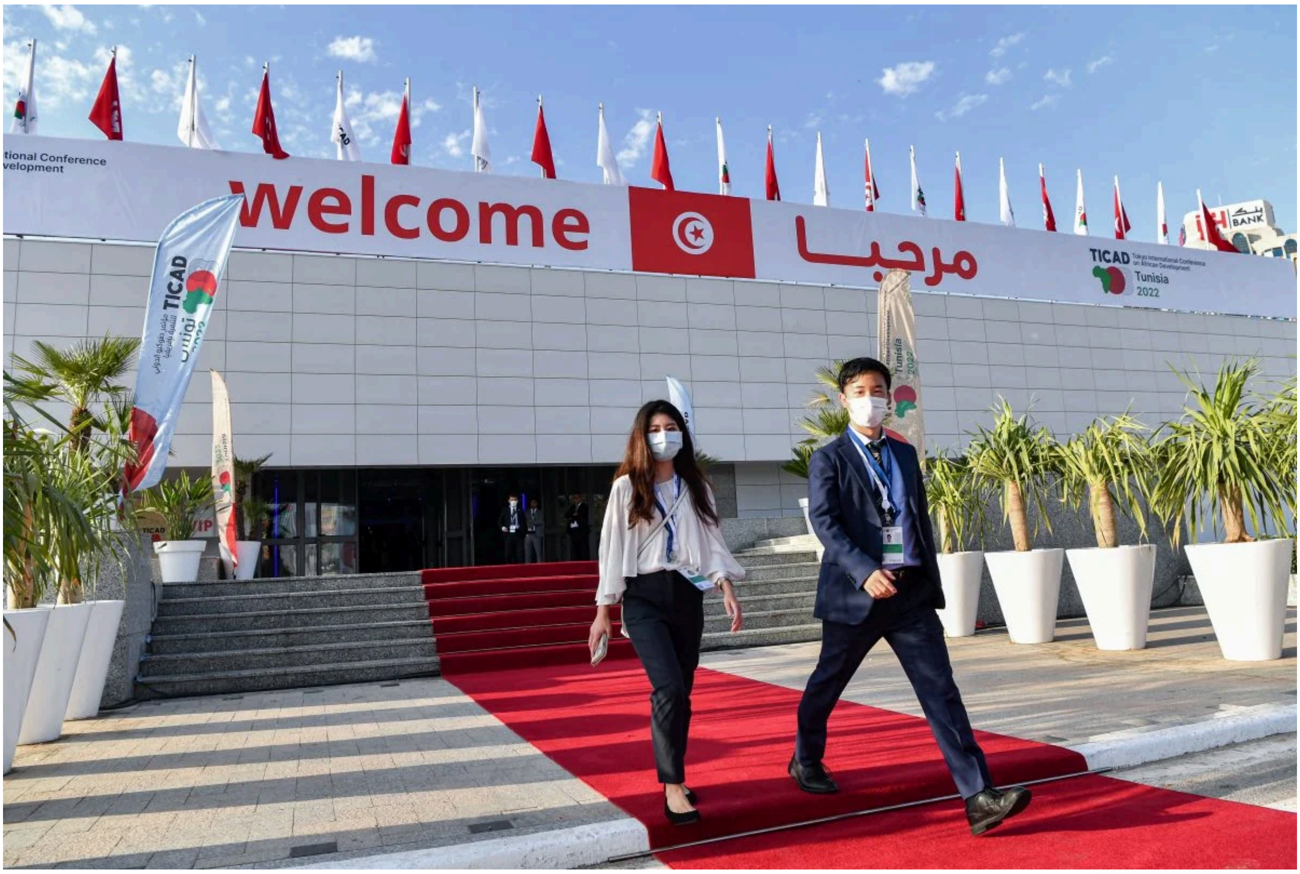
Japanese private sector gains ground in Africa but caution still reigns

The Japanese government has tried to capitalise on the power of the private sector to advance its foreign policy in Africa, but investors remain notoriously risk-averse.



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With Africa now the venue of increasingly high levels of geopolitical competition, "Africa-Plus-One" summits between a nation state and the continent have become commonplace.

The Forum on China-Africa Cooperation, for example, last took place in 2021, while, in December 2022, Washington played host to the US-Africa Leaders Summit. Last year saw both the Russia-Africa Summit in St Petersburg and the Saudi-Arab-African Economic Conference in Riyadh. Middle-ranking powers, such as South Korea and Turkey, have also sought to establish such dialogues with the African continent.

Practically every global "great power" – or countries which aspire to that status – are looking to host such summits as they recognise that Africa is home to some of the world's fastest growing markets and natural resources that are critical to the world's attempts to transition to a greener economy.

However, these summits are all based on the style of diplomacy that was first established by a country that recognised Africa's geopolitical potential over thirty years ago – Japan.

The Tokyo International Conference on Africa's Development (TICAD) was first held in 1993. At the time, the international community was beginning to dedicate less time and fewer resources to Africa. However, Japan set up the TICAD summit with the aim of establishing new relationships in a volatile post-Cold War world.

Seifudein Adem, professor of global studies at Doshisha University in Kyoto, explains that "the Tokyo International Conference on Africa's Development (TICAD) has been extremely successful in one respect – inspiring summit diplomacy."

"TICAD deserves credit for, apart from other things, reviving international interest in Africa's development, which was declining in the 1990s," he adds.

Japan's economic experience

Since the establishment of TICAD, Japan's foreign policy in Africa has sought to leverage Tokyo's own experience of rapid economic growth. After the Second World War, in which Japan was both defeated and econor
devastated, the East Asian country managed to expand its indust

production massively and produce cheap goods for both export and consumption in its huge domestic market.

South Korea's similar economic experiences following the Korean War is something which Seoul has also sought to emphasise during its recent attempts to form stronger relationships in Africa.

Adem suggests that, through meetings such as TICAD, Japan's journey could be used to inspire Africa's own attempts to achieve higher rates of economic development and growth.

"The experience of Japan in economic modernisation reveals that it successfully pursued three strategies," Adem tells *African Business*. "The first was the strategy of diversification. The Japanese absorbed Western skills and adopted Western institutions from as many diverse sources as possible. The second was domestication – making foreign products, institutions, and ideas more relevant or useful to local needs. Thirdly, Japan pursued indigenisation – the fuller use of domestically available cultural, human, and material resources."

"These are lessons for Africa about how to learn, about what to learn, and about how to learn fast."

Encouraging Japan's private sector

While Japan still engages in various humanitarian and development activities in Africa – just last month Tokyo announced an $34m donation to the World Food Programme to provide emergency support to 15 countries in Sub-Saharan Africa – over time the Japanese government has sought to focus more on the opportunities available in Africa for Japan's private sector.

Emma Ruiters, a senior analyst at the Tony Blair Institute in London, tells *African Business* that Japan's economic model in the post-war period was based on having a weak Japanese yen, which allowed its exports to be competitive. However, as Japan's economy became more mature and its currency stronger, Tokyo began looking to invest more in international markets, including Africa.

She believes these economic dynamics partly explain why engagement between Africa and Japan "is moving away from being based on development and is increasingly driven by the private sector."

According to a recent report from Japan's Ministry of Foreign Affairs, there were 927 Japanese companies active in Africa in 2022 – up from 520 in 2010.

"We can see that Japan's investment levels into Africa have increased and that Japan is changing the terms of engagement with the continent," Ruiters says. "Japanese corporations and investors are incredibly cash rich and so they are able to invest – Japan was the world's largest bilateral lender until 2018, when it was overtaken by China."

"Japan has an ageing population but is cash rich. African countries are often young, fast-growing economies, but lack capital. In that regard, it is without doubt a great partnership," she notes.

This emphasis on the potential of private sector activity sets Japan apart countries which focus on inter-government aid and offers competition to China, whose growing influence in Africa has often caused "anxiety" for policymakers in Tokyo, according to Adem.

"Japanese companies have been doing quite a lot of strategic mergers and acquisitions to try and make an impact in the African market," Ruiters says. "They have been looking to acquire strategic local partners," she explains. "This is very different to how China is operating in Africa at the moment – China's activities have been focused on the inter-governmental and infrastructure side."

"As Japan has very low unemployment, Japanese companies in Africa tends to hire locals, as opposed to when China comes in and they bring in quite a significant Chinese contingent," Ruiters adds. "Japan is much quieter, there is no hype, there is not a big Japanese presence. But that is something admirable for many in Africa."

The Japanese government has certainly tried to capitalise on the power of the private sector to advance its foreign policy in Africa. The Japan International Cooperation Agency (JICA), for example, has launched its "NINJA Accelerator" in Kenya, which supports Kenyan start-ups and helps them gain access to venture capitalists and investors in Japan and around the world.

Japanese companies and investors are increasingly seeking opportunities abroad. Japan's Government Pension Investment Fund (GPIF), the largest pension fund in the world, is adding foreign equities to its portfolio at double the rate it is adding domestic equities. Ruiters says that "Japan has a lot of money, but they have saturated Asia, Europe, and the Americas – for them, Africa is the last frontier."

Need to throw caution to the wind

However, there are still obstacles that need to be overcome if the full potential of Japanese-African economic engagement is to be unleashed. Ruiters notes that, while there are a handful of Africa-focused funds, "Japanese investors are notoriously risk-averse."

Partly because of this, Adem says that "Japanese companies are still reluctant to invest in Africa in a major way. They see chronic political and social instability on the continent as a major problem, with some justification. There are more conflicts in Africa today than at any time in the last fifty years."

Ruiters also notes that there is work to do on the part of African governments if they are to seize the opportunities associated with Japanese private capital. She argues that "governments need to be a bit more proactive in developing the local private sector and developing these ecosystems, which then allows for international investors to come in."

Japan's former foreign minister Yoshimasa Hayashi said last year that Tokyo wishes to position itself as "a partner growing together *with* Africa." The phrase was an attempt to encapsulate the basic premise of Japan's engagement with the continent – that facilitating private sector investment is the best way for Japan to grasp the economic opportunities of a young, fast-growing continent and the best way for Africa itself to deve

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However, Ruiters suggests that African governments and businesses do not automatically think of Japan as their "partner of choice," perhaps because of the way in which Tokyo approaches its projects on the continent in a quieter way than others. Equally, many Japanese companies have not yet been convinced of the economic case for Africa. Both of these factors mean there is the potential for much more growth in the Japan-Africa relationship.

"Japan's investments globally have trended in a straight positive line. Africa has also received more investment from Japan, but not as much as other regions – the growth has not been proportionate," Ruiters says. "I think there is massive room for growth, but African governments and businesses need to think more strategically about Japan."

Harry Clynch

Harry is Finance Reporter at African Business.

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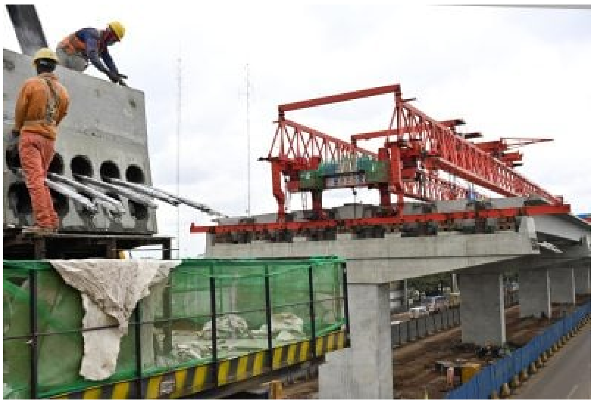

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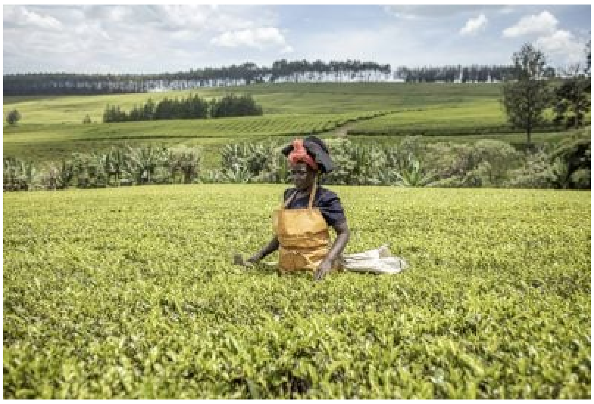

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