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## **WILL JAPANESE COMPANIES GET BACK ON THE OFFENSIVE? – THE REAL ISSUE FOR TICAD7**

***Katsumi Hirano***

- TICAD7, being held in Yokohama at the end of this coming August, will be structured around three key issues but both the African and Japanese participants will be putting their greatest focus on promoting Japan-Africa trade and investment.
- Continued downtrends in both imports and exports characterize Japan's trade with Africa, and investment has stagnated. This has created a looming sense of crisis that requires these trends be reversed.
- Consequently, TICAD7's success will be determined by whether a new mechanism can be developed to provide backing to Japanese companies doing business in Africa.

*The views expressed in this piece are the author's own and should not be attributed to The Association of Japanese Institutes of Strategic Studies.*

TICAD7 (The Seventh Tokyo International Conference on African Development), being held in Yokohama at the end of this coming August, will be structured around three key issues – (1) promoting economic transformation and improving the business environment in Africa, (2) deepening sustainable and resilient society, and (3) maintaining peace and stability – but both the African and Japanese participants will be putting their greatest focus on promoting Japan-Africa trade and investment.

Japan's presence in African economies continues to decline. Its exports to Africa dropped from US\$13 billion in 2008 to \$7 billion in 2017, while in the latter year China's exports were \$95.2 billion, France's and Germany's \$29 billion each, India's \$25 billion, South Africa's \$24 billion, and South Korea's \$11 billion. Indeed, Japan has already fallen from the ranks of Africa's major trading partners. Looking at Foreign Direct Investment (FDI) stock as of the end of 2016, the US topped the list at \$57 billion, followed by the UK at \$55 billion, France at \$49 billion, China at \$46 billion, South Africa at \$24 billion, and India at \$14 billion, with Japan at only \$9 billion.

The African Business Education Initiative for Youth (ABE Initiative), put forth by Prime Minister Abe at TICAD5 in 2013 and extended another three years at TICAD6 in 2016, is an aid program that provides 1000 African youth with opportunities for secondary education in Japan as well as internships with Japanese companies, but this program has yet to produce any tangible results.

There are, of course, Japanese companies that have built up robust business foundations in Africa. It goes without saying that Toyota leads the way in automobile production and sales, and it is joined by Toyota Tsusho Corporation, which handles a variety of products in addition to automobiles through a sales network that extends to 53 African countries and which aspires to become involved in infrastructure construction, Kansai Paint, which holds the foremost position in the paint and coatings sector, NTT, which is recognized as the leader in IT solutions, and JT International, which has an extensive network of contract farmers and which has made the deepest inroads into the heart of Africa of any Japanese company. A distinctive feature of these companies is that they have secured human resources through aggressive M&A. The problem lies

in the small number of such global Japanese companies. While the number did drop off after the resource boom came to an end, the outcomes of up to 1,000 new investments made in Africa each year greatly impact the level of presence of companies from around the world, and this is where the investment efforts of Japanese companies are vulnerable.

Nippon Export and Investment Insurance (NEXI) will be joining with the African Trade Insurance Agency (ATI) and the Islamic Development Bank to launch a scheme that will cover not only trade but 100% of country risk as well. JBIC will be coordinating with private-sector banks to set up a credit line of \$650 million that will support African companies importing goods from Japan through two-step loans. Japan External Trade Organization (JETRO) will be holding a Business Forum and a Japan Fair at TICAD7, with one aim being to expand business through third-country collaboration; companies from France, India, the UK and Turkey will be invited to take part in discussions on possible tie-ups with Japanese and African companies.

One reason so few companies in Japan expand overseas is that small and medium-sized enterprises (SMEs) are not involved in any significant way. More than 20% of SMEs in Western countries are engaged in export or business abroad, but the percentage in Japan sits at less than 5%. With TICAD being held in Japan for the first time in six years, JETRO will be inviting as many SMEs as possible to Yokohama, particularly those operating outside the Tokyo metropolitan area.

Great significance can be attached to the fact that the Africa Business Council, whose standing members comprise both public and private institutions, was created this month as a permanent body ahead of TICAD7. The idea that the Japanese economy must open up further to the rest of the world has now taken form. 

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