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Japan and South Africa Deepening Economic Relations

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Deepening Economic Relations

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Japan and South Africa

Deepening Economic Relations

Natasha Skidmore¹

Introduction

Since the establishment of full diplomatic relations between Japan and South Africa on 13 January 1992, the bilateral relationship has expanded in many areas. Current relations are characterised by co-operation and the sharing of common interests in international forums, such as the reform of the United Nations; disarmament; the peaceful resolution of conflict; the fight against terrorism; and the promotion of sustainable development as the best enabler of peace, prosperity and stability. Japan's global financial status, its position as the leading provider of developmental aid and its advocacy of African development through the Tokyo International Conference on African Development (TICAD) process have laid the foundation for the deepening of relations between the two countries.

As the world's second-largest economy² and a leading provider of official development assistance (ODA) to the developing world, Japan's interest in Africa has been driven by its demand for natural resources, its need for new markets, its aspirations to international leadership and its humanitarian concerns. Its TICAD process reflects

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² Japan's gross domestic product (GDP) in 2002 amounted to \$3,992 billion, with a GDP per head of \$31,200. However, the growth rate on average in the period 1993–2002 was a mere 1.1%, with a rise in the unemployment rate from 2.2% in 1992 to 5.4% in 2002.

its firm commitment to the continent and has become the defining feature of its policy towards Africa since 1993.

Within the context of Japan's Africa policy, South Africa has always played a significant role as a leader of the African continent, due to its economic and political pre-eminence. Japan-South Africa relations should therefore not be conceptualised independently from Japan's Africa policy. Japan has acknowledged that 'the stability and development of South Africa is important for the development of Africa as a whole.'³ During President Thabo Mbeki's visit to Japan in 2001, the former Japanese ambassador to South Africa, Mr Yasukuni Enoki, illustrated the significance of South Africa for Japan by stating that as regards 'the importance of South Africa, we can very easily enumerate various factors, such as [the country being] the regional economic superpower sharing 40% of the total sub-Saharan GDP, the major political leader of Africa and the major player in multilateral diplomacy.'⁴ At a lunch held in Johannesburg on 28 January 2004, the new Japanese ambassador to South Africa, Mr Toshinori Shigeie, reiterated this view by stating that South Africa's success was important and that the country needed to become an engine of economic growth in Africa.⁵

Japan views South Africa as a strategic partner on the African continent. While South Africa views Japan as a strategic country and an important trading partner, it can be argued that Japan is not yet viewed as a strategic partner for South Africa. The South African Department of Trade and Industry (DTI) has developed a methodology for developing bilateral strategies and assigning different priorities to different countries within specific regions, and this framework best defines the nature of the engagement between

³ Embassy of Japan, 'Bilateral relations between Japan and the Republic of South Africa'. Pretoria, 18 December 1996.

⁴ http://www.japan.org.za/speeches/speech_03.html.

⁵ SA must help build Africa', *Finance24*, 28 January 2004. Available online at www.news24.com/finance.

South Africa and Japan.⁶ For a country to be considered a strategic partner, there has to be a clear convergence of interests on issues related to both development, and multilateral and geopolitical strategies. In this regard, its economic potential is a necessary, but not sufficient, condition for the designation. A strategic country is a country that does not share similar perspectives on the issues given above but is of major significance in the global economy. Although Japan has consistently been in the top four of South Africa's largest trading partners and a source of substantial investment, the DTI has classified Japan as a strategic country.⁷ Japan is the second-largest economy in the world and leads the world in several industries, but does not share similar perspectives with South Africa on most multilateral issues, more specifically the dominance of the UN Security Council by developed countries and the bias within the World Trade Organisation (WTO) towards protecting the economic interests of the North. The potential for Japan to become a strategic partner of South Africa does exist; however, substantial development of the relationship between the two countries is still needed for it to do so.

This report will focus primarily on economic relations between Japan and South Africa since the establishment of full diplomatic links between the two countries in 1992. These relations need to be viewed within the context of relations during the apartheid era, as this period ultimately laid the foundation for and dictated the terms of engagement between the two countries in the period after apartheid. Current relations between Japan and South Africa will be examined at the bilateral level, focusing on Japan's ODA to South Africa, trade and investment between the two countries, and the potential for the deepening of these relations.

⁶ See the Department of Trade and Industry (DTI), *Global Economic Strategy: Policy Framework and Key Elements*. Pretoria: International Trade and Economic Development Division, DTI, 2001.

⁷ *Ibid.*, p.26.

Bilateral Relations during the Apartheid Era

Osada argues that 'throughout the period prior to 1960, neither Japan nor South Africa seemed to have any active interest in the other, or distinctive policy towards the other.'⁸ This can be attributed to the physical distance between the two countries, South Africa's strong historical ties with Europe, South Africa's racial policies, Japan's transformation into an imperialist nation before the Second World War, and the dominant influence of the United States on Japan after the war.⁹

This situation changed in the early 1960s. South Africa was faced with growing international isolation and needed to diversify its trade partners, while Japan's growing economy lacked the raw materials needed to sustain it. Africa, and more specifically South Africa, was rich in raw materials and so it was in Japan's strategic interest to pursue trade relations with South Africa. Diplomatic relations between Japan and South Africa were re-established in 1961 and on this occasion, the South African interior minister declared in parliament that Japanese nationals would be accorded honorary white status in South Africa.¹⁰ Throughout the 1960s, as a result, the number of Japanese businesses entering South Africa increased. In 1962, Toyota Motor Corp. built a plant in Durban and Datsun (later Nissan) Motor Co. Ltd opened an assembly plant in Roslyn near Pretoria.¹¹ Despite the Japanese government's ban on new direct investment by Japanese companies in 1968, trade continued. Japan's imports included raw materials like minerals and agricultural

⁸ Osada M, 'The beginning of a new era? Japan-South Africa relations in the aftermath of apartheid and the Cold War', *Japan Studies Occasional Papers*, May 1999, p.2.

⁹ *Ibid.*

¹⁰ Barratt J, Van Nieuwkerk A, Leistner E & K Hayashi (eds), *The New Regional Foreign Policy of South Africa*. Tokyo: Institute of Developing Economies, 1994, p.116.

¹¹ *Ibid.*

products, while exports included manufactured goods and spare parts.

In the period 1960–72, the volume of trade between the two countries increased fivefold. Japan became South Africa's second-largest market for exports, while South Africa became Japan's thirteenth-largest supplier of raw materials and twentieth-largest market.¹² Economic links between the two countries strengthened further as a result of Japanese involvement in railway and harbour construction projects at Richards Bay and Sishen-Saldanha.¹³ South Africa acquired the infrastructure, while Japan received a constant supply of raw materials in return. It is important to note that these projects became sustainable over the long term only when Japan signed a contract to buy coal and iron over a ten-year period.¹⁴

Japanese household appliance makers and electronics companies, such as Hitachi Ltd, Matsushita Electric Industrial Co., Sanyo Electric Co., Toshiba Corp. and Sharp Corp., were able to evade the 1968 Japanese ban on direct investment by establishing local corporations that were focused on imports and local sales, as well as re-export to neighbouring countries.¹⁵

In 1974, Japan followed the world in supporting a UN ban on direct investments in South Africa. Despite the further toughening of economic sanctions by the international community, trade continued, as both governments overlooked their political differences. Japan was reluctant to give up its long-term contracts with South Africa because of its perception of South Africa as a reliable supplier, an increasingly important consideration in Japan's just-in-time approach to manufacturing. In 1979, for example, Japan imported 99.1% of its silo-chromium from South Africa, as well as

¹² Alden C, 'North and South: The changing contours of Japanese–South African relations' in Alden C & K Hirano (eds), *Japan and South Africa in a Globalising World*. Brookfield: Ashgate, 2002, p.375.

¹³ Barratt, J. et al, *op. cit.*, p.117.

¹⁴ *Ibid.*

¹⁵ *Ibid.*

76.1% of its ferro-chromium, 56.2% of its iridium, 49.8% of its rhodium, 48.7% of its ferro-manganese, 41.4% of its chromium ore and 33.9% of its platinum.¹⁶ By 1987, Japan had become South Africa's largest trading partner.¹⁷

Japan-South Africa trade relations were therefore greatly strengthened during the apartheid era. Due to the difference in the relative size of the two economies, Japan's trade with South Africa never exceeded 2% of its total trade. In 1987, when Japan became South Africa's largest trading partner, trade with South Africa was only 1.1% of Japan's total trade. In comparison, South Africa's trade with Japan in 1960 was only 3.9% of its total trade, but this increased to more than 10% in less than 10 years.¹⁸

Bilateral Relations after the Apartheid Era

As we have seen, full diplomatic relations between Japan and South Africa were established on 13 January 1992. Since then, economic concerns and the international aspirations of both countries have ensured that the focus remains on the strengthening of bilateral economic relations. However, the relationship after apartheid has been complicated. Alden has stated that 'the difficulties experienced during South Africa's extended transition, the economic slowdown in Japan and, more generally, continued misunderstanding and misinformation fuelled by domestic bureaucratic political considerations between the two countries has resulted in relations being 'correct, if not warm'.¹⁹ He attributes this to Japan's dual

¹⁶ SAIIA, 'My kingdom for an ore: Japanese relations with South Africa', *SAIIA Intelligence Update*, 1999.

¹⁷ Alden C, *op. cit.*, p.375.

¹⁸ Osada M, *op. cit.*, p.56.

¹⁹ Alden C, *op. cit.*, p.377.

approach in the past, the so-called 'two policies for Africa' meaning 'black' Africa and the apartheid state.²⁰

This approach dictated the terms of the new relationship, with each country viewing the new South Africa very differently. The new ANC government recognised that South Africa's economic and political status and even military attributes inherited from the apartheid era made it stand out from the rest of Africa as the continental leader. With this status came a level of entitlement and raised expectations as to South Africa's status in the world. In comparison, Japan viewed the new South Africa as 'just another African country'.²¹ These perceptions are best reflected in the debate around Japan's ODA to South Africa.

In May 1994, Japan presented the largest ODA package (totalling \$1.3 billion) offered by any donor to South Africa.²² The assistance consisted of grant aid (\$50 million), concessional loans administered by the Overseas Economic Co-operation Fund (OECF) (\$250 million), Export-Import Bank of Japan (EXIM) loans (\$500 million), and trade and investment insurance (\$500 million).²³ The terms of Japan's ODA require the recipient country's government to approach Tokyo and initiate a request for assistance. The unwillingness of the South African government to comply and even to consider utilising the ODA came as a shock to Japanese officials. Despite this, and because of the Asian financial crisis of 1997-98, which caused Japan to reduce drastically its annual ODA programme, Japan presented another package (totalling \$1.5 billion) to South Africa at President Mbeki's inauguration in June 1999.²⁴ This package consisted of \$100 million in grant aid and \$400 million in yen loans, while the remainder

²⁰ *Ibid.*, p.16.

²¹ *Ibid.*

²² *The Weekend Star*, 21 January 1995. This amount was twice as much as that given to Kenya, which up till then had been the largest recipient of Japanese ODA in Africa.

²³ South African Embassy, Tokyo, *Country and Economic Profile of Japan*. Tokyo: South African Embassy, January 1996.

²⁴ Alden C, *op. cit.*, p.17.

reflected the previous package.²⁵ This was the only new initiative put forward by Japan. The package had been tailored to take into account Pretoria's criticism of the previous package, and thus focused more on poverty alleviation, and there was a lower interest rate for concessional loans. When Pretoria again failed to demonstrate much interest, Tokyo viewed this as apparent indifference towards Japan.

However, it is important to note that President Mandela had earlier requested funding from Japan for the African National Congress (ANC) in November 1990. This request was subsequently turned down by Tokyo (which had indicated in advance that it was unable to assist) and was possibly the cause of the indifference that (in Japanese eyes) South Africa felt towards Japan.²⁶ In comparison, China, Malaysia, Indonesia and Taiwan had all funded the ANC in the period before 1994.

Bilateral economic relations between Japan and South Africa after the apartheid era have been complicated, given the changing nature of the relationship. As discussed above, different perceptions held on both sides as to the nature and level of the relationship have often hampered the deepening of these relations. Despite the difficulties experienced by both countries in terms of reconciling these perceptions and 'normalising' relations, the economic concerns and international aspirations of both countries have been the issues that have remained at the forefront of relations.

Japan's aid to South Africa

Japan's two aid packages to South Africa after 1994 consisted primarily of loan facilities and trade and investment guarantees rather than grants. Sharp has attributed this to South Africa's development levels, which were much higher than those of the rest of Africa, as well as the importance of South Africa on the

²⁵ *Ibid.*

²⁶ *Ibid.*, p.18.

continent.²⁷ Much of the aid is focused on infrastructure development and seeks to benefit not only South Africa, but also the entire African continent.

On examining the specifics of these packages, it becomes clear that the emphasis is on infrastructure development and resource extraction, which benefits both South Africa and the Japanese multinationals operating in South Africa. The investment and trade guarantees seek to cover the commercial and political risks for the Japanese multinationals involved in these projects.

In terms of the loans granted, \$300 million went to Eskom for the improvement of transition and distribution line grids; \$100 million went to the Development Bank of Southern Africa (DBSA) for fostering small businesses, modernising agriculture and improving economic infrastructure; \$300 million went to Transnet for the upgrading of ports and railways; and \$50 million went to the Industrial Development Corporation (IDC) for export financing to assist South African companies in buying machinery and services from Japan.²⁸ By upgrading infrastructure, Japanese mineral resource imports from South Africa have improved and South Africa has benefited in a way that is critical to South Africa's own economic development and growth. This reflects a win-win situation for both countries.

Japan clearly views South Africa as its strategic partner in Africa. Under Japan's own rules, South Africa should not have qualified for ODA because of its relatively high per head GDP (\$2,500–\$3,000 a year).²⁹ The total amount of both aid packages is not large in comparison to Japan's total aid disbursement — most of which goes to Asia, for obvious geographic and historical reasons. However, South Africa's ODA is almost 10 times as large as that of Japan's

²⁷ Sharp D, 'Japan and Southern Africa: The resource diplomacy rationale', in Alden C & K Hirano (eds), *op. cit.*

²⁸ SAILA, *op. cit.*

²⁹ *Ibid.*

largest aid recipient in Africa prior to 1990, Tanzania.³⁰ Between 1990 and 1995, Southern African Development Community (SADC) countries received \$1,608 million in Japanese aid. South Africa received the largest share of this amount.³¹

Although ODA has a role to play in the deepening of bilateral relations between Japan and South Africa, trade and investment can make a more significant contribution to broad-based economic growth, as it directly generates income, employment and investment resources for poor households. Japan's trade with South Africa and its investment in South Africa should therefore be examined in this context.

Trade between Japan and South Africa

Since the establishment of full diplomatic relations in 1992, trade between Japan and South Africa has shown a consistently rising trend and, as a result, South Africa has consolidated its position as Japan's largest trading partner in Africa. Japan has consistently been South Africa's third- or fourth-largest trading partner in recent years.

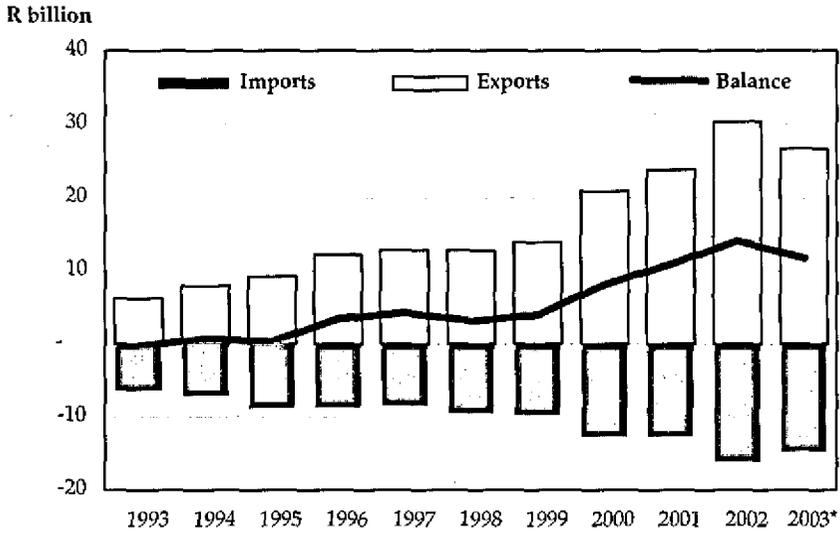
In 2002, Japan ranked as South Africa's fourth-largest trading partner after Germany, the US and the UK, representing 7.7% of total trade. In the same year, South Africa ranked as Japan's thirtieth-largest trading partner, with 0.6% of Japan's trade being with South Africa.³²

³⁰ Van der Spuy W & M Glinzler, 'Japan-South Africa economic relations: New prospects or neo-mercantilist perpetuation?', in Alden C & K Hirano (eds), *op. cit.*

³¹ *Ibid.*, p.89.

³² Figures obtained from a presentation by Lumkile Mondli of the IDC entitled 'Opportunities for investment in South Africa and the rest of Africa' at the Japan-South Africa Business Forum, 11 November 2003.

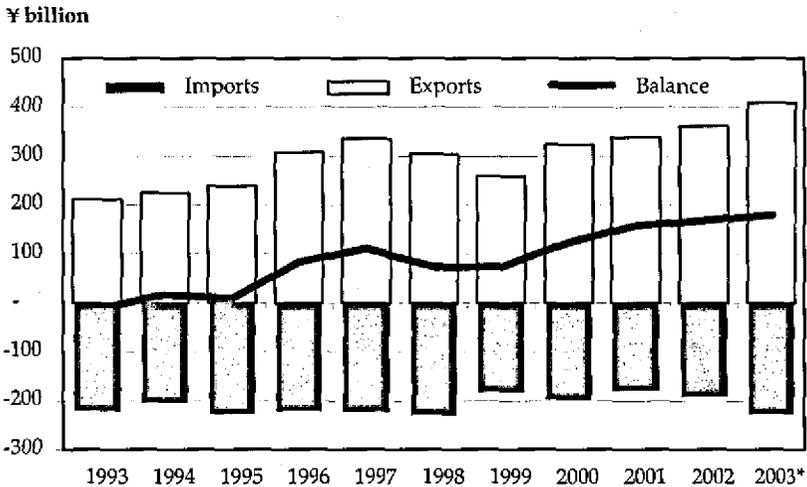
Figure 1: Annual Trade between Japan and South Africa (Rands)



Source: Japanese Customs

* Jan.-Sep. annualised

Figure 2: Annual trade between Japan and South Africa (Yen)



Source: Japanese Customs

*Jan.-Sep. annualised

In the period 1993–2002, South Africa's exports to Japan grew at an average annual rate of 17.4% and imports at an average annual rate of 9.2%³³ (see Figures 1 and 2, above). In 2002, exports from South Africa to Japan totalled R24.4 billion, having increased from R19.4 billion in 2001, while imports from Japan totalled R19.1 billion, having increased from R14.6 billion.³⁴ Japan's exports to Africa in 2002 amounted to 1.2% of its total global exports.³⁵ South Africa received 31.6% of this figure.³⁶ Japanese imports from Africa amounted to 1.7% of its total global imports.³⁷ Again, South Africa was the main African exporter to Japan, making up 50.9% of the total figure.³⁸

Japan's interest in South Africa is based on its policy of resource diplomacy towards countries that are rich in raw materials. Such materials are critical to Japan's economic security and thus to its national security.

Japan's imports from South Africa can be divided into two categories, namely strategic minerals and agricultural commodities. Japan's strategic mineral imports include chromium (for steel production), manganese (for alloying metal to produce steel), vanadium (for the steel industry), uranium (a nuclear energy source), and the platinum group of metals (for use in electrical and electronic equipment).³⁹ In a number of areas, South Africa is Japan's leading supplier (in seven out of 28 principal minerals).⁴⁰ Japan's agricultural imports include wool, wood, sugar and corn, all of which are important in a country that lacks sufficient agricultural

³³ In rand terms; in yen terms: 5.4% and -2.0% for exports and imports respectively.

³⁴ Figures obtained from the DTI's database.

³⁵ Figures obtained from the database of the Japanese External Trade Organisation (Jetro).

³⁶ *Ibid.*

³⁷ *Ibid.*

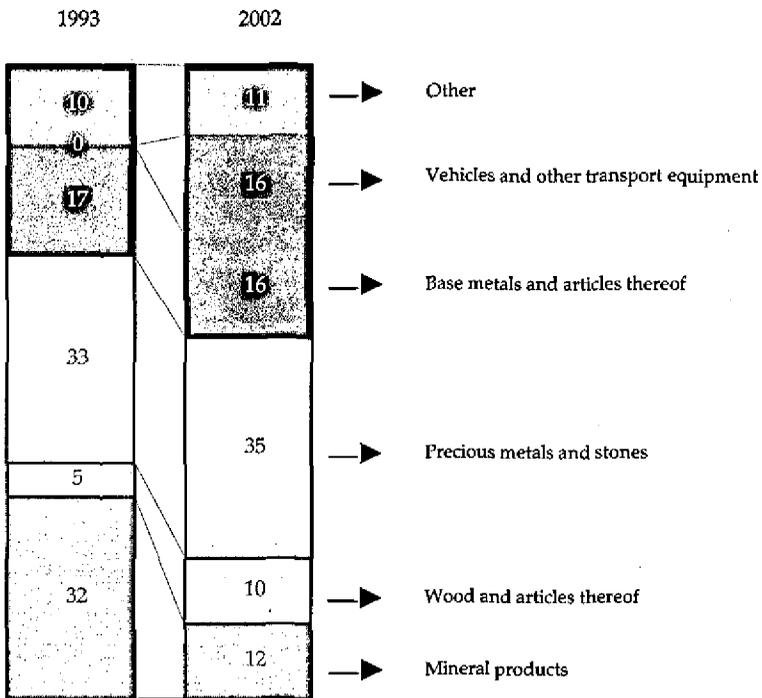
³⁸ *Ibid.*

³⁹ Sharp D, *op. cit.*, p.107.

⁴⁰ Ampiah K, 'Japanese investments in South Africa: 1992–1996', *Japan Studies Occasional Papers*, July 1998, p.5.

land.⁴¹ It is important to note that from 1993 to 2002, there has been a significant change in the composition of Japanese imports from South Africa. Vehicles and other transport equipment have shown exceptional growth. This is an important trend and reflects the growth of the vehicle manufacturing sector in South Africa and the establishment of the country as an international production platform.

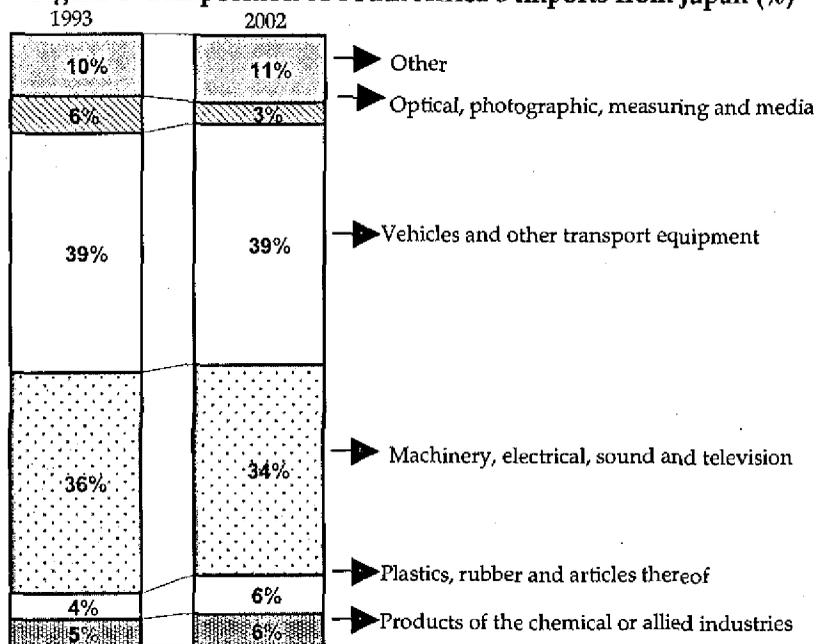
Figure 3: Composition of Japan's imports from South Africa (%)



Source: Japanese Customs

⁴¹ Sharp D, *op. cit.*, p.108.

Figure 4: Composition of South Africa's imports from Japan (%)



Source: Japanese Customs

In terms of South Africa's imports from Japan, it is clear that transport equipment, machinery and electronic equipment dominate, the first constituting the largest category.⁴² Other imports include chemicals, plastics and rubber. These imports can all be classified as coming from high-technology sectors, while Japan's imports from South Africa can be classified generally as low-technology items.

Although trade between Japan and South Africa has increased, it still reflects the contours of the past. The fact that trade remains asymmetrical is illustrated in a comparison between the structure of South Africa's exports to Japan and South Africa's exports to its other

⁴² Draper P, 'The impact of Japanese investment on South Africa as viewed through an Asian lens', in Alden C & K Hirano (eds), *op. cit.*, p.153.

major trading partners, namely the US, Germany and the UK. According to the DTI, the top 20 products exported to Japan are exclusively from the raw materials and agricultural sectors, with minimal manufactured products.⁴³ In comparison, South Africa's exports to the US include products coming from at least seven manufacturing sectors, to Germany from at least six such sectors and to the UK from at least eight such sectors.⁴⁴

This trend is also reflected in the ranking of manufactured products exported. In the case of Japan, exports do not reflect any manufacturing products in the top 20 exports. Products that experienced the largest annual growth, at 101% in the period 2001–02, are precious metals and stones.⁴⁵ In the case of Germany and the UK, the most significant growth was in the export of South African manufactured/assembled vehicles at 63% and 67% respectively in the same period.⁴⁶

In the period 1992–2002, South Africa remained an important supplier of strategic raw materials to Japan, with limited exports in the manufacturing and value-adding sectors of the economy. Since 1994, the South African government has acknowledged and emphasised the importance of increased trade and investment in these sectors, i.e. the growth sectors of the economy. Although trade between Japan and South Africa has increased over the past 10 years, it is clear that the composition of this trade has not changed significantly and still reflects a North-South trade pattern. This is in stark contrast to South Africa's trade with its other major trading partners, namely the US, Germany and the UK. This trade has been much more in the value-adding, manufacturing sector, and thus the growth sector of the economy. It can therefore be argued that while trade between Japan and South Africa has increased over the past 10 years, it has not taken place in those sectors that are critical to

⁴³ Van der Spuy W & M Glinzler, *op. cit.*, p.91.

⁴⁴ *Ibid.*

⁴⁵ *Ibid.*

⁴⁶ *Ibid.*

economic growth and the development of the South African economy. Hence the classification by the DTI of Japan as a strategic country.

Japan's direct investment in South Africa

Before 1994, Japanese direct investment in South Africa was minimal. After this date, the Keidanren initiative was launched, which attempted to stimulate Japanese investment interest in South Africa.⁴⁷ South Africa became the twelfth business partner of the Keidanren. Since the launch of this initiative, more than 20 investments in excess of \$500 million have been made, primarily in the metals, minerals and automotive sectors.⁴⁸

In the period 1994–2002, Japan ranked as the sixth-largest foreign investor in South Africa.

<i>Country</i>	<i>\$ million</i>
US	5,583
UK	3,649
Malaysia	2,406
Germany	1,534
Switzerland	1,211
Japan	870
Australia	830
Italy	607
France	531
Canada	425
Other	4,030
Total	21,676

Source: Business Map Foundation

⁴⁷ The Keidanren is the Japanese Federation of Economic Institutions, which seeks to achieve a private-sector-led, vital and affluent economy and society in Japan. Its membership of 1,584 comprises 1,268 companies, including 79 foreign ownership, 126 industrial associations and 47 regional employers' associations.

⁴⁸ Enoki Y, 'President Mbeki's visit to Japan: A new era in SA–Japan relations'. Paper presented at African–Asian Society Conference, Johannesburg, 2002.

<i>Sector</i>	<i>\$ million</i>
Telecommunications and IT	3,357
Mining and quarrying	2,621
Motor vehicles and components	2,457
Food, beverages and tobacco	2,431
Energy and oil	1,935
Metal products and minerals beneficiation	1,352
Other manufacturing	1,149
Transport and transport equipment	946
Hotels, leisure and gaming	942
Chemicals, plastics and rubber	795
Source: Business Map Foundation	

There have been three types of Japanese investments in South Africa. The first has been in the mining industry in order to increase exports of processed metals to Japan. This includes the joint venture of Itochu and Samancor to produce manganese and ferro-alloy (\$200,000 invested) and the joint venture of Mitsui and Consolidated Metallurgical Industries to produce ferro-chromium (\$28 million). The second has been in the South African manufacturing sectors that produced Japanese brand products under licensing contracts during the apartheid era, in which Japanese corporations already had an established position. Nissan bought 50% of Automakers for R360 million, Toyota invested R446 million (27% of the shares) in Toyota South Africa, and Sanyo Electronics bought 80% of Sanyo South Africa for \$2.4 million.⁴⁹ The third type of investment has been in those sectors that Japan does not normally focus on. For example, RISO established a wholly owned subsidiary for printer sales, Marubeni started a joint venture with Plessey for telecommunication products, and Mitsubishi Corporation, together with Anglo American, established an investment fund called MCA Investments.⁵⁰

⁴⁹ Osada M, *op. cit.*, p.9.

⁵⁰ *Ibid.*, p.10.

<i>Year</i>	<i>Investment sector</i>	<i>Target company</i>	<i>Source company</i>	<i>Investment value (R million)</i>
1995	Media, print & publications	CMI	Mitsui	100
	Metal products & mineral beneficiation	Samancor	Showa Denko	4
	Metal products & mineral beneficiation	Samancor	Marubeni	3
	Motor components &	Automakers	Mitsui	75
	Motor components &	Automakers	Nissan Diesel	38
1996	Metal products & mineral beneficiation	Samancor	Nisshin Steel & Nissho Iwai	90
	Metal products & mineral beneficiation	Samancor	Japan Metals & Chemicals	100
1997	Machinery	Komatsu SA	Komatsu	90
	Machinery	Komatsu SA	Itochu	30
	Motor components &	Automakers	Nissan Motor Corp.	360
	Motor components &	Fedstone	Bridgestone	290
	Motor components &	Toyota SA	Toyota Motor Corp.	0
1998	Mining & quarrying	Advalloy	Japan Metals & Chemicals	155
1999	Motor components &	Maxiprest	Bridgestone	52.4
Total				1387.4

Source: Business Map Foundation

The investment by Toyota Japan to acquire a stake in Toyota South Africa represented 'the largest direct investment by a Japanese

company since sanctions were lifted.⁵¹ This signalled a move away from the previous trend of indirect investment.

The number of joint ventures between Japanese and South African — as well as Southern African — companies since 1993 is indicative of the changing nature of Japanese investment in South Africa and the region. In total, 19 joint ventures between Japanese and South African companies have been established. Japanese companies have been investing substantial amounts in such joint ventures, with recent trends towards 50% stakes. A successful example of this is the Mozal project in Mozambique. This project was initially viewed as a risky business venture by potential investors. However, a consortium was formed led by the South African mining company Gencor-Billiton (with a 47.11% stake), the Japanese company Mitsubishi (with a 25% stake), the IDC (with a 24.04% stake), and the Mozambique government (with a 3.85% stake). This project demonstrates the most effective way for Japanese companies to limit the risks associated with doing business in Africa and perhaps indicates the reason behind the increase in joint ventures. Joint ventures also allow for the transfer of technology and management skills and create new markets for the countries involved.

It is important to note that while there was a total of \$193 million worth of Japanese investments in South Africa by 1994, 90% of these investments took place between 1992 and 1994, reflecting a long-term commitment to the country.⁵² This is further reflected in the fact that by the end of 1997, Japanese companies had invested over \$400 million in South Africa.

It is difficult to determine the aggregate growth of Japanese investment in South Africa in the period 1992–2002, as there is no reliable data. According to a survey conducted by the Business Map Foundation, FDI in South Africa in 2002 amounted to R44.6 billion, which is considerably more than the amounts of R13.6 billion

⁵¹ *Business Day*, 9 October 1996.

⁵² Sharp D, *op. cit.*, p.105.

invested in 2000 and R17.8 billion invested in 2001.⁵³ The UK is the largest investor at R14 billion, followed by the US at R10 billion, Australia at R5.8 billion and Japan at R2.8 billion.⁵⁴ According to Japan's FDI statistics, this figure constitutes a mere 0.3% of its total FDI in 2002.⁵⁵

At present, there seems to be a consolidation of Japanese investment in South Africa. As stated in a business confidence survey conducted by the Japanese External Trade Organisation (Jetro) in 2002, Japanese companies in South Africa are firmly committed to the region and are involved in a business maturing process that could lead to future expansion of their activities. This seems to imply that Japanese companies are adopting a more realistic and long-term perspective in their dealings with South Africa. Various opportunities and advantages were identified, including the future expansion of the South African market, the potential to utilise South Africa as an export base for manufactured goods, good infrastructure, mineral resources, cheap electricity and government incentives. However, there were also various obstacles that Japanese businessmen identified as affecting future business decisions, including crime, violence, AIDS and the ongoing crisis in Zimbabwe. In addition, the lack of skilled labour, low productivity, poor public services and poor quality control in the manufacturing sector were also cited as problems.

There are many additional areas in which Japanese investment in South Africa can be expanded and deepened. At present, there is a clear consolidation of investment, but no signs of further expansion in the short term. Although the investment outlook in South Africa is positive, South Africa is competing with countries like China for Japanese investment. (After Taiwan and Hong Kong, Japan is the largest investor in China.)

⁵³ Figures obtained from a presentation by Mikio Nagata of Jetro entitled 'The potential for expanded investments between South Africa and Japan' given at the Japan-South Africa Business Forum, 11 November 2003.

⁵⁴ *Ibid.*

⁵⁵ *Ibid.*

Business ultimately drives investment decisions and this dictates that the South African government will have to create a more-conducive environment for Japanese investment if that investment is to grow. In particular, the obstacles identified by Japanese business in South Africa will need to be addressed if Japan is to invest more in the manufacturing sector and increasingly incorporate South African companies into its global manufacturing networks, as it has done in East Asia. Japanese companies' decisions to move part of their manufacturing processes offshore to East Asia can be attributed to cheaper labour costs and higher productivity levels in that region. South Africa will therefore need to compete in these areas.

Conclusion

Although Japan and South Africa share common interests that outweigh the differences between the two countries, it can be argued that the deepening of relations requires a more concerted effort from both countries, especially in the area of trade and investment.

Even though Japan's trade with South Africa in 2002 was a mere 0.6% of its total trade, and investment was a mere 0.3%, the way forward should focus on the opportunities that exist and the benefits that will accrue for both countries through the deepening of economic relations.

Because South Africa is competing with East Asia for Japanese trade and investment, the South African government needs to do more to create an investor-friendly environment. South Africa is viewed as the gateway to Africa, and by investing in South Africa, Japan gains market access to large parts of the African continent. As illustrated by the success of the Mozal project, joint ventures need to be promoted as a viable option for limiting business risk, as well as for generating the benefits resulting from the transfer of technology and management skills, and from access to new markets. This is the case for both countries.

The future expansion of the South African market and the growth in interest in using South Africa as an export base for manufacturing — specifically in the automotive and components sectors, as a result of the Motor Industry Development Programme (MIDP) — are also further opportunities that South Africa should capitalise on. There is clear evidence that South Africa can form part of the global manufacturing platform in both these sectors, thereby representing a complementary production platform to those that exist globally, specifically in East Asia. Other competitive advantages include cheap electricity, good infrastructure, abundance of mineral resources and good geographic location in terms of distribution to the world's major markets.

Although relations between Japan and South Africa have come a long way since the apartheid era, both countries need to recognise that these relations still reflect the contours of the past. A more concerted effort needs to be made in terms of trade and investment in order to take these relations to the next level, the so-called strategic-partner level, as identified by the DTI. Both South Africa and Japan need to recognise the opportunities that will be created by the deepening of relations and make a concerted effort to engage each other in those areas that are mutually beneficial.



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