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Japan's Shifting Geopolitical and Geo-economic relations in Africa
A view from Japan Inc.

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Introduction

Japan has been grappling with defining its Africa strategy. Historically, Japanese engagement with Africa has emphasised aid and development rather than focused pragmatic commercial interest. Japan's engagement in Africa is seen as benign due in large part to its non-involvement in the continent's colonial history. However, Japan's engagement of Africa is undergoing a shift due in large part by the increased prominence of the African continent and rising competition from emerging actors who this century are rapidly accumulating both geopolitical and geo-economic capital on the continent.

Tokyo's foreign policy toward Africa is now underpinned by three main thrusts: Countering emerging actors in Africa, predominantly China which has been a "game changer" in Africa since the turn of the century; Building geopolitical stature and influence in Africa with a potential view toward gaining a permanent seat on the United Nations Security Council (UNSC); and the strategic need for securing resource assets with special emphasis on energy resources and key metals for its industrial economy.[1]

Since 2000, Japan's strategy toward Africa has begun to shift. Whereas previously the relationship was characterised by a donor-recipient model to a more commercially-orientated approach, encouraging development through private investment, and incorporating a greater focus on business aligned to the interests of Japan Inc. But as Africa itself is rapidly changing, so too much the foreign policy and commercial strategy of Japan toward the continent. Arguably this policy change is belated but in Japan's case, perception has up until now driven policy. Policy must lead perception for substantive change in Japan's foreign policy vis-à-vis Africa to occur.

China as a "Game-Changer" in Africa

Japan, along with other traditional actors in Africa such as the United States and the European Union, particularly the United Kingdom, France and Germany, has had to re-energise its engagement strategy in Africa vis-à-vis the emergence of China.

China's invigorated foreign policy toward Africa, formulated in the 1990s, became evident after October 2000, with the country shifting away from ideological solidarity for Africa (in place since the 1950s) to a more modern and commercially-orientated engagement strategy. China's foreign policy began to become more confident in line with its growing economic prowess. Over the last decade-and-a-half, an increasing presence of both Beijing and Chinese companies has been visible on the continent.

China's engagement of Africa has been pervasively supported by a strategic 'state-capital' foray of leading state-owned companies investing and contracting in Africa. Almost all African countries have experienced the impact of Chinese capital and companies moving into their economies in a very rapid manner, barring the small minority of African states that do not have diplomatic relations with Beijing.

China's involvement on the continent and almost insatiable demand for resource commodities is serving as a major driver for Africa's rapid growth in recent years. In the first half of 2009, the low point of global markets during the global financial crisis, investment from China had increased an impressive 81% accounting for US$523 million when compared to the same period the previous year.[2] China's foreign direct investment into Africa continues unabated.

Africa has become a key cog in China's international commercial expansion and its 'going out' strategy, led by its SOEs. Assisting these firms with their overseas ventures is the Chinese state through preferential finance, tax concessions and political support. This government-corporate alignment of interests, also referred to 'state capitalism'– although at times overly simplistic in holistically characterising China's Africa engagement – has shaped China's Africa strategy.

The increasing importance of China as a commercial player in Africa is illustrated in Africa's trade relations with the country. China became Africa's single largest trading partner in 2009, displacing the United States. Over the period 2000-2008, the growth in Sino-Africa trade was about twice that of US and European trade with Africa and trade exceeded US$200bn in 2013, up from a lowly US$100m in 2000.[3]

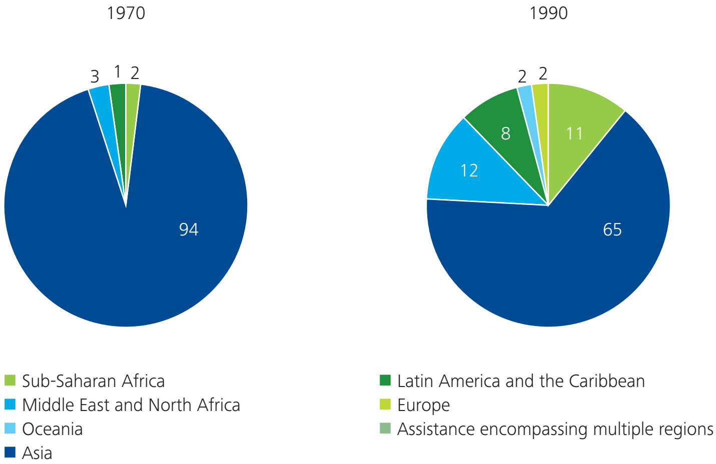
Japan's foreign policy vis-à-vis Africa has been largely reactive to these new geo-economic and geopolitical realities. As an OECD DAC donor, Japan arguably needs to move from its 'aid auto-pilot' engagement in Africa to one that is more commercially oriented – economically rather than politically driven. This shift has been further reinforced by China's strategic engagement of Africa in recent years.

Japan's evolving aid policy in Africa

The allocation of aid to African countries coincided with Japan's emergence on the world stage in the 1980s as a political, not just economic, player. Development aid became a way for the Japanese government to engage the international community whilst shaping its own international interests. Japan's official development assistance (ODA) first prioritised East Asian countries, given their importance to Japan's economy and national security. In the early 1990s, Japan became one of the largest donor countries by actual dollar-spend in the world[4] rendering aid to each and every African country.

Despite an overall reduction in the Japanese aid budget in the 2000s, Japan's official ODA to Africa increased over this period. In 1970, sub-Saharan Africa accounted for 2% of Japan's bilateral ODA whilst Asia accounted for 94%. By 2010, sub-Saharan Africa received 12% of Japan's bilateral ODA and only 52% went to Asia, reflecting the economic success of the Asia region and the relative developmental lag of Africa.

Figure 1: Japan's bilateral ODA (%), 1970, 1990 & 2010



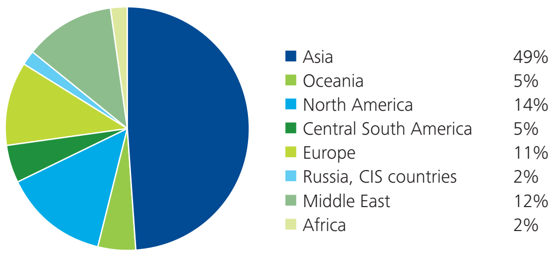
Source: Ministry of Foreign Affairs of Japan, 2014d

Due to its membership of the G7 and OECD-DAC, Japan is regarded as a so-called "traditional" donor country. Grants now make up the largest proportion of Japan's ODA.[5] However, there is a noticeable change taking place in recent years with there being a closer alignment of aid and strategic Japanese business interests in the continent. Japanese policymakers are now increasingly seeking to utilise ODA as a means to both promote projects on the continent that Japanese companies are involved in. Whilst China has been a "game-changer" in Africa, to varying extents other countries are mimicking its mercantilist approach toward Africa, notably Brazil, Russia and Turkey. Japan's foreign policy is thus becoming more commercially aware with aid spend being made in consideration of emerging economic realities.

Trade relations between Japan and Africa

Although bilateral merchandise trade between Japan and Africa increased from US$11.95 billion in 1995 to US$30.49 billion in 2013,[6] Africa accounted for only 1.97% of Japan's global trade. China's bilateral trade with Africa in the same year was seven times greater at US$210.03 billion.[7] Between 1995 and 2013, Japan and Africa's bilateral merchandise trade grew at a compound annual growth rate of 5.3%. This illustrates the relative lack of importance of Africa in Japan's global foreign policy and commercial engagement over this period.

Figure 2: Share of Japan's trade by partner regions (%), 2013

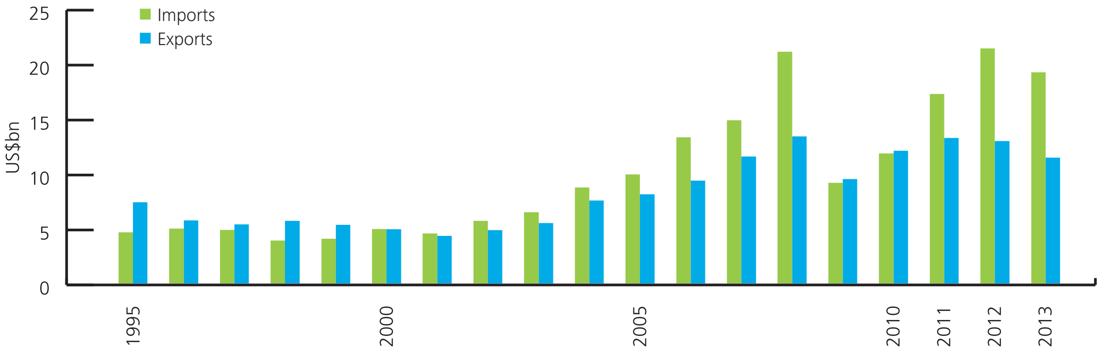


Source: Ministry of Finance Japan, 2015

Japan has run a mounting trade deficit with Africa in recent years, with imports almost twice as much as what it exports to the continent. Japan's top products sourced from Africa are raw materials whilst it exports mainly manufactured goods to the continent.

Japan's imports from Africa reached a record high of US$21.27 billion in 2012,[8] driven in large part by peak commodity prices. Although bilateral merchandise trade between Africa and Japan in 2009 almost halved as a result of the global financial crisis and the immediate decrease in commodity prices, trade did recover in 2011. Trade volumes between Japan and Africa have remained largely consistent but as commodity prices have a significant impact on trade values, representations of bilateral merchandise trade between Japan and Africa are skewed by fluctuations in these prices.

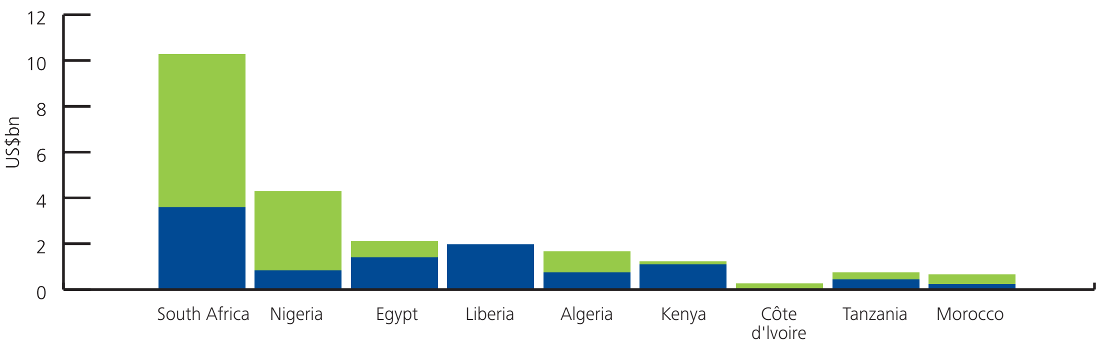
Figure 3: Japan's bilateral merchandise trade with Africa (US$bn), 1995-2013



Source: UNCTAD, 2015

South Africa is Japan's largest trading partner in Africa, reaching a bilateral trade peak in 2008 of US$13.61 billion,[9] almost 40% of Japan's trade with the continent at that time. This is due in part to Japan's strong presence in the South Africa automotive sector (through Toyota and Nissan) to which it exports components. In 2013, Japan's imports from South Africa amounted to US$6.78 billion. Its' largest imports by monetary value from South Africa are platinum group metals, iron ore & concentrates, motor vehicles, pig iron, aluminium and base metal ores.[10]

Figure 4: Japan's trading partners in Africa (US$bn), 2013



Source: Ministry of Finance Japan, 2015

Natural gas, crude oil and platinum group metals make up the majority of Japan's imports from the continent.[11] Crude oil comes primarily from Angola and Nigeria. Following the Fukushima nuclear accident in 2011 and resultant policy change, Japan's imports of crude oil and natural gas increased. This is reflected in the trade data. Coal, titanium and natural gas in the near future from Mozambique and metals such as copper, platinum, cobalt and palladium are imported from the Democratic Republic of Congo, South Africa, Uganda and Zambia. Japan's main exports to Africa include motor vehicles and parts, machinery and petroleum oils.[12]

Gaining geopolitical influence

United Nations Security Council

Underwriting Japan's foreign policy toward Africa has been its strategy to boost long-term diplomatic support to gain a permanent seat on the UN Security Council. In 2005 Japan allied with Brazil, Germany and India - creating the Group of Four (G-4) nations - to lobby for a permanent seat.[13] In order for any amendments to the UN Charter to be passed, it needs to be supported by a two-thirds majority of the General Assembly, or 128 countries. As a bloc, African states make up over 25% of the votes in the UN General Assembly and so are an important source of votes. The G-4 submitted a plan to expand the UNSC by adding six permanent members without veto powers (one seat for each of the G-4 countries and two for African countries).

In August 2005 90% of African states in the General Assembly voted to not accept any reforms of the UNSC that did not allow veto powers for all of the additional permanent seats,[14] forcing the G-4 nations to put their UNSC reform plans on hold. In September 2005 Ghana, Nigeria, Senegal and South Africa reintroduced the same resolution as the AU had. In January 2006 Tokyo announced that it had decided not to join the rest of the G-4 nations in their new bid for permanent seats as it did not want to interfere with the efforts by the AU and other African states to unite behind a single resolution.[15]

Japan's foreign policy toward sub-Saharan Africa prior to 2001 can be described as benign neglect. The first visit of an incumbent Japanese Prime Minister to Africa only occurred in 2001 when Prime Minister Yoshirō Mori visited South Africa, Kenya and Nigeria. Arguably, this was only in reaction to China's official launch of its own re-energised Africa policy that was set out at the Forum on China-Africa Cooperation (FOCAC) in October 2000. Following this, Tokyo began to show a greater interest in Africa.

The next visit took place in 2006 when Prime Minister Junichiro Koizumi travelled to Ethiopia and Ghana. The visit took place a week after Chinese President Hu Jintao visited Morocco, Nigeria and Kenya. Ethiopian Prime Minister Meles Zenawi assured Prime Minister Koizumi that Ethiopia would support Tokyo's bid to become a permanent member of the UNSC. Simultaneously, Japan would support the AU's campaign to obtain a permanent seat on the UNSC for two African countries. In addition, Japan pledged to double its ODA to Ethiopia by 2008.[16] In 2006, Ghana held one of Africa's two non-permanent seats on the UNSC and was a member of the alliance of Nigeria, Senegal and South Africa that was pushing for UNSC reform. Similarly to Ethiopia, Ghana agreed to support Japan's UNSC campaign as part of the G-4.

TICAD: in tune with Japanese corporate interests in sub-Saharan Africa

While the above-noted FOCAC summits hosted triennially by China have become important dates in African leaders' calendars, Japan in fact was the first Asian country to host an Africa forum, entitled the Tokyo International Conference for Africa's Development (TICAD) back in 1993. TICAD was conceptualised as a vehicle through which Japan's aid centric Africa strategy would be coordinated. The conference is held every five years in Japan, whilst follow-up meetings are held in African countries. Since 2010, TICAD operates in conjunction with the government of Japan, the UN Office of the Special Advisor on Africa, the World Bank, the United Nations Development Programme (UNDP) and the AU.

At TICAD IV in 2008, the relationship between Japan and Africa saw a noticeable shift with a greater focus on the promotion of trade and investment between Japan and Africa. The 2008 Yokohama Declaration stated *"the TICAD Process has also served as a bridge between Africa and Japan and Asia as a whole, and as a Forum through which the Asian development experience can be shared with Africa. It is clear that the pursuit of an even closer relationship, based on shared concerns and common strategic interests, is of critical importance in terms of further enhancing global development and stability."*[17]

More recently, representatives from 51 African countries attended the fifth TICAD conference in 2013 during which Japan pledged US$32 billion in both public and private support over the following five years. An amount of US$14 billion would be allocated to ODA and a further US$6.5 billion toward infrastructure development.[18] Although Japan has made reference to 'South-South' cooperation on numerous occasions, it differs from the 'South-South' cooperation dialogues espoused by China, India and Brazil. Japan does not classify itself as a developing country and therefore, within its 'South-South' framework, Japan sees its role as coordinating and financially supporting cooperation between Africa and the South-East Asia region as a whole.[19]

Japan's Commercial Footprint in Africa

As noted, Japan's previous engagement with Africa has been primarily concerned with ODA disbursement. A handful of Japanese firms have been active in Africa for many decades but these relationships were mostly apolitical, at least up until 2000,[20] after which time the Japanese government began to increasingly seek to align the country's economic interests to foreign policy. This link between Japan's national interest and the interest of Japanese corporates has become more apparent over the last decade.

Japanese ODA has become more aligned to the presence of Japanese corporates in Africa. The commercial expansion of Japanese firms into Africa is being supported to some degree by organisations such as the Japan External Trade Organisation (JETRO), the Japanese Business Council (JBC) and the Japanese Chamber of Commerce and Industry (JCCI).

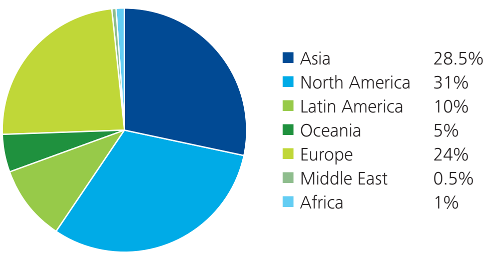
On the heels of TICAD IV in August-September 2008, three Joint Missions from Japan promoting trade and investment visited Africa. Each mission was composed of economic and political leaders, ministries and government-aligned organisations. The East Mission visited Ethiopia, Kenya, Tanzania and Uganda whilst the South Mission went to Botswana, Madagascar, Mozambique and South Africa. The final mission, the Central and Western Mission was directed to Ghana, Nigeria and Senegal.[21] It was the first time that a Joint Mission sent to Africa involved both the public and private sector.

The commitments pledged by the Japanese government to Africa at TICAD IV is indicative of Tokyo's response to the reinvigorated international competition in influence in Africa that emerged from 2000 between traditional and emerging actors – led by China - in Africa.

Japan's investments in Africa

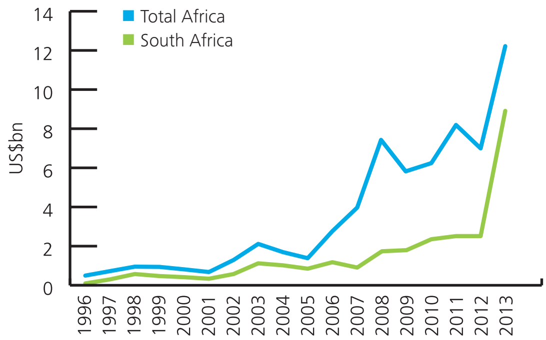
Although Japanese firms increasingly see Africa as an opportunity for potential economic gains, the continent still only accounts for 1% of Japan's FDI stock abroad, just ahead of Japan's outbound FDI stock in the Middle East at 0.5%.[22] Asia, North America and Europe make up the majority of Japan's outward FDI, combined equal to more than 80% of Japan's outward FDI stock in 2013.

Figure 5: Japan's outward FDI stock by region (%), 2013



Source: JETRO, 2014

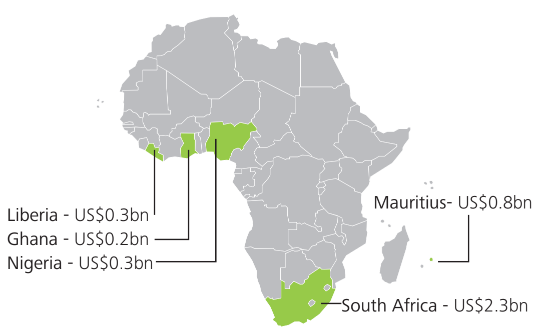
Figure 6: Evolution of Japan's outward FDI stock to Africa and South Africa (US$bn), 1996-2013



Source: JETRO, 2014

Prior to 2001, Japan's FDI stock in Africa was very low indeed, valued at less than US$1 billion. Since 2005 and especially since 2008, Japan's FDI stock in Africa has rapidly increased, reaching US$12.08 billion in 2013 with FDI surpassing ODA in 2007. Perhaps this is the key year to note that reflects this strategic shift in Japan's relations with Africa. The bulk of Japan's FDI stock in the continent is in South Africa which accounted for approximately 73% of Japan's cumulative investment in the continent by 2013.[23] After 2005, Japanese firms started to diversify their investments within Africa. Japan's FDI stock in Africa surged between 2012 and 2013 on account of large investments made in South Africa.[24]

Figure 7: Top 5 SSA recipients of Japan's cumulative FDI inflows and outflows (US$bn), 2001-2012



Source: UNCTAD, 2014

Japan's FDI in Africa has either been directed to countries with resources assets (Ghana, Nigeria and South Africa) or to countries where it is easy for Japanese companies to operate out of (for example, Mauritius and South Africa are the top ranked countries in Africa in the World Bank's Ease of Doing Business rankings[25]). FDI flows to Liberia are the result of one of Liberia's most important exports: so-called "flags of convenience" for shipping companies. The Liberian flag is the second most popular flag flown by international cargo ships globally. Liberia provides "flags of convenience" which allows ship owners to register their vessels in a sovereign state which is not their country of origin.

To both strengthen but also diversify Japan's investment presence in the continent, Prime Minister Shinzo Abe's visit in 2014 to Côte d'Ivoire, Ethiopia and Mozambique served as a relationship building exercise between Tokyo and Africa. Côte d'Ivoire was the first Francophone African state visited by a Japanese head of state. During his visit, Prime Minister Abe also met with ten leaders from the Economic Community of West African States (ECOWAS) with the aim of finding ways to encourage Japanese investment in the West African region which is very under represented by Japanese capital.[26]

Ethiopia, as the second most populous country on the continent, is a potential market for Japanese exported goods. It is also an important diplomatic partner to Japan. Abe promoted Japan's Kaizen project in Ethiopia through which Japan supports human resource development in the country through a supposed new management philosophy, an approach that is being rolled out by Japan across a number of other African countries.[27]

Lastly, Mozambique, with its recently discovered offshore natural gas reserves, is likely to become a significant supplier to Japan, the world's largest importer of liquefied natural gas (LNG), importing US$73.35 billion in 2013.[28] The Mozambique-Japan Investment Forum, attended by both Abe and former President Armando Guebuza of Mozambique was used as a platform to promote and facilitate further Japanese investment into the country.

A shift in Japan's natural resource security policy

Natural gas and base metals are very important inputs to Japan's economy and the state has begun investing in countries to ensure its natural resource security. Japan Oil, Gas and Metals National Corporation (JOGMEC), a state-run company, announced at TICAD V that it would provide Japanese firms with financial support of US$2 billion between 2013 and 2018 to support the development of natural resource projects.[29] Following the tsunami and the Fukushima Daiichi nuclear disaster in 2011, Japan progressively shut down its other nuclear reactors pending safety reviews and regulatory clearance. Japan's nuclear reactors provided about 30% of the country's electricity.[30] Since the shutdown, Japan has been forced to find alternative sources of energy, now importing approximately 84% of its energy requirements.[31] Natural gas has become an important source of energy, especially with regards to replacing lost nuclear capacity. Japan imports the majority of its natural gas from Qatar, Australia and Malaysia but is investigating ways to diversify its supply. The country has begun aligning itself more closely to Africa vis-à-vis the recent gas discoveries on the East coast, which has sparked interest in Mozambique's gas field.

By 2018, Mozambique is planning to build four LNG units with a total capacity of 20 million metric tonnes per annum, which will result in it being the second largest LNG exporter globally.[32]

In 2008 Mitsui & Co. acquired a 20% interest in the US$23 billion Rovuma Offshore Area 1 in Mozambique, one of the largest offshore gas fields globally. The project is expected to produce 10 million tonnes of LNG annually after 2018.[33] Anadarko, the American oil and gas exploration company is the majority shareholder and operator of the project holding a 26.5% stake. In 2014 Anadarko announced that it has signed a long-term supply agreement with Asian buyers for 66% of the capacity of its Mozambican project.

The Japanese government is also funding the construction of a US$174 million gas-fired power plant in Mozambique, announced during Abe's visit last year. The power station is expected to come online in 2018, adding 110MW to the national grid.

In September 2014, a few months after Abe's visit to West Africa, Mitsubishi Corporation agreed to acquire a 20% stake in Anadarko's offshore oilfield, Block CI-103 in Côte d'Ivoire. The project is estimated to cost US$7.46 billion. Crude production is anticipated to begin in 2019.[34] The final investment decision will only be made at the end of 2015 following approval from the Côte d'Ivoire government.

In December 2014 Mitsui announced that it had acquired a 15% stake - worth US$450 million - in Brazilian firm Vale's subsidiary that holds a 95% equity interest in the Moatize coal mine project in Mozambique, providing another US$188 million to fund expansion. Mitsui will also acquire a 50% stake - at a price of US$313 million - in Vale's infrastructure project linking the Tete coal fields to the Nacala port by railway, bringing Mitsui's total investment to US$1 billion.[35]

In December 2010 Nippon Steel and Sumitomo Metal Corporation acquired a 33.3% stake, at an estimated value of US$200 million, in the Revuboè coal mine in Mozambique which is expected to start coal production in 2016. The mine has estimated reserves of 1.4 billion tonnes and is expected to be producing 5 million tonnes of coking coal per annum by 2019.[39]

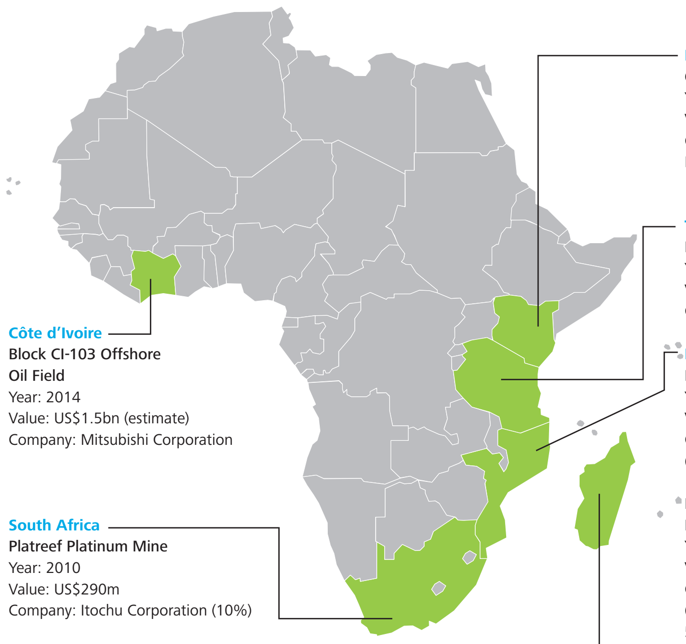
In 2010 Nippon Telegraph and Telephone Corp (NTT), of which a third is owned by the Japanese government, acquired 100% of South African technology services provider Dimension Data for US$3.2 billion. The acquisition was made in order to give NTT access to a number of emerging markets in Africa, Asia and the Middle East. The acquisition was funded partly through a loan by the Bank of Tokyo-Mitsubishi UFJ. The deal was the largest acquisition in sub-Saharan Africa by a Japanese company to date.[37]

Sumitomo Corporation has projects in an array of African countries. Whilst its regional head office is in Johannesburg, South Africa, the company has satellite offices in Nairobi, Dar es Salaam, Luanda, Antananarivo, Accra and Maputo. In 2005 Sumitomo Corporation entered into a joint-venture with Sherritt and Kores in the development of the Ambatovy Project, a large-tonnage nickel and cobalt mine in Madagascar. Sumitomo owns 27.5% of the project.[38] The project is estimated to have cost US$4.65 billion and was financed by the Bank of Tokyo-Mitsubishi UFJ, JBIC and Sumitomo Mitsui Banking Corporation.[39]

Procuring rare earth metals is vital for Japan's economy; these metals are indispensable to the high-technology industries that are evolving to be Japan's leading industries. A large percentage of Japan's rare earth metals are imported from China. Japan has accused China, on numerous occasions in recent years, of withholding important rare earth metals.[40] As the Chinese government moves toward restricting exports of strategic resources, due in part to increased local demand and environmental concerns, Japan has had to reconsider its resource security strategies. Metals assets in numerous African states provide a strategic alternative for Japan Inc. away from dependence on China.

As stated, platinum imports from South Africa have formed an important part of Japan-Africa trade. The Platreef Project in South Africa is 10% owned by a Japanese consortium led by Itochu Corporation. The consortium includes ITC Platinum, an affiliate of Itochu Corporation, JOGMEC and Japan Gas Corporation (JGC). The consortium's interest in the project was acquired in two investments, totalling US$290 million. The other 90% of the Platreef Project is 64% owned by Ivanhoe Mining and 26% by Ivanhoe's broad-based, black economic empowerment (B-BBEE) partners. With an estimated production of 12Mtpa, Platreef is set to become one of the world's largest platinum-group metal (PGM) mines. PGMs are an important component in the automobile manufacturing sector. Mining is expected to start in 2017.[41]

Figure 8: Select recent Japanese investment projects in Africa



Source: Frontier Advisory analysis, 2015

Japanese corporates' view on opportunities in sub-Saharan Africa

The strategic view and mode of engagement of Japanese firms in Africa has shifted especially over the past decade and a half. According to JETRO, during the latter half of the 20th century, Japanese companies doing business in Africa were dependent on three pillars: the automotive industry, ODA-related businesses, and the development and running of plants and factories. Over recent years, this has shifted to four pillars: the automotive industry, the development of natural resource projects towards promoting resource security, the development of infrastructure, and supplying the growing and emerging consumer market of African economies. By 2014, there were 410 Japanese companies operating in Africa and 268 in SSA.[42]

Executives at a select number of large Japanese firms that are active on the continent and with a presence in South Africa were interviewed for this paper in early 2015 to gauge insights into their strategic view on opportunities for Japanese business in SSA.

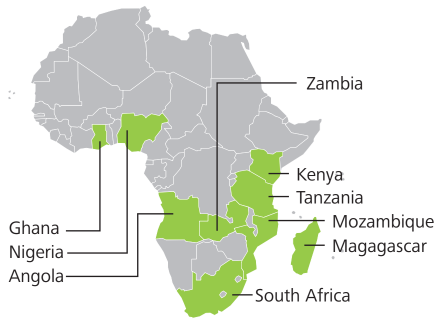
From the interviews it emerged that Japanese firms operating in Africa can be classed into three groups. The first generation of companies began operating in South Africa more than four decades ago. These include machinery and automotive manufacturers and distributors, aligned to the pillar of the automotive sector. These have now begun expanding further afield into the rest of Africa, notably Nigeria. Japanese companies now make up the largest investor group in the continent's automotive sector,[43] exporting products to other African countries.

These firms have been followed by the large Japanese trading houses known as the sogo shosha who operate on an import-export model basis, exporting resources from Africa and importing parts and electric appliances, making up the second generation of Japanese companies doing business on the continent. The sogo shosha were seen to be among the companies most willing to take the risks inherent to operating in Africa. According to a number of executives interviewed, the trading houses have become more aggressive in very recent times, increasingly looking for investment opportunities in the region.

Lastly, the third generation of Japanese companies and most recent players to arrive in Africa have been the consumer goods firms that are selling products into Africa's rising consumer markets.

Although most of the companies interviewed only have a head office in South Africa and smaller liaison offices in West and East Africa, they each have investment stakes or co-investments across the continent. The main countries targeted by these companies include Angola, Ghana, Kenya, Mozambique, Madagascar, Nigeria, South Africa, Tanzania, and Zambia. Of particular interest and focus are the East Africa economies. The recent gas discoveries in Mozambique and Tanzania have also attracted a great deal of investor interest from Japan Inc. Japanese corporates' future investment plans are underscoring Japan's growing interest in Africa's East coast, focussing on the emerging extractive industries, particularly coal and natural gas in Mozambique, South Africa and Tanzania.

Figure 9: Key markets for Japanese firms currently

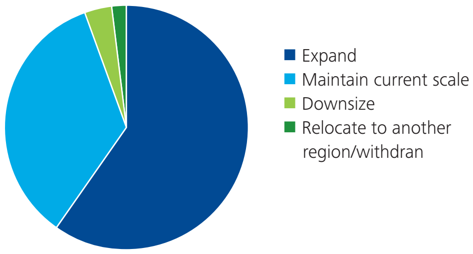


Source: Interviews conducted by Frontier Advisory with Japanese firms, March 2015

Based on research conducted by JETRO in which 410 firms operating in Africa were surveyed,[44] - and echoed in the authors' interviews conducted - almost 60% of Japanese companies expected their business operations in Africa to expand within the next two years at the time of the survey in 2013.

Respondents indicated that business potential in Africa is likely to increase over the next five years. Over 90% of firms indicated that they will either be expanding or maintaining their current scale of operations on the continent.[45] Most of the companies expect an increase in the African consumer market which would drive the growth of their business. Only 2% of firms indicated that they are likely to either withdraw their business operations from Africa or relocate to another region on the continent. The most recurring reason for deciding to withdraw was noted to be political instability and regulatory uncertainty.

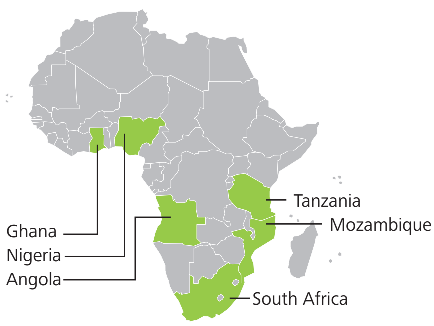
Figure 10: Business operations of Japanese firms in Africa within the next two years



Source: JETRO, 2014a

Priority markets for Japan Inc. include Angola, Ghana, Mozambique, Nigeria, South Africa and Tanzania. Firms also indicated that their presence in Africa is driven either by a need for natural resources and access to consumer markets, or because their clients are driven by these factors and so they have followed their clients into the region. Japanese companies are targeting economies which have a higher purchasing power amongst the majority of its population. The demand for Japanese goods in Africa is driven by wealthier individuals. Some of the firms interviewed indicated that although the fast-moving consumer goods (FMCG) segment in Africa is difficult for foreign firms to enter, the market is rapidly expanding.

Figure 11: Strategically Important countries for Japan Inc. over the next five years



Source: Interviews conducted by Frontier Advisory with Japanese firms, March 2015

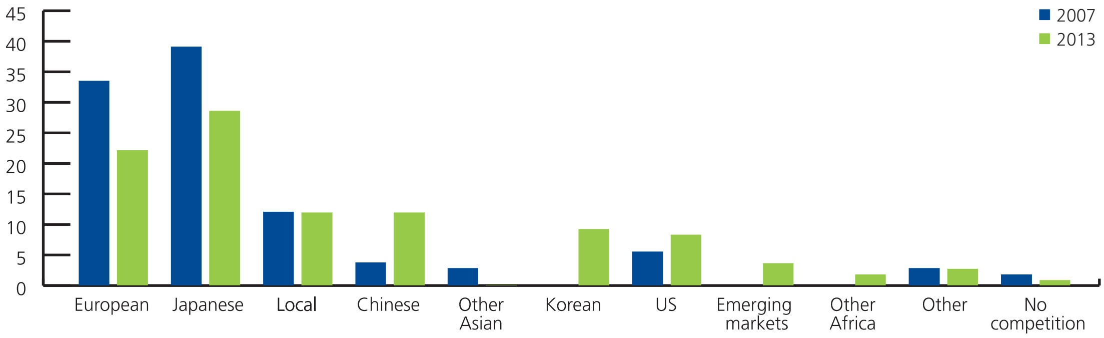
The majority of the companies interviewed are resource focused but have also involved in power and infrastructure projects. As Japanese companies have a competitive advantage in engineering, the firms interviewed all expressed confidence in Japanese companies becoming important players in Africa's energy market within the next few years.

Since 2010, a number of Japanese companies have reinvigorated their strategic approach to Africa and are expanding their commercial footprint across the continent, although very few of the large firms expect to receive any financial support from the Japanese government.

Many of the companies interviewed explained that they felt that Japanese companies are still largely in the "learning phase" with regards to their operations in Africa. Prior to 2010, Japanese firms viewed other Japanese companies as their strongest competitors on the continent, followed closely by European firms especially within the renewables energy sector.[46] Together, these made up 70% of the most competitive firms in Africa in 2007. By 2013, European and Japanese firms only accounted for 50% of the major competitors of the companies surveyed. The number of Japanese firms that view China as the main competitors in Africa increased by 8 percentage points between 2007 and 2013.

All of the firms interviewed noted the growing competitiveness of Chinese firms, indicating that they expect China's ability to compete to increase within the next decade. Japanese firms perceive that China's state-capitalist approach has provided Chinese SOE firms with a competitive advantage. All of the firms mentioned that due to not receiving funding support from the government - as is often the case of Chinese firms - Japanese firms cannot compete with the Chinese on project cost and have lost business opportunities as a result.

Figure 12: Major country competitors of Japanese firms in Africa, 2007 & 2013



Source: JETRO 2014a and JETRO 2013

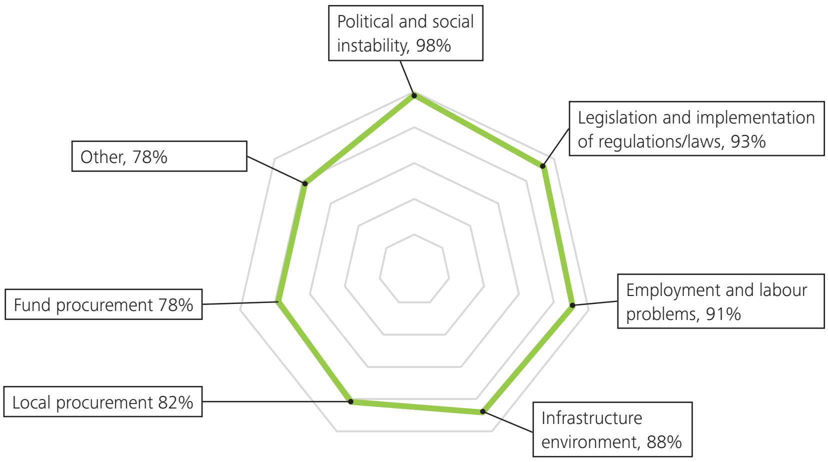
Another aspect underpinning the loss of business in Africa to other competitors is that Japan Inc. has concentrated its efforts on the Asian emerging economies first and foremost, followed by Latin America and the Middle East. SSA is seen by many of the executives interviewed as the least prioritised region in their company's portfolio. It was explained that there are a select handful of Japanese companies that are prioritising African markets over those regions previously mentioned, but these firms are very much the exception. A number of Japanese executives indicated that it may be worth their while to learn from the business model employed by Chinese firms and perhaps importantly, to learn from past mistakes of Chinese companies on the continent.

Executives interviewed also felt that a notable challenge to operating in Africa was getting buy-in from their corporate head-quarters. Seeking approval required to make investments in Africa is both an arduous and lengthy process. Although the leadership in Japan can see the opportunity of investing and expanding into Africa, they are often unconvinced of their firm's ability to take advantage of such opportunities. The perception of risk is high.

Corruption was cited by all the firms interviewed as one of the biggest challenges to operating on the continent. Executives indicated the need to conduct proper due diligence before entering into a partnership with local firms. The executives interviewed all alluded to the importance of rules within the Japanese culture and the reputational damage that would be caused if they were to be found to be participating in corrupt practices.

Political stability and security is a major concern for Japanese firms. A few of the firms interviewed mentioned that the death of the nine Japanese workers killed in Algeria in 2013 had driven the perception in Japan that Africa was a "violent" or "dangerous" place to operate in. The risk of political instability also affects firms' long-term investment decisions. This correlates with the findings of the JETRO survey, where 98% of companies stated that political and social instability was a constant challenge to building businesses in Africa.

Figure 13: Challenges matrix of doing business in Africa*



Source: JETRO 2014a
(* multiple answers allowed)

All executives interviewed indicated that they generally find it difficult to enter into a partnership with local African firms, but realise that in order to succeed in their African business ventures, especially in the private and consumer-facing sectors, lessons from domestic firms in host countries and adapting to local conditions will be central to their success. South Africa is the exception as the corporate space in South Africa is more established and mature.

All Japanese companies interviewed work in collaboration with and receive assistance, in the form of market and sector insights, for example, from JETRO, the Japanese Business Council (JBC) and the Japanese Chamber of Commerce and Industry (JCCI). Although Japanese firms tend to be relatively independent of government support, one of the executives interviewed explained that the business environment in Africa is too complex to navigate without some form of support. A few of the firms noted that these organisations are very helpful in explaining policy regulations in the countries and sectors in which they operate. The forums and seminars hosted by JETRO provide Japanese firms with the opportunity to network, build relationships and share experiences with one another.

Some of the companies interviewed had participated indirectly in TICAD. All of the executives saw TICAD as a platform that could facilitate their expansion in Africa, although it was stressed that this was not the case prior to TICAD IV. Whilst the TICAD platform is directed at fostering government-to-government level cooperation, and seen as less likely to see businesses benefit from it directly, it was expressed that going forward Japanese companies may be able to gain greater benefit from the process.

Conclusion

Japan, like other countries, is reshaping its foreign policy toward Africa. This has largely been brought about by the "game-changing" approach of China toward the African continent. Japan's policy is undoubtedly reactive and is seeking to strategically shift from an ODA-focused policy toward one that is more commercially oriented. As this shift takes place, the Japanese government is having to come to terms with the politics of business in Africa. If successful, a shifting foreign policy will begin to present more opportunities for Japan Inc. in Africa. Resource security still drives the interests of Japan Inc. in Africa but increasingly these will have to be acquired alongside investments in infrastructure in the recipient country. The development of sizeable infrastructure projects funded by state capital has underpinned China's pervasive presence and apparent success in Africa. An alignment of government and commercial interests has been a great enabler of this engagement strategy. The unique political economy in China that allows for the deployment of massive amounts of state capital to be tapped into by state-owned or state-aligned companies is impossible to emulate by competitor companies.

Japan Inc.'s footprint in Africa remains relatively small but its potential far outweighs its existing presence. For Japanese firms to succeed in expanding and building sustainable businesses in Africa, a concerted focus on key countries and sectors is required where the capabilities of related Japanese firms can be best leveraged. But ultimately political intent from Tokyo will underwrite Japan Inc.'s commercial success in Africa.

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