacturing industries as a result of the development of industrial parks. According to the latest survey from JETRO, the monthly salary of general factory workers in

Fig. 18 Nominal GDP per capita (2023) and projected GDP growth rates in Africa (2023-2029, annualized)



Source: Prepared by JRI based on IMF, "World Economic Outlook 2024 April"

Ethiopia is $32, which is lower than in the Asian emerging countries attracting attention as alternative export bases to China for manufacturing labor-intensive products headed for the West, namely Cambodia ($246), Myanmar ($92), Vietnam ($250-311), India ($225-424), Bangladesh ($127), and Pakistan ($174). Ethiopia is therefore piquing the interest of numerous companies. In addition, there are signs of development in capital-intensive manufacturing, as evidenced by the opening of automobile assembly plants in Ethiopia by automakers around the world.

Besides those three, with global food prices rising, countries such as Kenya, Tanzania, and Ghana are also expected to continue to grow by +5-6%, driven by increased exports of agricultural products such as coffee, tea, and cacao.

Meanwhile, the IMF predicts that South Africa and Nigeria, which draw a lot of attention due to their large economies, will only be growing at an average pace of +1.2% and +3.2%, respectively, toward the end of the 2020s. Among the reasons for the low growth outlook for South Africa are 1) that severe power shortages have occurred in recent years due to aging power infrastructure, and it will take time to resolve the problem because of a lack of funds for maintenance and repairs, 2) that monetary policy is expected to remain fairly tight to respond to inflationary pressures caused by domestic supply chain disruptions resulting from the power shortages[35], and 3) that the possibility of political instability increasing in the future is becoming more real since the ruling African National Congress (ANC) failed by a wide margin to hold on to its majority in the National Assembly in the election held in May 2024, following a decline in the government's approval ratings against the backdrop of the recent economic slowdown.

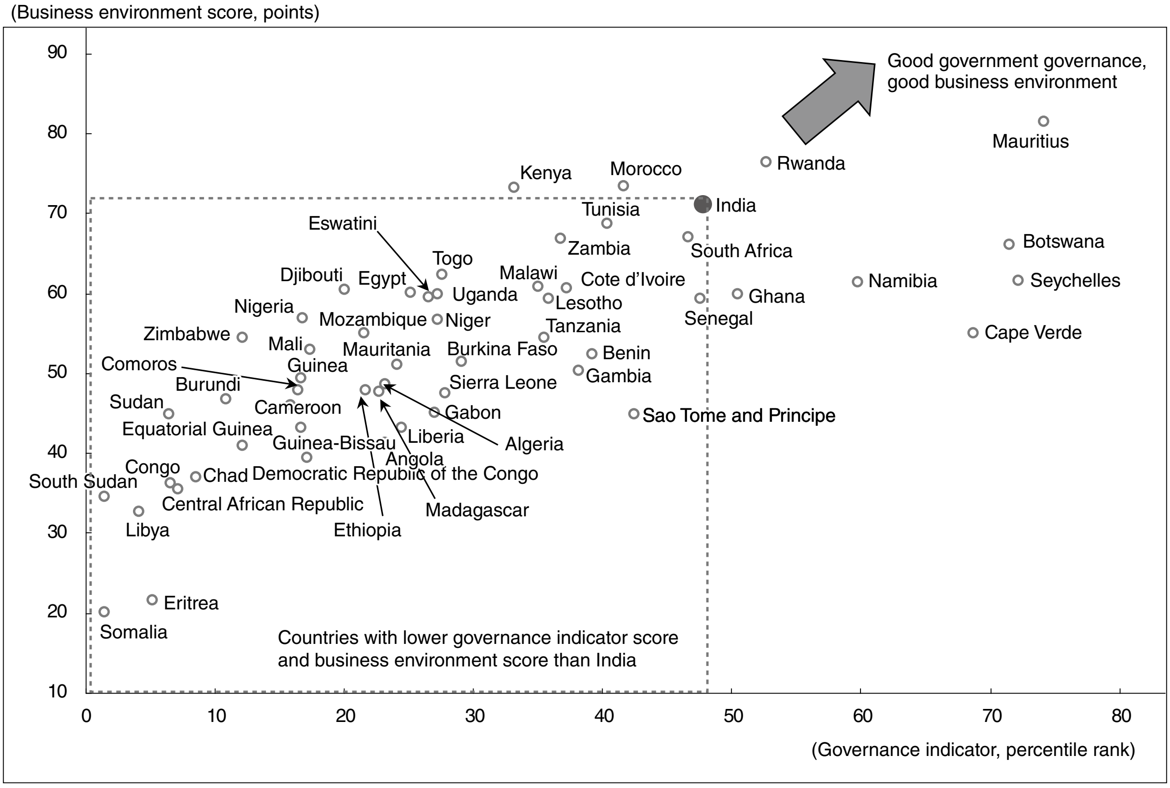
And the main factor behind the low growth outlook for Nigeria is that it is stuck in a vicious cycle of currency depreciation and inflation. Since June 2023, when the country moved to a system of "managed" floating exchange rates due to a lack of foreign exchange reserves, the country's currency, the naira, has fallen sharply, which led to inflation reaching 30% in the first half of 2024 and the policy rate being hiked to the mid-20% range to stabilize prices and the currency. Looking ahead, Nigeria's crude oil exports will remain sluggish against the backdrop of an OPEC-plus agreement to reduce production, while its economy will continue to be dependent on imports of petroleum products, even though it is an oil-producing country, due to a lack of oil refining capacity. In light of these factors, Nigeria will find it difficult to eliminate its current account deficit, and inflationary pressures stemming from currency depreciation are expected to continue to exert downward pressure on its economy.

Although there are large variations in the outlook for economic growth rates in each country, as they depend on the circumstances surrounding each country, it needs to be noted that given the following two points, Africa's overall economic growth rate may be slower than forecast by international organizations.

First, African countries are highly prone to the risk of political instability (Fig. 19). Even in the past few years, coups d'etat and intrastate conflicts have occurred in various parts of the continent due to such factors as the spread of anti-government demonstrations and ethnic clashes as a result of factors such as lackluster economic development and corruption (Table 5). In addition, the scaling back of peacekeeping contingents deployed to Africa by developed countries and international organizations in response to deteriorating public finances in many countries due to the COVID pandemic and heightened geopolitical risks in other geographies is also increasing the risk of destabilization in Africa. In 2022, France declared an end to its counterterrorism operations in Mali and neighboring countries, and the U.S. also decided to withdraw its troops from Niger in 2024. With capabilities to maintain border security declining, weapons, illicit drugs, refugees, and terrorism are now more likely to cross borders.

In addition, the increased activity in Africa of the Wagner Group, a Russian private military company that the U.S. has designated an international criminal organization, also elevates the risk of regional destabilization. There is a possibility that disinformation ops by Wagner aimed at in-

Fig. 19 Governance indicator (2022) and business environment ranking (2019) of India and African countries



Notes: Governance indicator refers to the average of the six worldwide governance indicators: 1) Voice and Accountability, 2) Political Stability and Absence of Violence/Terrorism, 3) Government Effectiveness, 4) Regulatory Quality, 5) Rule of Law, 6) Control of Corruption

Source: Prepared by JRI based on data from the World Bank

Table 5 Recent events in Africa such as coups d'etat, intrastate conflicts, and withdrawal of peacekeeping forces

	Time	Country	
Coups d'etat	August 2020	Mali	A coup d'etat occurred amid the spread of anti-government demonstrations due to economic policy failures and suspicion of parliamentary election fraud
	September 2021	Guinea	A coup d'etat occurred amid rising dissatisfaction among citizens due to economic policy failures, corruption, and changes to presidential re-election rules that could allow the current ruler to stay in power
	January 2022	Burkina Faso	After a coup d'etat in January 2022, a second one occurred in September of the same year to protest the interim government's failure to stop terrorism and restore security
	July 2023	Niger	A coup d'etat orchestrated by the president's bodyguards occurred amid rising dissatisfaction about government measures to maintain security
	August 2023	Gabon	A coup d'etat occurred after the presidential election when the incumbent declared he had won a third term
Intrastate conflicts	November 2020	Ethiopia	Clashes occurred between the government forces and the ethnic force TPLF (Tigray People's Liberation Front) (a peace agreement was reached in November 2022)
	April 2021	Chad	President Deby died at the hands of a rebel group during a visit to the north of the country
	Around May 2021	Nigeria	The leader of Islamic militant group Boko Haram died in a clash with hostile forces
	April 2023	Sudan	Clashes between government and paramilitary forces escalated into a civil war
Withdrawal of peacekeeping forces	February 2021	Somalia	It was announced that the African Union Mission to Somalia would be withdrawn by the end of the year
	November 2022	Mali	France declared the end of its counterterrorism operations in Mali and neighboring countries
	June 2023	Mali	The UN decided to suspend peacekeeping operations (PKOs)
	April 2024	Mozambique	The Southern African Development Community began withdrawing support forces from northern Mozambique
	May 2024	Niger	The U.S. announced the withdrawal of its troops stationed in Niger following a demand from the military junta

Source: Prepared by JRI based on information from various media organizations

citing anti-Western sentiment will lead to wider demonstrations calling for the elimination of developed countries' influence in various parts of the continent(36).

Continued political instability could reduce the ability of governments to govern, resulting in delays to essential efforts to improve the business environment, which in turn could stand in the way of the inward direct investment needed for economic growth in low-income countries. In addition, the risk of a further economic deterioration will increase if developed countries, concerned about the human rights violations associated with military coups and conflicts, freeze new ODA projects or suspend preferential tariffs(37).

Even countries that are currently expected to grow at around +7% per year are not immune to the risk of economic slowdowns triggered by political instability. In Ethiopia, clashes between government forces and those of an ethnic group broke out in November 2020, causing economic and social activity in the country to stall after damage to logistics and energy infrastructure, schools, and industrial parks. In addition, the suspension by the U.S. of preferential tariffs on Ethiopian exports due to human rights abuses during the conflict also led to a decline in exports of apparel products, the country's main export, to the United States. The two sides agreed to a ceasefire in November 2022, but the risk of a resurgence of conflicts has not been resolved, and the government also continues to battle militant groups in the central and southern regions.

In Mozambique, meanwhile, clashes between Islamist armed groups and government forces are a regular occurrence in the northern part of the country, where there are plans for large-scale LNG production(38), and a slowdown in the country's growth is inevitable if resource development grinds to a halt due to the deteriorating security situation.

And in Rwanda, which by African standards has a relatively favorable security and business environment, medium- to long-term risks to political and social stability include the growing influx of refugees from neighboring Burundi and the Democratic Republic of the Congo, where political instability continues, and mounting dissatisfaction with the increasingly authoritarian government[39].

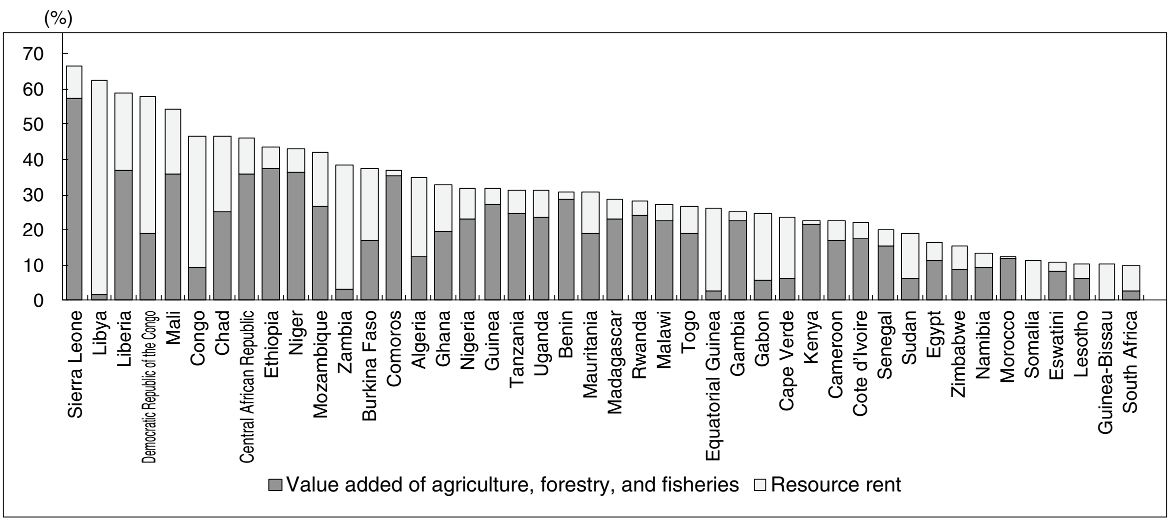
Second, Africa is highly dependent on agriculture, forestry, fisheries, and mining, which are susceptible to factors beyond the control of governments (Fig. 20). In many countries where high growth is expected, including Ethiopia, Tanzania, and Rwanda, the share of agriculture, forestry, and fisheries in GDP is as high as 20-30%, and the majority of workers are employed in these sectors. Given the frequent occurrence of floods and droughts in various parts of the world in recent years against the backdrop of abnormal weather events, there is a possibility that food inflation caused by crop failures could result in economic and social destabilization in such countries.

And in countries that are highly dependent on mining, such as Libya, the Democratic Republic of the Congo, Zambia, and Mozambique, attention needs to be paid to downside risks associated with falling international resource prices. For the time being, resource prices are expected to remain at high levels because of heightened global geopolitical risks, but there is more than a zero chance that resource prices will drop sharply due to 1) a receding of the huge tensions over the situations in Russia and Ukraine and in Israel and Palestine, 2) a rapid expansion of supply resulting from resource development in various parts of the world, and 3) a contraction in demand for resources in conjunction with the slowdown in the Chinese economy. A decline in commodity prices would exert downward pressure on the economies of the aforementioned African countries by cutting the value of their exports, as well as through such channels as lower inflows of direct investment for new resource development projects and reduced investment in the logistics infrastructure needed to export resources.

(2) Factors on the Indian side

Let us suppose that Africa achieves a certain level of economic growth despite the various uncertainties. Even if that happens, for India to reap

Fig. 20 Added value of agriculture, forestry, and fisheries and resource rent in African countries (proportion of nominal GDP, 2021)



Notes: Resource rent is the economic rent arising from environmental assets such as mineral resources
Source: Prepared by JRI based on data from the World Bank

rewards from African economic growth, it will need to resolve a number of domestic issues.

Although the business environment in India has improved significantly compared to the past, various challenges remain (Table 6), and these hinder the process of Indian companies raising their international competitiveness through inward direct investment.

In the manufacturing industry, the main issues include 1) strict and complex labor laws, 2) inadequate power infrastructure, 3) difficulty in expropriating land for the construction of factories and logistics infrastructure, and 4) protectionist policies.

In the area of labor, reforms have progressed to a certain extent, an example being the enactment of new, simplified labor legislation in 2020 that consolidated about 30 federal labor laws into four laws. However, even after the new legislation comes into effect, strict rules on dismissing workers will continue to be applied to factories over a certain size. Furthermore, progress with the establishment of state-level labor laws consistent with the new legislation has been slow, labor laws still differ from state to state, and in some states employers are obligated to hire people from within that state(40). Factors such as these will continue to be obstacles to flexibility in employment adjustment.

As for electric power, in the past 20 years the power transmission and distribution network has been improved, and the proportion of households with access to electricity is almost 100%, compared to about 60% in the 2000s. However, even in industrial parks in Gujarat, Karnataka, and Tamil Nadu, which boast some of the best power infrastructure in India, short outages (power outages for a short time) and instantaneous voltage drops (voltage drops for a short time) occur frequently. To nurture capital-intensive manufacturing industries such as semiconductors, it is essential to build a system for supplying "high-quality electric power," but given that 1) the proportion of power generated from renewable sources, which are prone to the effects of weather conditions, will increase in the future, and 2) the publicly owned distribution companies, which are responsible for the development of the power transmission and distribution network, are still operating in the red because they have kept electricity prices low, the conclusion must be that ensuring a stable supply of electricity will continue to be a challenge.

In the area of trade and investment policy, production in India has grown in certain sectors, such as smartphones and home appliances, due to the expansion of subsidies via such initiatives as PLI (Production Linked Incentive) schemes and the India Semiconductor Mission (ISM), as well as more stringent import controls, such as through the PMP (Phased Manufacturing Program), under which tariffs are gradually raised. However, due to India's tightening of import controls and its lack of an FTA with China, ASEAN is attracting more attention than India as a new production hub for assembly-type export manufacturing, whereby the raw materials are imported from China and the finished goods are exported to the West. In this way, protectionist policies are expected to continue to be a hindrance to inward direct investment.

The BJP has set out a policy of developing India into a global manufacturing hub through infrastructure development. However, given that 1) the BJP alone does not have a majority in the Lok Sabha (lower house)(41), 2) the upper and lower houses are still controlled by different parties, and 3) controversial reforms such as agrarian reform and land reform were derailed during the first and second Modi governments, it needs to be recognized that it will not be easy to carry out painful and fundamental institutional reforms, such as relaxing regulations on dismissal and increasing electricity charges.

Conclusion

Amid growing interest in India-African business, the Japanese government is attempting to strengthen support structures to expand exports to Africa from Japanese companies in India and promote cooperation between Japanese and Indian companies in the African market. In December 2019, the Japan External Trade Organization (JETRO) and the Confederation of Indian Industry (CII) launched the "Platform for Japan-India

Table 6 Issues with business environment in India

Issues in India	Key initiatives under the first and second Modi governments	Issues still remaining
Complex tax system	Tax reform through the introduction of the Goods and Services Tax (GST)	The tax system remains complicated due to 1) multiple standard GST rates, 2) additional taxes and tax breaks being applied separately from GST, and 3) frequent changes to transactions subject to the various tax rates
	Reduction of corporate tax rate (reduction of corporate tax rate to 22% for domestic companies and reduction of corporate tax rate to 15% for domestic corporations in newly established manufacturing industries that started production by April 2023)	Continued application of high corporate tax rate (40%) on foreign corporations
Complex and opaque legal system	Passage of new labor legislation that consolidates and simplifies approximately 30 federal labor laws (enacted in 2020, not yet in effect)	Even after the new legislation takes effect, factories over a certain size will continue to be subject to strict regulations on dismissal
		Slow establishment of state labor laws aligned with federal legislation (new legislation) and labor laws that differ from state to state
		Some states require a certain percentage of employees to have been hired in that state
	Passage of the Digital Personal Data Protection Act (enacted in 2023, not yet in effect)	Circumstances under which the transfer of data out of India will be restricted remain unclear
Inadequate power infrastructure	Improvement of power grids throughout India (proportion of households with access to electricity has increased from about 60% in the early 2000s to almost 100%)	Even in areas with some of the best power infrastructure in India, short outages and instantaneous voltage drops occur frequently
	Improvement of financial health of publicly owned distribution companies through the "UDAY" debt relief program	Electricity prices are being kept low, so publicly owned distribution companies remain in the red
Water resource constraints	Measures to clean up major rivers, such as the National Mission for Clean Ganga (Ganges river purification project), have been implemented in various places	The water pollution situation has not improved due to an increase in wastewater from factories and households
	Implementation of the Atal Bhujal Yojana groundwater management scheme, which provides multifaceted support for initiatives necessary for the management and proper use of groundwater	About one-quarter of pumping facilities are over-pumping or close to doing so
Serious air pollution	Application of "BS6" emission regulations to new vehicles sales (2020)	Due to the underdevelopment of a vehicle inspection system, old and heavy-polluting vehicles are still on the roads
	Expansion in use of renewable energy for shifting away from coal-fired power generation	About 70% of the electricity still comes from coal
Difficulty in expropriating land	In the mid-2010s, a presidential decree temporarily relaxed the criteria for land expropriation	High agreement rates and compensation amounts hinder land expropriation
	Implementation of the Digital India Land Records Modernization Program (DILRMP), an initiative for the digitization of land transaction records	Various problems stemming from inadequate management and updating of digital data remain
Protectionist trade and investment policies	Introduction of PMP (Phased Manufacturing Program) to gradually increase tariffs on imported smartphone parts	Absence of free trade constrains the development of export industries assembling products for the West
	Relaxation of regulations on foreign investment (increase in the upper limit for stakes in companies in the retail and insurance sectors)	The service sector, which includes general retailers that handle multiple brands, continues to face additional requirements such as foreign capital restrictions and local procurement requirements
Widespread tax evasion / rampant corruption	Measures against "black money" (abolition of high-denomination banknotes, prohibition of cash transactions above a certain amount, requirement to present tax numbers when purchasing jewelry, dissolution of inactive shell corporations, etc.)	Only a small percentage of the total population pays income tax, so the number of taxpaying individuals and businesses is still small
	Combat of tax evasion and corruption through digitalization of government and simplification of the tax system	Corruption persists in the area of non-digitized state-level permits

Notes: Even if a company is 100% foreign-owned, a corporation established under the Companies Act of India is a domestic corporation.
Source: Prepared by JRI

Business Cooperation in Asia-Africa Region," and the Japanese government also announced the "Initiative for Japan-India Industry Co-Creation" in July 2023 to promote the expansion of Japanese exporters into India with an eye on exporting to Africa. Against this backdrop, Suzuki, Daikin, Kubota, and others have been attracting attention as successful examples of exporting from India to Africa, but all of them are large companies that are highly competitive internationally and have established solid footholds in the Indian market(42). Due to the various challenges faced by both India and Africa, small and medium-sized enterprises (SMEs) that lack international competitive clout are still in the early stages of expanding their business into India and Africa. In light of this, it will be necessary for Japan to support efforts to develop soft and hard infrastructure in India and to consolidate peace and stability in Africa before expanding exports and pursuing collaboration between Japanese and Indian companies.

Japan is set to host the ninth Tokyo International Conference on African Development (TICAD) in August 2025, and India is also making arrangements to host the Fourth India-Africa Forum Summit. The hope is that these meetings will spur deeper cooperation that will further the development of good Japan-India-Africa relations.

End Notes

1. For the results of the Lok Sabha general election and the policy direction of the third Modi government, see Kumagai [2024].

2. See the African side's remarks at the meetings between Prime Minister Modi and the leaders of African countries.

3. The "Global South" is sometimes defined as the member countries of the "G77+China", but the G77 includes several high-income countries, such as Singapore, for which GDP per capita exceeds $80,000, and the UAE, for which it exceeds $50,000. The IMF classifies about 40 countries as "advanced economies" and the rest as "emerging market and developing economies" based on income levels, diversity of export items, and degree of integration into the global financial system, but there is no official definition to distinguish between emerging and developing countries, and it is common to refer to countries with relatively high growth as emerging countries and the others as developing countries. The World Bank classifies countries as "high-income," "upper-middle income," "lower-middle income," and "low-income" according to their income level, but it needs to be noted that "high-income" countries in the World Bank classification do not equate to "advanced economies" in the IMF classification (Saudi Arabia and the UAE are high-income countries in the World Bank classification, but classified as emerging market and developing economies by the IMF).

4. For information about the use of the term "Global South" in India, see Minato [2023][2024].

5. India is reportedly planning to file a complaint with the WTO against the EU over the carbon tax (Reuters, May 17, 2023, "India plans to challenge EU carbon tax at WTO").

6. For information about economic relations between India and Russia, see Kumagai [2023a].

7. In 2018, the Indian government decided to increase the number of diplomatic missions in Africa from 29 locations to 47 (Press Information Bureau, March 21, 2018, "Cabinet approves Opening of Missions in Africa to implement commitments of India-Africa Forum Summit (IAFSIII)").

8. In 2014, the government launched the "Make in India" campaign to develop the domestic manufacturing industry, and although some sectors, such as smartphones and air conditioners, are increasingly being produced at home instead of imported, the manufacturing industry is not developing at the pace hoped for by the government. Manufacturing's share of GDP has actually been gradually declining, and trade and current account deficits have continued.

9. For information about the relationship with Africa under colonial rule, see Kondo [2010]. Slavery was abolished in Britain in 1834, but freed slaves were forced to work for their former masters as indentured servants.

10. Figure based on the "PIO (Person of Indian Origin) Card" issued to people of Indian descent.

11. In the mid-2010s, he was ranked number one on Forbes' list of the richest people in Kenya, and remains one of the wealthiest.

12. For information about African companies started by people of Indian descent, see Japan External Trade Organization [2021].

13. For information about relations between India and Africa in recent years, see Kawano [2013].

14. See Ministry of External Affairs [2015].

15. The Asia-Africa Growth Corridor concept was put forward at the Japan-India Summit Meeting in 2016 and proposed by India when the African Development Bank's annual meeting was held in India in May 2017 (see ERIA [2017]).

16. India supplies MOSIP (Modular Open Source Identity Platform), a package for third countries comprising the technology used in India's domestic e-government infrastructure, to African countries (Zambia, Morocco, Uganda, etc.) and ASEAN countries (Cambodia and the Philippines) (for information about India's digital public infrastructure exports, see Iwasaki [2024]).

17. According to India's export statistics, Togo is the country's largest export destination for petroleum products in Africa. However, according to Togo's import statistics, the value of petroleum products imported from India is small, and there is a significant divergence from the statistics on the India side. Given Togo's burgeoning role as a West African logistics hub in recent years, it is possible that most of the petroleum products exported from India to Togo are re-exported from Togo to neighboring countries, and that the value of imported petroleum products that are then re-exported is not reflected in Togo's import and export statistics.

18. In Nigeria, a number of refineries were built in the 1970s and 1980s, but they are currently inactive due to lack of maintenance.

19. For information about India's rice export restrictions and their impact on Africa, see Kumagai [2023b].

20. India can produce coal domestically, but in 2022 it increased imports from other countries due to domestic inventory shortages.

21. For trends in India's direct investment in Africa in the 2010s, see Malancha [2017] and Vivekananda International Foundation [2022].

22. Prior to the revision of the tax treaty, capital gains on equity investments in India via Mauritius were not subject to taxation, but after the revision, the same tax rate as in India is imposed.

23. The official name is Oil and Natural Gas Corporation.

24. Mitsui E&P Mozambique Area 1, a joint venture between Mitsui & Co. and the Japan Organization for Metals and Energy Security (JOGMEC), has a 20% interest in Area 1 in Mozambique, in which ONGC Videsh holds a 10% interest.

25. Deccan Gold Mines acquired its interest through a subsidiary in the UAE and therefore may not be included in India's foreign direct investment statistics.

26. Financial Express, October 15, 2022, "70-80% of APIs are imported from China; We are working towards filling this gap. Dr. Sanjay Chaturvedi, CEO, IOL Chemicals and Pharmaceuticals"

27. Vietnam, Cambodia, and Bangladesh are attracting attention as relocation destinations from labor-intensive China to serve final demand in the West and other markets.

28. Battery EV sales volume only. If sales of plug-in hybrids were included, the figure was nine million units.

29. The Indian government announced that EV sales in 2023 had reached 1.5 million units, but the breakdown shows that the bulk of this was sales of two-wheelers and three-wheelers, and the shift to four-wheeled EVs is still at a very early stage.

30. Reasons for the decline in China's foreign exchange reserves in recent years include (1) a decrease in the value of assets held in euros and yen due to the appreciation of the dollar, and (2) foreign exchange intervention to respond to downward pressure on the yuan against the backdrop of capital outflows from China.

31. For information about China's foreign policy, see Sano and Matsumura [2023].

32. In May 2024, the Angolan government announced that it had secured an agreement with China concerning debt repayment (Financial Times, May 7, 2024, "Angola agrees deal with Chinese state bank to ease debt crunch").

33. For the discussion on the future of the African economy, in addition to the IMF's World Economic Outlook, I referred to African Development Bank [2024] and World Bank [2024].

34. See Republic of Rwanda [2020].

35. South Africa's policy rate, which was 3.25% in the second half of 2021, was raised to 8.25% through May 2023 and has remained unchanged since then.

36. For information about Wagner's activities in Africa, see Kobayashi [2023].

37. In Asia, Myanmar's economy has stagnated since the 2021 military coup due to the suspension of international aid and a significant decline in direct investment, and the same could happen in African countries.

38. Japan External Trade Organization, February 26, 2024, Business Brief "Expectations for resumption of natural gas development, but security situation still largely unchanged (Mozambique)"

39. President Kagame, who has been in office since 2000, may remain in office until 2034 thanks to a 2015 constitutional amendment.

40. For example, Gujarat has introduced guidelines that require at least 85% of its workforce to be Gujarati residents, and Andhra Pradesh has enacted a state law that requires at least 75% of factory workers in the state to be residents of the state.

41. For the BJP-led ruling coalition to maintain a majority in the Lok Sabha, it needs the cooperation of the TDP (Telugu Desam Party), Janata Dal (United), and Shiv Sena. While there are no significant differences in economic policy direction among the parties within the ruling coalition, their stances on social policy differ, which may make economic reform difficult.

42. For information on exports to Africa from Japanese companies in India, see JETRO/CII [2020].

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