

Scaling Up Japan-Africa Relations

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Introduction

The fundamental basis for increased cooperation between Japan and Africa rests in the fact that there is scope for mutual benefit in such a relationship with the potential for scaling up in various sectors.

Japan is undoubtedly one of the leading economies in the world as exemplified by the size of its economy, the extensive global reach of its companies, its membership of global economic policy-making bodies such as the G8 and G20, and its appreciable foreign exchange reserves. It therefore has the potential to be a source of foreign direct investment, a major trading partner, and provider of official development assistance. It also has influence in global processes that shape the international economic system. Given Africa's economic and social priorities, the most compelling part of the Japanese story for us is its pioneering role as a developmental state.

Japan led the way in terms of successful thinking and practice of development and it is to its eternal credit that it was the first country that attempted to build a bilateral relationship that was not colonially derived with the African continent. I am referring of course to the Tokyo International Conference on African Development (TICAD) through which Japan sought to anchor its trade, aid and investment relationship with Africa. TICAD 1 took place in 1993 long before it became fashionable to have the kind of bilateral relationships with Africa which have now blossomed and become the order of the day.

It is now time to build on this positive approach to cooperation with Africa as the world is now witnessing its transformation into a global growth pole. This is evident from Africa's compelling economic performance averaging over 5% per annum since the turn of the century. This encouraging performance was buttressed by the relative resilience of African economies during the recent global economic and financial crisis. Growth in Africa fell to 2.7% in 2011 from nearly 5% in 2010. This was mainly due to a sharp economic downturn in North Africa as a result of the political events which took place in that sub-region last year. Notably, however, growth in the rest of the continent was 4.5% which was at about the same level as 2010. This growth continued to be propelled by better economic management, increased agricultural production, fairly strong commodity exports and increased domestic demand.

There has also been notable progress made in Africa on the governance front. Indeed, since the establishment of the African Union, its member states have acted firmly against unconstitutional changes of government with an undoubted commitment to choosing leaders by electoral means. Accordingly, there were up to 17 presidential and national assembly elections in Africa in 2010 and 20

such elections took place in 2011. Similarly, 31 African countries have signed up to the African Peer Review Mechanism, by which heads of state and government subject their national governance policies to scrutiny by their peers. The interesting aspect of this unique mechanism is that it is entirely voluntary.

Trade, Investment & Official Development Assistance

Against this background, there is scope for increasing and deepening economic cooperation between Africa and Japan. Existing trade and investment ties and official development assistance (ODA) flows are significant but do not fully reflect the potential of a rising Africa.

Over the past decade, African nations have witnessed increasing trade, investment and official development assistance ties with Japan. Available figures (*Chart*) show that the compounded growth of Japan's total trade with Africa increased by 27% between 2002 and 2010. During the same period, imports and exports increased by 30% and 28% respectively. While the financial crisis led to a 46% decrease in trade in 2008-2009, Japan's total trade with Africa rebounded by 28% to reach \$24 billion in 2010. At present, the majority of Japanese imports are derived from South Africa (32%) and Sudan (10%), while most exports are destined for South Africa (32%), Liberia (16%), and Egypt (12%).

It is also interesting to note in this regard that the top three Japanese imports account for 78% of all imports from Africa as follows: (i) precious stone and metals (32%); (ii) mineral fuel and oil (26%); and (iii) ores and slag (10%). Conversely, the mix of exports comprises value-added manufactured products such as: (i) vehicles (39%); (ii) machinery (19%); ships and boats (16%); (iii) electrical machinery (6%); and (iv) rubber (3%). The overall composition of Japan-Africa trade is presented in *Table 1*.

The most visible component of Japanese economic ties with Africa is probably in the area of technical assistance ranging from the agricultural sector to the Millennium Development Goals (MDGs), Information and Communications Technologies (ICTs), peace and security, and power generation. Notable is the "New Rice for Africa" (NERICA) scheme. A number of Japanese research institutions worked closely with 17 national African research systems, as well as with the West Africa Rice Development Association (WARDA), to develop a new breed of rice known as NERICA, which combines the best of both African and Asian rice varieties. The result has been greater productivity yielding additional income, faster maturity, and higher levels of nutrition.

TABLE 1

Product composition of Japan-Africa trade

Japan's Top 10 Imports From Africa				Japan's Top 10 Exports To Africa			
HS	Description	2010	% Share (2010)	HS	Description	2010	% Share (2010)
	All Products	11,792			~AFRICA~	11,979	
71	Precious Stones, Metals	3,730	32	87	Vehicles	4,723	39
27	Mineral Fuel, Oil etc	3,056	26	84	Machinery	2,288	19
26	Ores, Slag, Ash	1,208	10	89	Ships and Boats	1,908	16
72	Iron and Steel	582	5	85	Electrical Machinery	686	6
76	Aluminum	518	4	40	Rubber	400	3
87	Vehicles	431	4	72	Iron and Steel	386	3
3	Fish and Seafood	359	3	73	Iron/Steel Products	270	2
44	Wood	305	3	90	Optic, Nt 8544; Med instr	234	2
75	Nickel & Articles Thereof	174	1	0	Special	184	2
18	Cocoa	150	1	55	Manmade Staple Fibers	164	1
	Other	1,280	11		Other	735	6

Source: World Trade Atlas

CHART

Japan's ODA to Africa & the world

JAPAN

Net ODA	2009	2010	Change 2009/10
Current (USD m)	9,457	11,054	16.9%
Constant (2009 USD m)	9,457	10,583	11.9%
In Yen (billion)	883	970	9.8%
ODA/GNI	0.18%	0.20%	
Bilateral share	65%	66%	

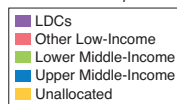
Top Ten Recipients of Gross ODA (USD million)	
1 Indonesia	1,505
2 India	1,466
3 Vietnam	1,266
4 China	1,096
5 Philippines	686
6 Turkey	570
7 Afghanistan	541
8 Sri Lanka	358
9 Pakistan	209
10 Peru	197

Memo: Share of gross bilateral ODA	
Top 5 recipients	43%
Top 10 recipients	56%
Top 20 recipients	66%

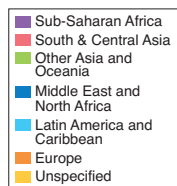
Gross Bilateral ODA, 2009-10 average, unless otherwise shown

By Income Group (USD m)

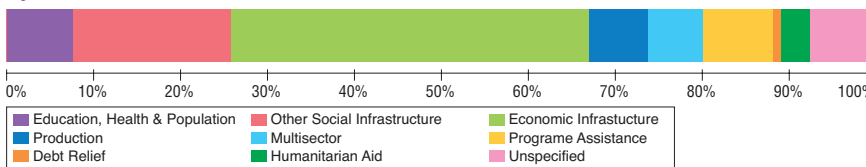
Clockwise from top



By Region (USD m)



By Sector



Source: OECD-DAC; www.oecd.org/dac/stats

With regard to ODA, Japan pledged to double its existing support for Africa to the sum of \$1.8 billion by 2012. It had previously committed \$4 billion to infrastructure development, having financed a number of road projects in particular. In addition, Japan established a \$2.5 billion fund to facilitate investments by Japanese firms exploring the African landscape. The intention is for Japanese private sector investments in Africa to reach \$3.4 billion by 2012.

Japan has further played a key role in financing various projects and programs across a number of sectors, including agriculture, ICTs, transport, and energy. Indeed, Japan's significant investments in Africa have had a positive impact on growth-led poverty reduction in a number of countries. In 2005, Japan launched the Enhanced Private Sector Assistance for Africa (EPSA) initiative at the Gleneagles Summit.

The \$1 billion budget was disbursed over a five-year period through the African Development Bank (AfDB). EPSA comprised three key components: (i) the Non-Sovereign Loan segment (NSL) provides concessional financing to AfDB's private sector operations; (ii) the Accelerated Co-financing Facility for Africa (ACFA) provides joint financing on concessional terms for AfDB-led public investment projects; and (iii) the Fund for African Private Sector Assistance (FAPA) provides grants for technical assistance and capacity building.

However, the best prospects for cooperation between Japan and Africa will derive from partnership efforts that help to transform African economies. The starting point would be to see how Africa can benefit from the development experience of Japan which opened the pathway for similar success in East and Southeast Asian countries.

African Countries Can Replicate Japan's Success

The historical evidence of Japan's success in radically transforming its economy shows that the same building blocks can be utilized to fast-track Africa's sustained economic growth and development. Strong political will, as in the case of Japan, is fundamental to be able to successfully drive the development agenda. African governments must be equally committed to achieving their national goals and must work conscientiously to attain them.

Accordingly, they should invest heavily in building the capacity of Africans by strengthening the educational system. Engineering schools and schools of advanced/mechanized agriculture, science and technology should provide high-

quality training to produce highly skilled scientists, engineers, and technically competent citizens who will radically transform their nations. At the same time, African governments should embark on ambitious plans to develop robust physical as well as "soft" infrastructure. Appropriate regulation, policies, and legal and regulatory frameworks must be designed. Realistic but assertive timelines should be agreed upon to ensure that all these are in place as quickly as possible.

With such strong political will and significant strides in deepening both the infrastructure density as well as the productive capacity of their respective countries, African countries will collectively fast-track the continent's rapid transformation. Japan is therefore not only a partner but a strong and positive role model from whom important lessons in developmental success can be gleaned and replicated.

Scaling Up the Africa–Japan Partnership

Looking ahead, it is clear that the collaboration between these two partners will continue to deepen and evolve. Some of the key areas for such mutually beneficial ties relate to:

Supporting Good Governance: Building on the implementation of the African Peer Review Mechanism (APRM), African countries continue to take bold steps to heighten transparency and strengthen good governance in the region. Through a voluntary process, 30 African countries have agreed to “open their books” to thorough and transparent scrutiny and 14 countries have been reviewed. The APRM is therefore a laudable initiative with tremendous potential to radically transform Africa’s development landscape, and Japan can readily support this initiative to create a stronger business enabling environment for Japanese companies investing in Africa.

Investing in Productive Sectors: The agriculture and manufacturing sectors possess significant potential to radically transform local economies while also yielding impressive returns to investors. As was done previously in Asia, Japan could relocate “sunset industries” to Africa, thereby developing a base from which it could export to third countries more cost effectively. Moreover, there is scope to include African enterprises in global value chains to benefit from greater synergy and economies of scale.

Investing in Infrastructure Development: One of the constraints that impacts business productivity in Africa is the limited level of infrastructure density. Nonetheless, this limitation presents a compelling chance for investors who are able to earn returns that offer in excess of 18% for the development of medium and large-scale infrastructure projects. At the same time, given Japan’s strong financial institutions, there is room to develop innovative and structured financing products to stimulate investment by Japanese firms and individuals.

Supporting Technology Transfer: As a global leader in information and communications technologies, Japan is well placed to help catalyze digital transformation in Africa by building the internal capacity for innovation, science, and technology. Japan can therefore facilitate the transfer and use of cutting-edge technologies, which will help to boost growth and further impact positively on its investments in Africa.

Serving as a Strong Advocate for Africa: As the second-largest contributor to the United Nations, a member of the G8 and also of the G20, it is clear that Japan is in a position to influence the outcome of global processes that affect Africa. Accordingly, in addition to supporting Africa’s socio-economic development efforts through enhanced trade, investment and aid ties, Japan should continue to see itself as a supporter and promoter of African causes in key multilateral forums.

Leveraging TICAD Outcomes: Through the instrumentality of TICAD, Japan has certainly played an important role in Africa in recent years, even as it implemented the four pillars of the TICAD IV Action Plan on (i) boosting economic growth; (ii) achieving the MDGs; (iii) consolidating peace and good governance; and (iv) addressing environmental and climate change issues. Looking ahead, it will remain important to align the priorities outlined by the New Partnership for Africa’s Development (NEPAD) with the TICAD work program.

Increasing Official Development Assistance (ODA) to Africa: Commitments made in Monterrey and at the Gleneagles G8 Summit should be honored. This positive outcome would be of mutual advantage, helping to leverage financing for infrastructure development, and thereby facilitating investment in productive sectors.

A Roadmap for Effective Collaboration

In light of the strong Africa-Japan partnership, and given the compelling similarities in their respective development stories, collaboration between the two should be more strategic. Japan is uniquely placed to support Africa’s rapid industrialization as it did for itself during the restoration period.

While the country stands to gain significantly through the high returns and favorable conditions available to foreign investors in Africa, Japan can also radically help to accelerate Africa’s development agenda.

From the lessons learned and discussed earlier, we have outlined a roadmap that will help to replicate numerous successes across Africa. As was previously highlighted, Japan’s expertise, knowledge, and financial resources could be maximized in the following areas: (i) strengthening good governance; (ii) capacity building with emphasis on training in science, technology, engineering, and mechanized farming. Institutes could be built to train African students, exchange programs could be organized with Japanese institutions, teacher training could be conducted, and visiting professors could be assigned to African schools and universities; (iii) infrastructure development with Japanese firms advising African governments on the structuring of public-private partnerships, Japanese contractors bidding on concessions to build transport networks, power generation plants, ICT networks, and to provide water and sanitation with support from the Japan Export-Import Bank, for instance; and (iv) utilizing Japan’s strong financial institutions to develop and provide innovative financial products to assist African countries and Japanese investors.

I am personally excited by the ongoing partnership between African countries, African institutions, and Japan. I look forward to many more decades of greater collaboration and significant strides in sustained and rapid economic growth throughout the African continent. **JS**

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