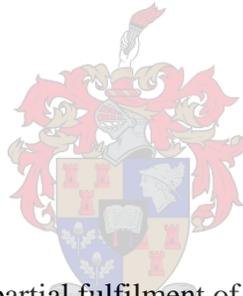


**Japanese Investment In The South African Economy:  
Prospects For The Future**

Philip Rudolph Nel



Assignment/Thesis presented in partial fulfilment of the requirements for the degree of  
Master of Arts (International Studies) at the University of Stellenbosch

Supervisor: Dr. Martyn Davies

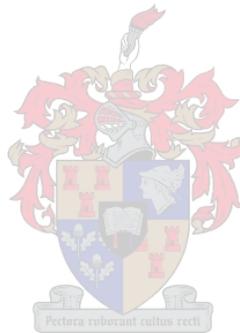
April 2005

Declaration

I, the undersigned, hereby declare that the work contained in this research assignment/thesis is my own original work and that I have not previously in its entirety or in part submitted it at any university for a degree.

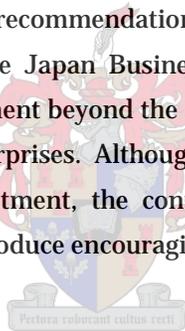
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## **Abstract**

Since its transition to democracy, South Africa has been expecting a significant increase in investment from Japan. Reciprocal state visits and economic missions have been pointing towards a possible rapid expansion of economic relations. Has there been a substantial increase in investment from Japan since South Africa's transition to democracy? Actions taken by Japanese companies on the investment front show a different picture than the optimistic one painted by government officials and ministries. The reality is that South Africa is not yet an important investment destination for Japan. This is despite the presence of companies such as Toyota, Nissan, and Mitsubishi in South Africa since the apartheid era. The automotive sector, mainly as a result of the Motor Industry Development Programme (MIDP), and the Coega Industrial Development Zone (IDZ) are the most promising prospects for future investment from Japan. The challenge for South Africa is to increase Japanese investor confidence in its economy. The creation of a possible synergy between Japan's Tokyo International Conference on African Development (TICAD) and the South African-led New Partnership for Africa's Development (NEPAD) must be explored. Other recommendations include building stronger ties with influential business groups such as the Japan Business Federation (Nippon Keidanren), and widening the scope of trade and investment beyond the large and established corporations to also include more small and medium enterprises. Although the outlook is bleak for a short-term substantial increase in Japanese investment, the continuing facilitation of stronger relations between Japan and South Africa may produce encouraging results over the long-term.



## Opsomming

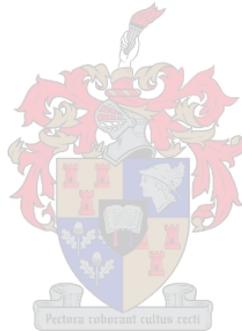
Suid-Afrika se oorgang na demokrasie het hoë verwagtinge geskep vir 'n toename in Japanese investering in die Suid-Afrikaanse ekonomie. Suid-Afrika en Japan het reeds gedurende apartheid 'n betekenisvolle ekonomiese verhouding bewerkstellig. Verskeie wederkerige besoeke op 'n staats- en ekonomiese vlak tussen dié twee lande sedert 1994 was bewys van 'n moontlike uitbreiding van ekonomiese verhoudinge. Het Japanese investering in Suid-Afrika aansienlik toegeneem sedert 1994? Retoriek deur beide regerings en spesifieke staatsamptenare het gehelp om die indruk te skep dat daar wel 'n wesenlike toename was in Japanese investering. Werklike investering deur Japanese maatskappye dui egter daarop dat Suid-Afrika huidiglik nie 'n prioriteit is vir Japan nie. Die motor-industrie en die Coega Industriële Ontwikkelings Area (IDZ) is die mees belowende vooruitsigte vir toekomstige Japanese investering. Die uitdaging is om Japanese beleggers te oortuig van Suid-Afrika se hoë investeringspotensiaal. 'n Koördinasie tussen die doelwitte van Japan se *Tokyo International Conference on African Development* (TICAD) en Afrika se *New Partnership for Africa's Development* (NEPAD) moet bewerkstellig word. Addisionele aanbevelings sluit in die bevordering van samewerking met invloedryke besigheidsgroepe soos Japan se Nippon Keidanren, en 'n poging om klein- tot medium grootte besighede te betrek in die investeringsproses. Alhoewel die kans skraal is vir 'n aansienlike korttermyn toename in Japanese investering kan die voortdurende bevordering van verhoudinge tussen Japan en Suid-Afrika uiteindelik lei tot meer positiewe resultate.



## Acknowledgements

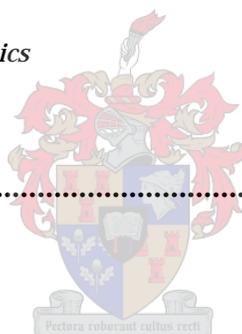
I would like to thank a few of the many people and organizations who in some way contributed to the completion of this study.

- This study would not have been possible without the guidance of Dr. Martyn Davies, who provided valuable comments and criticism throughout the research process. Thank you for your time and patience.
- The Government of Japan, whose *Monbukagakusho* scholarship program made this study possible. Your generous financial assistance allowed me to live and study in Japan, and in the process gain insight into a unique and fascinating culture.
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## Contents

<b>Introduction.....</b>	<b>1</b>
Thesis Motivation	
Methodology	
<b>Chapter 1.....</b>	<b>4</b>
1.1 Introduction	
1.2 Investment, Trade and Aid	
1.2.1 <i>Investment</i>	
1.2.2 <i>Trade</i>	
1.2.3 <i>Aid</i>	
1.3 Japan and South Africa	
1.3.1 <i>Investment</i>	
1.3.2 <i>Trade</i>	
1.3.3 <i>Between Politics and Economics</i>	
1.4 Conclusion	
<b>Chapter 2.....</b>	<b>15</b>
2.1 Introduction	
2.2 FDI Trends in Africa	
2.3 FDI Trends in South Africa	
2.3.1 <i>Great Expectations</i>	
2.4 Conclusion	
<b>Chapter 3.....</b>	<b>26</b>
3.1 Introduction	
3.2 Japanese Investment in the “new South Africa	
3.2.1 <i>The Automotive Industry</i>	
3.2.2 <i>Other Investment</i>	
3.3 Trade	
3.4 Challenges to Investment: Why Japan is Staying Away	
3.4.1 <i>The Japanese Economy</i>	
3.4.2 <i>South Africa’s Challenges</i>	
3.4.3 <i>The Role of China</i>	



### 3.5 Conclusion

**Conclusion.....44**

**Recommendations.....45**

The South Africa-Japan Business Forum: Bringing in “New” Blood

Developing Stronger Ties with the Japan Business Federation

Creating a Synergy Between TICAD and NEPAD

**Bibliography.....50**

### List of Tables and Figures

Table 1.1 Top 10 Recipients of Japanese ODA in Africa: cumulative to 1988

Table 1.2 Japan’s Bilateral ODA to Africa: Selected Countries

Table 1.3 Japan’s Trade with South Africa

Table 1.4 Japan-South Africa Trade

Table 2.1 FDI Inflows to Major Economies, 2001 and 2002

Table 2.2 FDI Inflows, selected African countries

Table 2.3 Ranks in the UNCTAD Inward FDI Performance Index, 1999-2001

Table 3.1 South Africa’s Trade with Japan

Table 3.2 Selected Economic Indicators (Japan)

Table 3.3 Human Development Index (Japan), Selected Indicators

Figure 2.1 FDI Trend in South Africa

Figure 2.2 Total FDI Inflows

Figure 3.1 Japanese FDI in Africa

Figure 3.2 Japanese FDI in South Africa



## Introduction

Upon his return from a state visit to Japan in 2001, President Thabo Mbeki was asked about the prospect of future Japanese investment in the South African economy. The president's reply was optimistic: "I'm quite sure that we will see announcements in the near future announcing major investment initiatives...The means are there among these major corporations and what is very exciting is that the commitment is there to make these investments".<sup>1</sup> Has there been a substantial increase in investment from Japan since South Africa's transition to democracy? Actions taken by Japanese companies on the investment front show a different picture than the optimistic one painted by government officials and ministries. The reality is that South Africa, despite being an economic powerhouse in Africa, is not yet an important investment destination for Japan.

Japanese investment in South Africa must be examined within the larger scope of evolving relations between the two countries. In a speech delivered at the University of the Witwatersrand in 2001, former Japanese Ambassador to South Africa Yasukuni Enoki stated that South Africa is Africa's Japan.<sup>2</sup> He pointed out that although there are many obvious differences between the two countries, there exist even more similarities. According to Enoki, the most important of these are the status of Japan and South Africa as being the most developed economies in their respective regions.<sup>3</sup> This is despite Japan's current economic difficulties and the growing emphasis on China, and South Africa having to battle its high rate of poverty and joblessness. Although Enoki's comparison is not strikingly original it does draw attention to the continuing neglected study of Japan-South Africa relations.

### Thesis Motivation

Even with the end of apartheid and South Africa's transition to democracy there remains a lack of quality research on the dimensions and complexities of Japan-South Africa relations. Although there have been a few studies of marked interest in this field, the overall attention given to Japan's relations with the African continent has been disappointing.<sup>4</sup> There is a continuing dearth

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<sup>1</sup> "Japanese firms see huge opportunities in SA". *Business Day Online*. 8 October 2001. [Available at <http://www.businessday.co.za>]

<sup>2</sup> "South Africa is Africa's Japan". Speech by the Ambassador of Japan Yasukuni Enoki at the University of the Witwatersrand (18 July 2001).

<sup>3</sup> *Ibid*

<sup>4</sup> From a Japanese perspective some in-depth analysis has been done. See for example: Osada, Masako. 2002. *Sanctions and Honorary Whites: Diplomatic Policies and Economic Realities in Relations Between Japan and South Africa*. Connecticut: Greenwood Press; Morikawa, Jun. 1997. *Japan and Africa: Big Business and Diplomacy*. London: Hurst & Company.

of critical analysis on the problems involved in fostering closer co-operation between Japan and Africa. As Morikawa points out: "From the point of view of developing mutually beneficial relations between Japan and African countries, serious political and intellectual issues still exist. Despite the fact that the shadow of Japan's influence over Africa has spread rapidly, the implications of this influence have not been greeted with much interest or given much attention in Japan itself. Unfortunately, even many leading students of African international relations and Japanese studies regard Japan as an external actor of secondary importance in Africa and do not give much value or sense of urgency to the subject. This attitude has become deeply entrenched both within and outside of Japan. As a result, a large gap exists between perceptions and reality and little critical, analytical study of Japan's modern African diplomacy has been undertaken to date".<sup>5</sup> Morikawa is mostly critical of the lack of interest from the Japanese side, but there seems to be just as much disinterest from South African scholars on Japan's relations with Africa. This lack of interest on both sides can be attributed to the differences between the two countries. These include geographical distance, cultural differences, and overall lack of general knowledge. This paper will aim to make a substantial contribution to the study of Japan-Africa relations, focusing on the prospect of future Japanese investment in South Africa.

### Methodology

In order to understand the complexities involved in current and future Japan-South Africa relations it is necessary to examine both political and economic aspects. Both Japan and South Africa have definite political and economic motivations in striving for closer co-operation and expanding their relationship. Only by studying these motivations can a critical and comprehensive understanding be achieved. This will involve identifying and analyzing the major policy-makers and actors in both countries such as government institutions, business organizations, and political figures. In addition, past relations and areas of co-operation should be examined in order to make a forecast about the nature of future relations.

Any study of Japan-South Africa relations will have to address several issues and questions in order to obtain a comprehensive understanding. This paper will examine the prospect of future Japanese investment in South Africa in four parts.

Chapter 1 provides an overview of Japan's political and economic involvement with Africa during the Cold War period. Africa had little significance for Japan in the first two decades following

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Concerning analysis from a South African perspective, there has been very little substantial contributions. A recent study by scholars from Japan, South Africa, and Great Britain stands out. See Chris Alden and Katsumi Hirano (eds). 2003. *Japan and South Africa in a Globalising World*. England: Ashgate Publishing Limited.

<sup>5</sup> Morikawa, Jun. 1997. *Japan and Africa: Big Business and Diplomacy*. London: Hurst & Company.

World War II. However, this changed in the early 1970's with the onset of the oil crisis. The oil crisis is regarded by many observers as the turning point for Japan's African policy, but there were also other aspects to Japan's diplomacy. Its relations with apartheid South Africa was a controversial subject and this affected its policy toward other African countries.

Chapter 2 looks at the importance of foreign direct investment (FDI) for South Africa's economy. FDI has been identified as a crucial ingredient for economic growth and hence South Africa's effort to attract investment from countries such as Japan. FDI trends in Africa during the 1990's will be examined as well as South Africa's FDI performance during the same period. This section will touch on some of the problems that still impedes South Africa's ability to attract significant levels of FDI. There have been efforts by South Africa to tackle its investment problems. These include the International Investment Council created by Thabo Mbeki.

Chapter 3 focuses on Japanese investment in South Africa in the post-apartheid era. Despite an abundance of positive rhetoric and propaganda from government officials and ministries, there has been no substantial increase in Japanese investment in the South African economy since 1994. There are still considerable challenges in attracting foreign investment from Japan. These include the health of the Japanese economy, Japanese investor confidence in South Africa, and China's growth as a major FDI destination. The nature of trade will also be examined since it has traditionally been an important aspect of Japan-South Africa relations and can be compared with investment levels.

In conclusion, some recommendations will be offered as to how South Africa can increase Japanese investor confidence in its economy. These include strengthening political relations through initiatives such as the Tokyo International Conference on African Development (TICAD) and the New Partnership for Africa's Development (NEPAD), building stronger ties with influential business groups such as the Japan Business Federation (Nippon Keidanren), and widening the scope of trade and investment beyond the large and established corporations to also include more small and medium enterprises. Although the outlook is less than rosy for a short-term substantial increase in Japanese investment, the continuing facilitation of stronger relations between Japan and South Africa may produce positive results over the long-term.

## CHAPTER 1

### A Brief History of Japan's Involvement with Africa

#### 1.1 Introduction

Relations between Japan and Africa during the 20<sup>th</sup> century have been viewed with general disinterest among international scholars and analysts. This is understandable since Africa received very little consideration in Japan's post-World War II foreign policy. Japan's foreign policy during the Cold War period was heavily influenced by its alliance with the United States. In the years following the Allied Occupation Japan's foreign policy began to take shape. The 1951 Japan-United States Security Treaty provided Japan with the opportunity to focus almost exclusively on its economic expansion. The *Yoshida Doctrine*, named after former Prime Minister Yoshida Shigeru, led the way for Japan's economic development and its foreign policy. It became a strong ally of the United States and decided to base its economic future on the post-war international economic system. The Yoshida Doctrine was the start of Japan's so-called *economic diplomacy*. This diplomacy was dominated by the idea of *seikei bunri*, the separation of politics and economics. Weinstein describes the Yoshida Doctrine as follows: "Prime Minister Yoshida's strategy was rooted in the belief that the alliance with the United States would protect Japan against the Communist, Soviet threat to its military security and political stability. Within the secure, stable strategic-political framework provided by the security treaty...the Japanese would be able to concentrate their energies and organizational skills in the 1950's on the task of economic reconstruction, and then on the goal of becoming a highly efficient, competitive industrial economy".<sup>6</sup>

There were also other characteristics of Japan's post-war foreign policy. There was great emphasis on co-operation with the other industrialised countries, such as those of Western Europe, Australia, New Zealand, and Canada. Japan also attempted to promote relations with Third World countries, especially those of Asia. Therefore, Africa was only of distant importance to Japan and relations between the two centered mainly on trade. It was not until the early 1970's that Africa became of greater importance to Japan. The main reason for this was Japan's renewed economic interest in the region due to the oil crisis of 1973.

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<sup>6</sup> Weinstein, Martin E. "Japan's Foreign Policy Options: Implications for the United States". [Available at [http://www.acdis.uiuc.edu/Research/S&Ps/1990-Fa/S&P\\_V-1/foreign\\_policy.html](http://www.acdis.uiuc.edu/Research/S&Ps/1990-Fa/S&P_V-1/foreign_policy.html)]

The year 1973 brought a new dimension to Japan's Africa policy.<sup>7</sup> Oil was a crucial resource for Japan and its economic development post-World War II. The fourth Arab-Israeli war and the ensuing oil crisis had severe implications for Japan. Japan realised the danger of depending on the Middle Eastern countries for oil and it sought to extend the number of countries it could import resources from. Africa, with its abundant supply of raw materials and resources was a logical option for Japan. Whereas previously Japan was largely inactive concerning African affairs, it would now have to pursue a more active African policy involving investment, trade, and aid.

## 1.2 Investment, Trade and Aid

### 1.2.1 *Investment*

Japanese investments in Africa were generally aimed at manufacturing ventures in countries such as Kenya, South Africa and Nigeria, and mining ventures in countries with abundant natural resources such as Niger, Nigeria, Zambia, and Zaire. From 1951 to 1982 investment in Africa accounted for only approximately 4 percent of Japan's total foreign investment.<sup>8</sup> However, some investments represented sizable amounts of certain products. For example, investments in resources such as oil, iron ore, and copper were significant when compared to similar resource investments in other regions. Although African countries wanted more investment from Japan, Japanese companies were still very negative about investing in Africa. Surveys revealed that the main reasons for Japanese business not investing in Africa were political instability, problems with raising capital, quality of labour and economic instability. Also, at the time Japanese companies still preferred to manufacture their products locally instead of establishing overseas production facilities.

### 1.2.2 *Trade*

In addition to securing raw materials for its economy Japan also began to expand trade with Africa as it sought to expand its export markets. Trade with Africa constituted a very small part of Japan's overall trade. However, the trade relationship had three distinct characteristics. First, the trading pattern was typical of trade between developed and developing countries. Japan exported industrial products to Africa such as metal goods and machinery, while importing raw materials such as iron ore, copper, and uranium. Second, Japan had a regular trade surplus with Africa, with exports usually at twice the level of imports. Third, Japan traded almost exclusively with

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<sup>7</sup> See Oda, Hideo and Kazuyoshi Aoki. 1985. "Japan and Africa: Beyond the Fragile Partnership" in Ozaki, Robert S. and Walter Arnold (eds), *Japan's Foreign Relations: A Global Search for Economic Security*. Colorado: Westview Press.

<sup>8</sup> *Ibid*

those countries that possessed a wealth of natural resources. These countries included South Africa, Nigeria, and Ivory Coast. Japan's interest in these countries were reflected by its sending of political and economic missions. In 1974, Japanese foreign minister Kimura Toshio visited Ghana, Nigeria, Zaire, Tanzania, and Egypt. The fact that not a single Japanese prime minister or foreigner minister had visited Africa between 1960 and 1973 further added to the importance of Kimura's visit. The visit was supposedly intended to deepen Japan's understanding of Africa's problems and policies. However, observers believe that the real purpose was to secure Japan's resource interests in the region.<sup>9</sup> On the economic front Japan sent a mission to Nigeria, Ivory Coast, Tanzania, and Senegal in 1978. The mission was led by Fumihiko Khono, chairman of the Committee on Africa of the then Federation of Economic Organizations (now Japan Business Federation). The mission was seen as a "manifestation that Japan's business circles showed an active interest in Africa".<sup>10</sup>

### 1.2.3 Official Development Assistance (ODA)

Japan's aid policy to Africa during the Cold War period had three objectives.<sup>11</sup> First, it served the strategic and ideological interests of the United States. Countries that were important in terms of countering the spread of communism and the influence of the Soviet Union were recipients of ODA. Second, Japan's aid policy was aimed at securing resources and expanding its export markets. Some observers believe that Japanese ODA to Africa was a "thinly disguised export promotion program".<sup>12</sup> This was the result of high levels of co-operation between the Japanese public and private sectors.

Japanese aid has been described as *seed* money for investments in developing countries. The majority of this aid has been for infrastructural projects such as power plants and port facilities. These projects create a more attractive environment for Japan in terms of investment and developing export markets. Finally, Japan increasingly began to use its aid to try and deflect criticism from African countries about its trade relationship with apartheid South Africa. The lack of African interests in Japan's Cold War aid policy stands out. According to Nester, "neo-mercantilist logic overrode any humanitarian concerns".<sup>13</sup> Japan was apparently not concerned about returns on the aid it provided to Africa. It saw Africa as geographically distant and

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<sup>9</sup> Ampiah, Kweku. 1997. *The Dynamics of Japan's Relations with Africa: South Africa, Tanzania and Nigeria*. London and New York: Routledge.

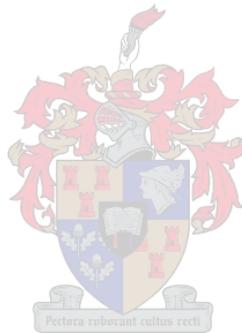
<sup>10</sup> Oda and Kazuyoshi, 1985.

<sup>11</sup> Eyinla, Bolade M. 1999. "The ODA Charter and changing objectives of Japan's aid policy in Sub-Saharan Africa". *The Journal of Modern African Studies*. 37(3): 409-430.

<sup>12</sup> Orr, Robert M. 1990. *The Emergence of Japan's Foreign Aid Power*. New York: Columbia University Press.

<sup>13</sup> Nester, William R. 1992. *Japan and the Third World: Patterns, Power, Prospects*. London: Macmillan.

troublesome to deal with. Only a handful of countries received the majority of Japanese aid to Africa. Between 1960 and 1990 eight countries shared more than 70 percent of total Japanese aid to Africa.<sup>14</sup> These countries were Kenya, Madagascar, Niger, Nigeria, Sudan, Tanzania, Zaire and Zambia (See Table 1.1). The majority of aid was tied to the purchase of Japanese goods and services. Aid was mostly targeted towards countries in which Japan had economic interests, such as natural resources and export markets. Countries such as Kenya, Tanzania, and Zambia continued to be major recipients of Japanese aid through the 1990's (Table 1.2).



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<sup>14</sup> Nester, William. 1991. "Japanese Neomercantilism Toward Sub-saharan Africa". *Africa Today*. 38(3): 31-52.

**Table 1.1 Top 10 Recipients of Japanese ODA in Africa: cumulative to 1988**

(Unit: US \$1 billion)

Kenya	140,2
Tanzania	94,2
Zambia	87,0
Nigeria	81,4
Ghana	75,9
Zaire	61,9
Madagascar	45,8
Senegal	37,1
Malawi	30,3
Niger	27,0

Source: Morikawa, 1997.

**Table 1.2 Japan's Bilateral ODA to Africa: Selected Countries** (Unit: US\$ million)

	1990	1991	1992	1993	1994	1995	1996
<b>Ethiopia</b>	11,23	17,64	10,50	47,64	43,89	62,49	50,15
<b>Ghana</b>	28,80	36,84	22,34	33,53	53,36	37,01	36,98
<b>Kenya</b>	75,52	48,01	57,69	57,06	78,08	93,77	76,12
<b>Madagascar</b>	14,52	34,87	16,47	48,91	33,81	30,01	47,52
<b>Mozambique</b>	17,47	16,42	39,84	20,18	44,70	41,26	32,17
<b>Senegal</b>	60,05	25,30	46,17	35,60	76,05	67,52	58,66
<b>South Africa</b>	0,15	0,40	1,05	1,80	3,09	4,34	7,30
<b>Tanzania</b>	43,40	56,10	79,33	99,60	106,67	125,87	109,49
<b>Zambia</b>	40,11	61,02	73,68	68,94	87,35	62,04	48,27

Source: Japan's Annual ODA Reports.

### 1.3 Japan and South Africa

In 1961, Japan and South Africa had agreed to resume official diplomatic relations and the consulate in Pretoria was to be upgraded to an embassy. However, in light of South Africa's delicate international position the Japanese government feared that the opening of an embassy "might invite severe criticisms both at home and abroad".<sup>15</sup> Therefore, the establishment of the embassy did not occur. The status of Japan-South Africa relations would remain consular and non-diplomatic until 1992.

In the early 1960's the South African government granted the Japanese so-called "honorary white" status. This meant that under the Group Areas Act the Japanese would be treated as Whites. However, it should be pointed out that the term "honorary white" was never used officially. At the time, the South African Minister of the Interior Jan de Klerk stated that it was not necessary to declare the Japanese as a separate group under the Group Areas Act, but that they would be treated as Whites.<sup>16</sup> Due to South Africa's economic ties with Japan, the "honorary white" status became a controversial and complicated aspect of relations between the two countries and is indicative of the complex nature of this relationship during apartheid.

#### 1.3.1 *Investment*

As a result of South Africa's apartheid policies and international criticism thereof, Japan banned outbound investment to South Africa by its companies in 1965. However, Japanese companies continued to invest in South Africa and accomplished this through various methods. According to Nester, "Japanese firms use a variety of ingenious means to get around the official ban on investments".<sup>17</sup> Japanese companies sometimes acted as "diplomatic go-betweens" and were granted lucrative contracts in return.<sup>18</sup> In one instance, Mitsui was awarded a contract for an oxygen furnace because it had assisted in the facilitation of an important coal deal between South Africa and Japan. In 1971, Mitsubishi received a US\$3.3 million contract for the construction of a steel mill for its cooperation in a similar trade deal.<sup>19</sup>

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<sup>15</sup> Ohta, Masatoshi. 1995. "For A Smaller Indian Ocean". *Round Table*. Issue 336: 413-432.

<sup>16</sup> Kawasaki, Seiro. 2001. "The Policy of Apartheid and the Japanese in the Republic of South Africa". *Tokyo Kasei Gakuin. Tsukuba Women's University Bulletin*. Volume 6. [Available at <http://www.kasei.ac.jp/library/kiyou/2002/2.KAWASAKI.pdf>]

<sup>17</sup> Nester, 1991.

<sup>18</sup> *Ibid*

<sup>19</sup> *Ibid*

Japanese companies also sidestepped the ban on investments through the legal establishment of subsidiaries in South Africa.<sup>20</sup> This allowed South African companies to assemble Japanese products. Japanese auto companies employed this strategy very successfully as Toyota, Nissan, and Mitsubishi, among others, established assembly plants in South Africa. Other Japanese companies that made significant investments included Yokohama, Bridgestone, Honda, Yamaha, Suzuki, Sony, Hitachi, Sharp, Sanyo, Pioneer, and Matsushita.<sup>21</sup>

### 1.3.2 Trade

Trade between the two countries began to expand rapidly from 1960 and South Africa soon became Japan's biggest market in Africa. Between 1960 and 1972 the volume of trade increased approximately 567 percent. Table 1.3 indicates the development of trade between the two countries from 1960 to 1990. For most of this period South Africa enjoyed a trade surplus with Japan. There was also a noticeable change in the nature of goods being traded. Japan's exports to South Africa shifted from textiles and light industrial products to heavy industrial products and machinery. Raw materials replaced agricultural products as South Africa's main export to Japan.

Japan's involvement in the South African economy continued to expand in the 1970's. South African Prime Minister John Vorster initiated several large-scale industrialisation projects and Japanese companies made a significant contribution by providing loans and equipment. In return for this assistance Japan received a long-term guarantee of essential minerals such as iron ore and copper. Major Japanese trading houses such as Nissho Iwai, Marubeni, and Mitsubishi had a share in these projects. Manufacturers such as Hitachi and Kawasaki were also involved.

During the 1980's Japan implemented selected sanctions against South Africa and took restrictive measures in order to scale down its economic relationship. However, this did not prevent Japan from becoming South Africa's largest trading partner in 1987 with trade reaching approximately US\$4.9 billion. This came as quite a surprise to the Japanese and it attracted criticism both at home and abroad. However, from an economic viewpoint this was not surprising since Japan's economy expanded at a rapid pace during the 1980's and the demand was high for raw materials.

Following this unexpected development, Japan undertook several steps to limit the political fallout. South African anti-apartheid leaders were invited to Japan and permission was given to

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<sup>20</sup> See Ohta, Masatoshi. 1995. "For A Smaller Indian Ocean". *Round Table*. Issue 336: 413-432; Bates, David. 1988. "Business As Usual With Pretoria". *Multinational Monitor*. 9(9); As Bates notes, "Japanese auto companies relinquish profits and direct control of the subsidiary's production and marketing activities in exchange for the subsidiary paying licensing royalties and buying parts and unassembled, *knockdown* vehicles".

<sup>21</sup> Nester, 1991.

open an African National Congress (ANC) office in Tokyo. At the time, ANC representatives such as Allan Boesak urged the Japanese to pressurise its government and business to cease collaboration with South Africa.<sup>22</sup> The Ministry of Foreign Affairs (MOFA) and the Ministry of International Trade and Industry (MITI) also called on Japanese companies to restrict their trade with South Africa. This was not an official restrictive measure but only a request on private business to exercise “voluntary control” on trade.<sup>23</sup> However, Japanese business did start restricting their trade and in 1993 trade was down to \$US3.9 billion. It should be noted that this decrease in trade coincided with the bursting of Japan’s economic bubble during the same period. In terms of trade Japan was more important for South Africa and not vice versa. South Africa only constituted about 1 to 2 percent of Japan’s total trade during the apartheid era (See Table 1.4). On the other hand, Japan emerged as a major trading partner for South Africa.

#### 1.3.4 *Between Politics and Economics*

Japan’s relations with South Africa during the apartheid era were determined by two factors: trade and non-diplomatic relations. In dealing with South Africa, Japan seemed to place economic interests above political ones. According to Alden, “South Africa’s relations with Japan during the apartheid era were dominated by trade concerns. Indeed, the National Party’s willingness to compromise on its core racist ideology by designating Japanese as ‘honorary whites’ – and Japanese businesses’ willingness to overlook apartheid, in search of trade and investment opportunities – set the stage for the nature of the relationship”.<sup>24</sup>

Furthermore, some observers suggest that Japan’s silence on apartheid was a result of its interest in South Africa’s natural resources. According to Ampiah, “In essence, for a country with an expanding economy and few local raw materials, every relevant primary resource producer was a viable partner. It is in this respect, rather than for its immoral principles, that Japan’s policy makers and business executives disapproved of apartheid; for apartheid, in practice, created the circumstances that made it impossible for Japan to trade and invest freely in South Africa”.<sup>25</sup> However, this is an economic-centric and fairly harsh view of Japan’s opposition to apartheid. Although many Japanese companies would have objected to South Africa’s apartheid policies because it impeded trade and investment, there were non-governmental and non-business resistance to Japan’s involvement with South Africa.<sup>26</sup>

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<sup>22</sup> *Ibid*

<sup>23</sup> Ohta, Masatoshi. 1995. “For a smaller Indian Ocean”. *Round Table*. Issue 336: 413-432.

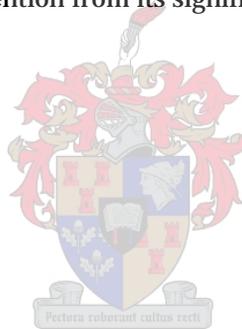
<sup>24</sup> Alden, Chris. 2002. “The chrysanthemum and the protea: re-inventing Japanese-South Africa relations after apartheid”. *African Affairs*. 101(404): 365-386.

<sup>25</sup> Ampiah, 1997.

<sup>26</sup> Nester, 1991.

The Japan Anti-Apartheid Committee (JAAC), established in 1964, attempted to exert pressure on the Japan External Trade Organisation (JETRO) as well as banks and companies that had invested in South Africa. It also held demonstrations at South Africa's consulate in Tokyo and sponsored ANC representatives in Japan. However, with few members and no influence on policymaking, the JAAC struggled to make an impact. What should also be considered is that Japan did not have official diplomatic relations with South Africa until 1992. Whereas the United States and most European countries had established embassies that allowed them to exert considerable pressure on South Africa to dismantle apartheid, Japan lacked this capability.<sup>27</sup>

Although Japan's government ministries such as MOFA and MITI were very sensitive to the issue of apartheid and did not want to be seen by the international community as collaborating with South Africa, they did not have any intention of stopping trade.<sup>28</sup> This is an indication of how Japan sought to maximise its own interests in dealing with South Africa. While it periodically objected to the policy of apartheid, it continued to develop economic relations with Pretoria. Symbolic gestures such as expressing its opposition to apartheid and calling for the release of Nelson Mandela could not deflect attention from its significant economic relationship with South Africa.



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<sup>27</sup> Ohta, 1995.

<sup>28</sup> Osada, Masako. 2002. *Sanctions and Honorary Whites: Diplomatic Policies and Economic Realities in Relations Between Japan and South Africa*. Connecticut: Greenwood Press.

**Table 1.3** **Japan's Trade with South Africa** (Unit: US \$1 million)

	Exports	Imports
1960	57	58
1965	138	126
1970	329	314
1975	872	868
1980	1,800	1,741
1985	1,021	1,844
1990	1,477	1,843

Source: METI, *Trade White Papers*: 1961-1993.

**Table 1.4** **Japan-South Africa Trade**

	Japan's share of SA Total Trade (%)	SA's share of Japan Total Trade (%)
1960	3.9	1.3
1965	9.1	1.6
1970	11.2	1.7
1975	13.5	1.5
1980	8.0	1.3
1985	10.5	0.9
1990	8.1	0.6

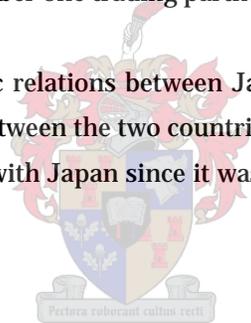
Source: METI, *Trade White Papers*: 1961-1993.

#### 1.4 Conclusion

There can be no doubt that Japan's interests in Africa during the Cold War era were predominantly grounded in economic considerations. Although it sought to expand its export markets in Africa, trade and investment with the continent constituted only a fraction of Japan's total foreign trade and investment. Japan also emerged as a generous donor of ODA to Africa. Aid was generally directed toward those countries that were of economic importance to Japan. In other words, they possessed either large supplies of natural resources or they were considered as potential export markets for Japanese products.

Japan's economic involvement with South Africa emerged as the defining feature of its relations with Africa. As a result of strong international criticism of the South African government's racial policies, Japan attempted to obscure its trade and investment activities. Despite political gestures and economic actions by the Japanese government to reduce trade and investment, Japanese companies continued their activities in South Africa. This reached a highpoint in 1987, when Japan emerged as South Africa's number one trading partner.

The resumption of official diplomatic relations between Japan and South Africa in 1992 set the stage for a new era of co-operation between the two countries. The South African government was especially optimistic about relations with Japan since it was expecting a flood of investment from that country's business community.



## CHAPTER 2

### Foreign Investment Trends in Africa and South Africa

#### 2.1 Introduction

Before any analysis of investment trends in Africa and South Africa can be undertaken it is necessary to define foreign direct investment (FDI). FDI can be defined as a “cross-border investment in which a resident in one economy (the direct investor) acquires a lasting interest in an enterprise in another economy (the direct investment enterprise). The lasting interest implies a long-term relationship between the direct investor and the direct investment enterprise and usually gives the direct investor an effective voice, or the potential for an effective voice, in the management of the direct investment enterprise”.<sup>29</sup> The International Monetary Fund (IMF) defines foreign investment as direct when the investor has a 10 percent or more share of the enterprise.<sup>30</sup> FDI should not be confused with foreign “portfolio investment”. Portfolio investment entails the purchase of shares and bonds, and does not give the investor direct managerial control over the business.

#### 2.2 FDI Trends in Africa

Africa attracts only a fraction of global FDI flows. Since the beginning of the 1990's the continent's share of global FDI has been between 1 and 2 percent. Although several African countries are implementing reforms and creating economic environments conducive to investment, Africa as a region attracts the least amount of FDI (See Table 2.1). Political and economic instability, poor infrastructure, and the spread of HIV/AIDS are just some of the factors influencing the level of FDI into Africa.

FDI in Africa is far from evenly spread. The majority of African FDI is shared by a few countries such as Angola, Nigeria, and South Africa. Although FDI remains highly skewed in the region it has become less concentrated over time. In 1980 five countries – Algeria, Namibia, Nigeria, South Africa, and Tunisia – attracted more than 80 percent of FDI flows to Africa. In 2002 this composition has changed, with Angola and Morocco replacing Algeria and Namibia in the top five.

FDI flows to Africa have increased significantly over the past decade. From \$US2.4 billion in 1990 to \$US11 billion in 2002. However, the level of FDI in Africa has been erratic (See Table 2.2). FDI in 2000 was down from 1999, and 2002 saw a significant drop from 2001 levels, when FDI

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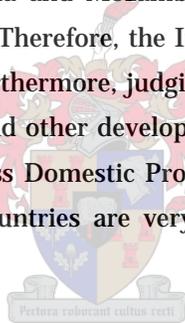
<sup>29</sup> *Foreign Direct Investment in Emerging Market Countries*. Report of the Working Group of the Capital Markets Consultative Group. September, 2003.

<sup>30</sup> See *Foreign Direct Investment*. 1997. International Finance Corporation. Washington, DC.

totalled approximately \$US19 billion. Africa's share of global FDI fell from 2.3 percent in 2001 to 1.7 percent in 2002. Taking into consideration that worldwide FDI flows were down in 2002, Africa's FDI performance should not cause too much concern.

Increasing efforts by African countries to promote FDI, and trade and investment initiatives by the United States, the European Union, and Japan may have a significant impact on Africa's future FDI performance. Initiatives such as the African Growth and Opportunity Act (AGOA) and the New Partnership for Africa's Development (NEPAD) offer hope of expanded trade and investment in the region. One of NEPAD's priorities is to increase investment in infrastructure and energy, while the AGOA is a preference scheme that could lead to a considerable increase in African exports to the United States.

Several African countries also rank highly on the United Nations Conference on Trade and Development (UNCTAD) Inward FDI Performance Index (See Table 2.3). The Index ranks countries according to the amount of FDI they receive relative to their economic size.<sup>31</sup> It should be noted that countries such as Angola and Mozambique rank highly mainly because of big investments in their natural resources. Therefore, the Index is not necessarily an indication of a strong and well-managed economy. Furthermore, judging solely by economic size, there is not a significant difference between Africa and other developing regions. Some African states actually receive more FDI relative to their Gross Domestic Product (GDP) than the average developing country.<sup>32</sup> However, most of these countries are very small economies such as Cape Verde, Togo, and Lesotho.



Despite these few positive aspects, Africa is still faced with major impediments to investment. Civil war and other forms of conflict still plague many countries such as Burundi, Liberia, and Somalia. At the same time, perceptions of political and economic instability remain one of the largest impediments to FDI in Africa. This is in part because of the "enduring investor memory of former nationalisation policies and fears that a new political regime might simply reverse policies such as the protection of property rights".<sup>33</sup> The political turmoil in Zimbabwe is a relevant example, and the sharp drop in investment in that country over the past few years should be noted (See Table 2.2). The result is that investors are staying away because of Africa's image problem. Some observers believe the potential in African markets are being overlooked as a result of disinformation. As one analyst notes, "...avoiding South Africa and Kenya because of close proximity to Zimbabwe and Somalia is like avoiding the Swiss market because it's near to the

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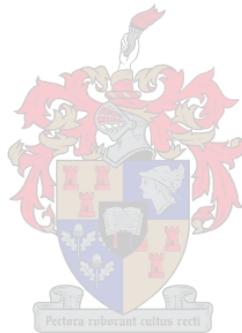
<sup>31</sup> UNCTAD. *World Investment Report 2003* (CD-ROM Edition). The results of the Inward FDI Performance Index are calculated as the ratio of a country's share in global FDI to its share in global GDP.

<sup>32</sup> See "The happy few". *Business Africa*. October 16<sup>th</sup>-31<sup>st</sup>, 2002. The Economist Intelligence Unit.

<sup>33</sup> "Must try harder". *Business Africa*. November 1<sup>st</sup>-15<sup>th</sup>, 2000. The Economist Intelligence Unit.

former war-torn Balkans”.<sup>34</sup> Although a relevant point, corruption in many African countries are contributing to this negative image. For example, widespread corruption in Kenya have severely affected economic growth.<sup>35</sup> In a recent survey by the Capital Markets Consultative Group (CMCG), investors also cited security concerns, poor infrastructure and low labour productivity as impediments to investment.<sup>36</sup>

Although many African countries have made advances in attracting FDI, the continent is still perceived to be an under-achiever. Resource extraction and manufacturing attract the majority of FDI and the biggest sources are the United States, the United Kingdom, and France. If African countries are serious about attracting substantial FDI they will have to create economic environments that will bring in a wider range of investors. On the other hand, economic reforms will only have a limited effect on attracting FDI and the benefits of these policies should not be over-emphasised. The 1990’s were a good period for Africa in terms of FDI and some investments in the region have yielded high returns, but the prevailing opinion is that it is continuing to fall behind other developing regions in this area.<sup>37</sup>



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<sup>34</sup> “Resilience shown by African markets”. *African Review of Business and Technology*. 20 August 2002.

<sup>35</sup> “Corruption costs Kenya \$1bn a year”. *BBC News Online*. 30 May 2003. [Available at <http://news.bbc.co.uk/1/hi/business/2949586.stm>]

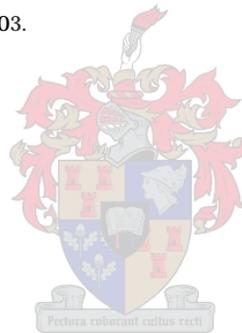
<sup>36</sup> *Foreign Direct Investment in Emerging Market Countries*. Report of the Working Group of the Capital Markets Consultative Group. September, 2003.

<sup>37</sup> See “Investment Lessons”. *Business Africa*. October 16<sup>th</sup>-31<sup>st</sup>, 2001. The Economist Intelligence Unit; “African nations fight for FDI”. *African Review of Business and Technology*. 10 April 2003.

**Table 2.1 FDI Inflows to Major Economies, 2001 and 2002** (Unit: US\$ billion)

	2001	2002
<b>World</b>	<b>823,8</b>	<b>651,2</b>
<b>Developed Countries</b>	<b>589,4</b>	<b>460,3</b>
European Union	389,4	374,4
United States	144	30
<b>Developing Countries</b>	<b>209,4</b>	<b>162,1</b>
<b>Africa</b>	<b>18,8</b>	<b>11</b>
<b>Latin America and the Caribbean</b>	<b>83,7</b>	<b>56</b>
<b>Asia and the Pacific</b>	<b>106,9</b>	<b>95,1</b>
China	46,8	52,7
<b>Central and Eastern Europe</b>	<b>25</b>	<b>28,7</b>

Source: UNCTAD World Investment Report 2003.



**Table 2.2 FDI inflows: selected African countries** (Unit: US\$ million)

	<u>1990</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
<b>Africa</b>	<b>2430</b>	<b>5119</b>	<b>5187</b>	<b>10667</b>	<b>8928</b>	<b>12231</b>	<b>8489</b>	<b>18769</b>	<b>10998</b>
Algeria	40	0	270	260	501	507	438	1196	1065
Angola	-335	472	181	412	1114	2471	879	2146	1312
Egypt	734	595	636	887	1076	1065	1235	510	647
Mauritius	41	19	37	55	12	49	277	32	28
Nigeria	588	1079	1593	1539	1051	1005	930	1104	1281
Seychelles	20	40	30	54	55	60	56	59	63
Tanzania		150	149	158	172	517	463	327	240
Zimbabwe	-12	118	81	135	444	59	23	4	26

Source: UNCTAD Handbook of Statistics 2003.

**Table 2.3 Ranks in the UNCTAD Inward FDI Performance Index, 1999-2001**

**Selected Countries**

<u>Rank</u>	<u>Economy</u>
1	Belgium and Luxembourg
2	<b>Angola</b>
3	Hong Kong, China
6	Singapore
12	<b>Gambia</b>
16	<b>Congo, Republic</b>
20	Cyprus
24	<b>Mozambique</b>
28	United Kingdom
34	<b>Namibia</b>
36	Switzerland
39	Germany
46	<b>Morocco</b>
81	<b>South Africa</b>

Source: UNCTAD World Investment Report 2003.

### 2.3 FDI Trends in South Africa

Attracting foreign direct investment (FDI) has been a priority for South Africa ever since it made the transition to democracy in 1994. The successful political transformation brought with it new economic challenges such as creating jobs, stimulating economic growth, and delivering basic services such as housing and education. One of the first significant initiatives that the new government pursued was the Reconstruction and Development Programme (RDP). In short, the RDP was rooted in the idea that “No political democracy can survive and flourish if the majority of its people remains in poverty, without land, without their basic needs being met and without tangible prospects for a better life. Attacking poverty and deprivation will therefore be the first priority of the democratic Government”.<sup>38</sup> The RDP soon developed into a more globalisation-oriented and market-driven plan that became known as Growth, Employment and Redistribution (GEAR). The GEAR strategy failed to generate the expected results, specifically with regards to economic growth and creating new jobs.

Despite the failure of GEAR, FDI has remained a priority for South Africa. This is a result of the South African government adhering to the ideas of the so-called *Washington Consensus*. As Simon notes, “The new government’s macroeconomic strategy has subscribed increasingly explicitly to the broadly neo-liberal agendas of liberalization, privatization and global competitiveness as promoted by the international financial institutions (IFI’s), World Trade Organization (WTO) and major bilateral donors”.<sup>39</sup> South Africa’s transition occurred during a time of rapid globalisation where other developing countries were eliminating trade barriers and easing restrictions on international capital flows. This led to an increase in trade, investment, and other cross-border economic activity. This liberal economic model of free trade and investment has become increasingly popular in the post-Cold War era, and it has been a trademark of the current Mbeki administration’s economic policy.<sup>40</sup> Investment, and specifically FDI, has been promoted as a determining factor in the creation of economic growth, and bringing with it new technology, management techniques, and market access.<sup>41</sup>

#### 2.3.1 *Great Expectations*

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<sup>38</sup> White Paper on Reconstruction and Development: Government’s Strategy for Fundamental Transformation. September, 1994. [Available at <http://www.anc.org.za/ancdocs/policy/white.html>]

<sup>39</sup> Simon, David. 2001. “Trading spaces: imagining and positioning the ‘new’ South Africa within the regional and global economies”. *International Affairs*. 77(2): 377-405.

<sup>40</sup> Schraeder, Peter J. 2001. “South Africa’s Foreign Policy: From International Pariah to Leader of the African Renaissance”. *The Round Table*. 359: 229-243.

<sup>41</sup> The benefits of FDI for developing countries have been widely promoted. See for example: *Foreign Direct Investment*. 1997. International Finance Corporation. Washington, DC; Carmody, Pdraig. 2002. “Between Globalisation and (Post) Apartheid: the Political Economy of Restructuring in South Africa”. *Journal of Southern African Studies*. 28 (2): 255-275.

South Africa's political transition in 1994 was expected to have a significant impact on the level of FDI.<sup>42</sup> Expectations were high and the government was prioritising FDI through the implementation of liberal economic policies and several restructuring initiatives. Despite sound macroeconomic policies, solid financial institutions, and sophisticated markets, South Africa has struggled to attract significant levels of FDI.<sup>43</sup> This is surprising since South Africa possesses abundant natural resources, a very good business infrastructure, and boasts a reasonable market size.<sup>44</sup> Despite all its positive characteristics, the country is still faced with too many problems that affect investor confidence. These include a high level of crime, negative perceptions about Africa in general, uncertainty about economic initiatives such as Black Economic Empowerment (BEE), a volatile currency<sup>45</sup>, geographical distance from the world's large markets, and slow GDP growth. Therefore, analysts are being cautiously optimistic about South Africa's ability to attract substantial FDI in the short-term.

South Africa's economic progress since 1994 has been commendable, but far from reaching the heights of many observers' expectations. The new government inherited several problems from apartheid-South Africa and almost immediately it started to implement new macro-economic reforms. There have been a few noteworthy early achievements.<sup>46</sup> These include some of the following:

- Reversing the rising trend in government expenditure of the previous three decades and shifted the focus to social delivery.
- Removing investment disincentives such as non-resident shareholders' tax.
- In order to improve South Africa's international competitiveness import tariffs were gradually reduced, with the aim of opening up the economy to international competition.
- The South African Reserve Bank remained independent and free of political interference.
- The government aimed for a process of privatisation of state-owned enterprises.

South Africa has also adapted well to international economic developments, such as the Asian financial crisis of 1997. During that period South Africa's growth rate did not decline and it absorbed the economic shock considerably better than other emerging markets. International

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<sup>42</sup> Simon, 2001.

<sup>43</sup> "Attention seekers". *fDi Magazine*. 2 June 2004. [Available at <http://www.fdimagazine.com>]

<sup>44</sup> "South Africa: A beacon of stability in the South". *African Review of Business and Technology*. 18 September 2003.

<sup>45</sup> See "The rand's stormy decade". *Sunday Times*. 15 February 2004.

<sup>46</sup> See Gouws, Rudolf. 2002. "Our economic journey – is there light at the end of the tunnel?". *Rand Merchant Bank Economic Report*.

rating agencies such as Standard and Poor's and Moody's have also recognised South Africa's economic policies and have recently upgraded its investment grade rating.<sup>47</sup>

South Africa has consistently been one of the major FDI destinations in Africa over the past decade (See Figure 2.2). However, it attracts only about 1 percent of global FDI to developing countries. In Southern Africa it attracts the majority of FDI along with Angola. Angola has been a major FDI recipient in the region, mainly due to its oil resources. In contrast, FDI in South Africa is much more diversified. Figure 2.1 indicates the foreign investment trend in South Africa from 1994 to 2002. Although there were big increases in FDI during 1997 and 2001, the overall trend has been inconsistent.

A persisting FDI problem for South Africa has been the lack of investment in new ventures or productive capacity. Several companies disinvested during the 1980's and early 1990's as a result of international sanctions against South Africa. The end of apartheid brought many of these companies back but there has not been sufficient investment by new companies.<sup>48</sup> The majority of large investments since 1994 have been in mergers and acquisitions. In the period 1994-1999, approximately 60 percent of foreign investment was in the form of mergers and acquisitions, while investment in new projects accounted for only 16 percent.<sup>49</sup> For example, Petronas, a Malaysian state owned oil company, bought Engen for US\$666 million, Dow Chemical bought Sentrachem for US\$504 million, and Malaysia Telekom and SBC Communications from the United States acquired a 30 percent stake in Telkom for US\$772 million.

Negative perceptions on issues such as crime, HIV/AIDS, and Zimbabwe continue to impede South Africa's aim for a strong investment climate. The negative publicity that South Africa and the surrounding region receives affect foreign investors. Recent events in Zimbabwe have been prominent in fuelling negative perceptions. These perceptions developed as a result of land seizures and human rights abuses in Zimbabwe. International investors have been hesitant because of uncertainty over the effect Zimbabwe's political instability might have on South Africa. More importantly, South Africa has been criticised for not adopting a strong enough stand against the Mugabe government and this became a major concern among foreign investors.<sup>50</sup> Despite the costly effect of the Zimbabwe crisis on South Africa's economy, the impact on FDI should not be

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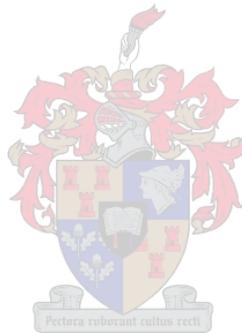
<sup>47</sup> "South Africa's silver linings". *fDi Magazine*. 20 June 2003. [Available at <http://www.fdimagazine.com>]

<sup>48</sup> See "Jobless and Joyless". *The Economist*. 24 February 2001. American companies such as Ford, General Motors, and Eastman Kodak that have made investments recently, disinvested from South Africa in the latter days of apartheid.

<sup>49</sup> Heese, Karen. 2000. "Foreign direct investment in South Africa (1994-9) – confronting globalisation". *Development Southern Africa*. 17(3): 389-400.

<sup>50</sup> "SA being hurt by silence on Zimbabwe". *Business Day Online*. 23 September 2002. [Available at <http://www.businessday.co.za>]

exaggerated. The recent resurgence of the Rand<sup>51</sup> despite ongoing instability in Zimbabwe have resulted in a less alarmist view among observers. In addition, events in Zimbabwe have not seriously affected the “practical aspects of doing business in South Africa, so investors can largely insulate themselves from any negative impact”.<sup>52</sup>

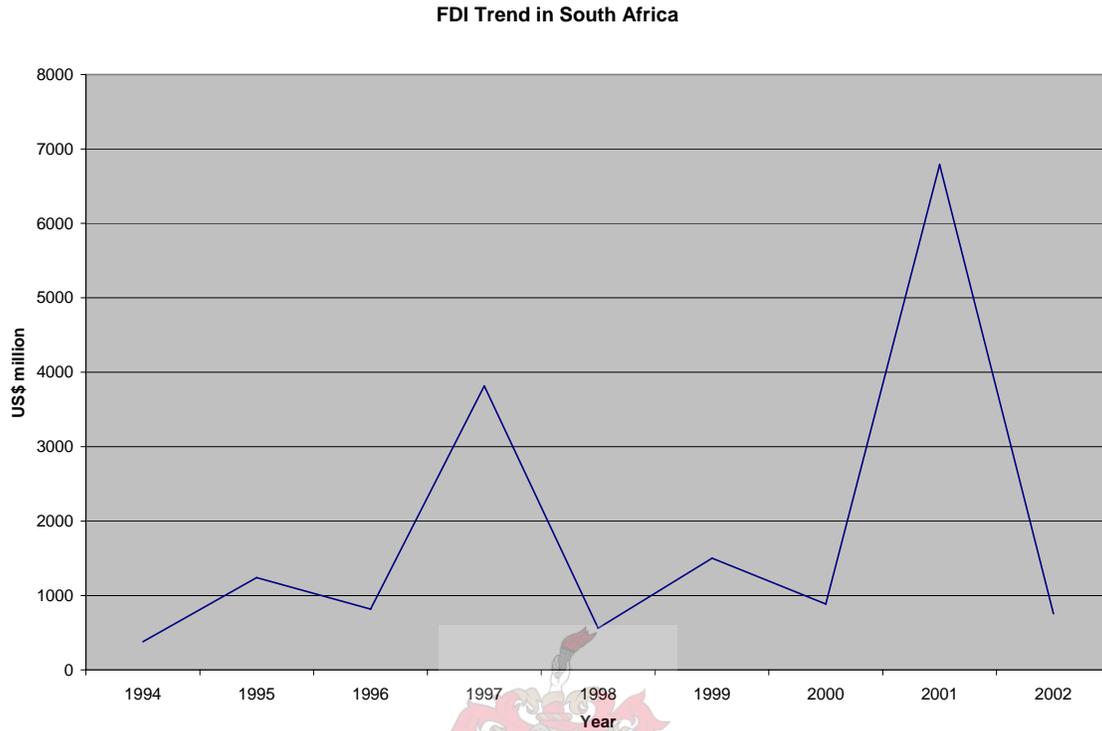


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<sup>51</sup> “The rand’s stormy decade”. *Sunday Times*. 15 February 2004.

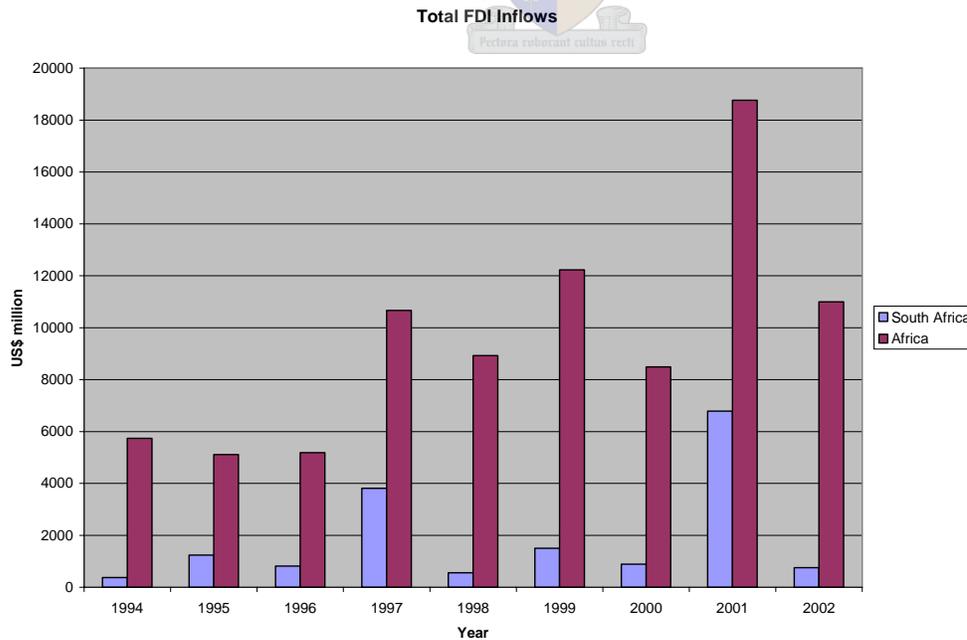
<sup>52</sup> “South Africa’s silver linings”. *fDi Magazine*. 20 June 2003. [Available at <http://www.fdimagazine.com>]

**Figure 2.1**



Source: UNCTAD FDI Database.

**Figure 2.2**



Source: UNCTAD FDI Database.

## 2.4 Conclusion

Despite encouraging performances by a few countries, Africa remains an underachiever in attracting foreign investment. The continent attracts the least amount of FDI when compared to other regions and there are few signs that this trend will reverse itself in the near future. Political and economic instability continue to plague several African countries, and as a result, foreign investors are hesitant to enter these markets.

South Africa has not managed to escape the disappointing FDI trend that affects the rest of the continent. The implementation of market-driven economic policies brought with it expectations that foreign investment would come flooding in. Contrary to expectations, FDI has been disappointing and South Africa continues to struggle with problems affecting foreign investor confidence. Despite several prominent foreign companies maintaining a presence in South Africa, a problem for the country has been the lack of new investment. The majority of foreign investment since 1994 has been in mergers and acquisitions.

The Southern African region continues to suffer as a result of negative perceptions among foreign investors. This has largely been the result of political instability in Zimbabwe. However, the resurgence of the Rand in 2003, despite occurrences in Zimbabwe, have created a less alarmist view among observers. In addition, foreign companies investing in South Africa are not seriously affected by the problems in Zimbabwe.

Despite all its positive characteristics, the country is still faced with too many problems that affect investor confidence.

## CHAPTER 3

### Japanese Investment in South Africa

#### 3.1 Introduction

There has been no shortage of rhetoric concerning the prospect for future Japanese investment in South Africa. In his opening address at the Fifth Partnership Forum between South Africa and Japan in 2002, Deputy Minister of Foreign Affairs Aziz Pahad made the statement: “South Africa values foreign direct investment from Japan. During the past six years, FDI in excess of US\$ 500 million has been made, predominantly in the metals, minerals and automotive sectors. Promising new and significant investments are in the pipeline. The proposed visit to South Africa by a Keidanren delegation later this year will further promote trade and investment opportunities between our two countries.”<sup>53</sup>

The Keidanren has dispatched several delegations since 1991 and it would appear that Japan is attaching some level of economic importance to South Africa. However, none of the previous Keidanren visits were followed by significant investments from Japan. In 1994, the *Nihon Keizai Shimbun* (Japan Economic Newspaper) organized a symposium on the development and investment climate in the new South Africa. The symposium was attended by more than 300 people and suggested that, at the time, there was considerable interest among Japan’s business community in South Africa.<sup>54</sup>

During Thabo Mbeki’s 2001 state visit to Japan, Trade and Industry Minister Alec Irwin said that Japan had committed to sizeable investments in the automotive, chemicals and metals industry.<sup>55</sup>

Government officials and ministries have put a positive spin on current and future Japanese investment in South Africa. Expectations are high, but the only way to determine whether investment from Japan will be forthcoming is to examine the activities of Japanese companies in South Africa.

#### 3.2 Japanese Investment in South Africa post-1994

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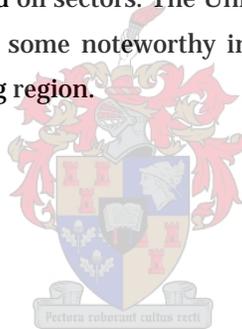
<sup>53</sup> Opening Address at the 5<sup>th</sup> Japan-South Africa Partnership Forum by Deputy Minister of Foreign Affairs, Aziz Pahad. 22 May 2002. [Available at <http://www.polity.org.za/html/govdocs/speeches/2002/sp0522.html>]

<sup>54</sup> Hayashi, Koji. 1996. “Economic Ties with Post-Apartheid South Africa”. *Japan Quarterly*. January-March: 33-37.

<sup>55</sup> “Never mind the rand, there’s light ahead”. *Sunday Times*. 7 October 2001.

Despite Japan's apparent commitment to invest, South Africa has seen very little actual investment from Japan. It is only the automotive sector, with investments from Toyota among others, that have managed to spur significant Japanese interest. That investment did not flood in from Japan can be attributed to several factors. Japan has had to deal with an economic recession at home and it is still pessimistic about investing in Africa. South Africa faces challenges to establishing a foreign investment climate. In addition, China's emergence as a major FDI destination has impacted on the ability of other emerging markets, such as South Africa, to attract investment.

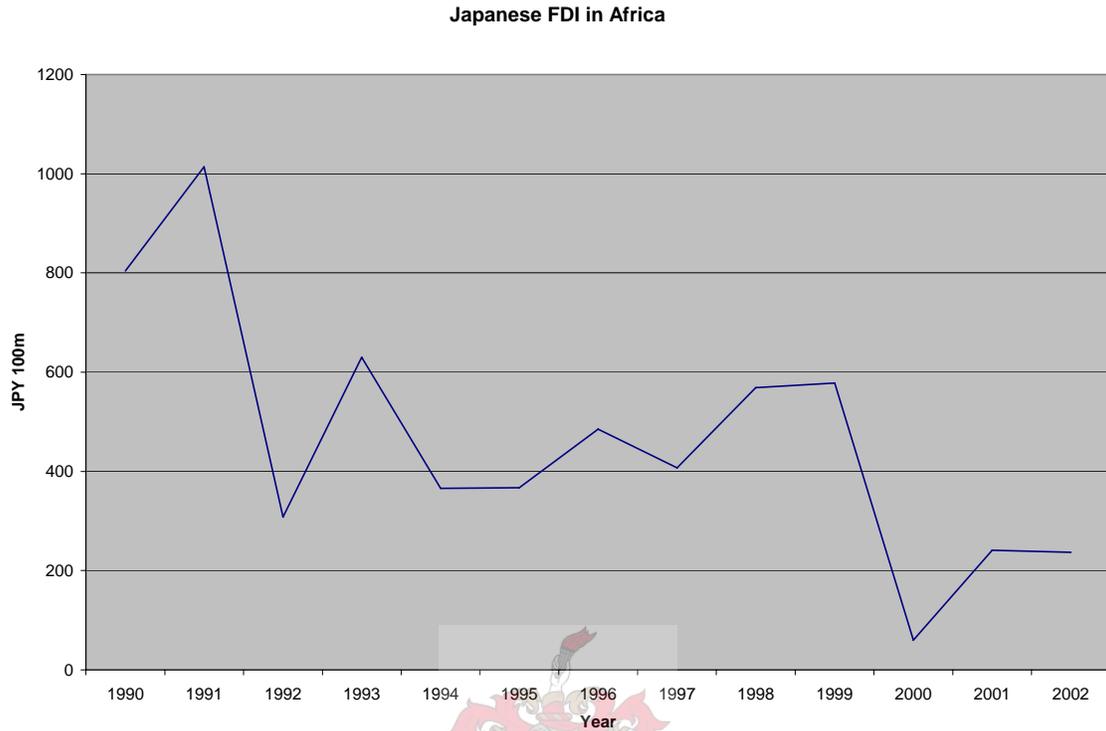
Japanese investment in Africa during the 1990's has been on a downward trend (See Figure 3.1). Although Japan regards South Africa as a developed economy within Africa, this trend is also reflected in the inflow of Japanese FDI into South Africa (Figure 3.2). Japanese investment in South Africa continues to be low when compared with investment from the United States and Europe. According to BusinessMap, Japan was the 6<sup>th</sup> largest investor in South Africa for the period 1994 to 1999.<sup>56</sup> The largest Asian investor was Malaysia with investments in the telecommunication/IT and energy and oil sectors. The United States and the UK were also major investors. However, there have been some noteworthy investments by Japanese companies in both South Africa and the surrounding region.



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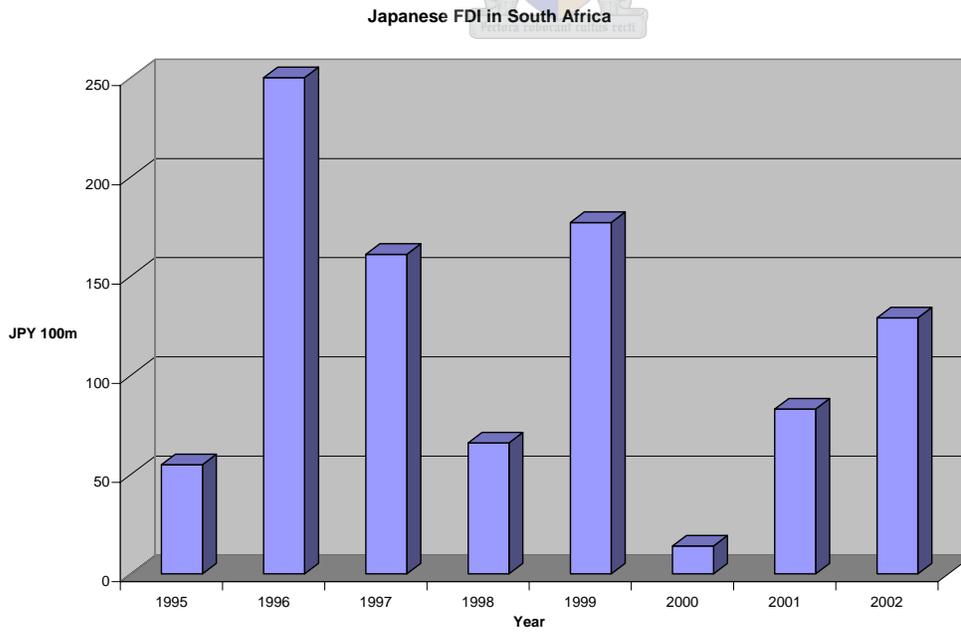
<sup>56</sup> See Heese, Karen. 2000. "Foreign direct investment in South Africa (1994-9) – confronting globalization". *Development Southern Africa*. 17(3): 389-400.

**Figure 3.1**



Source: Japan Ministry of Finance.

**Figure 3.2**



Source: Japan Ministry of Finance.

### 3.2.1 *The Automotive Industry*

South Africa's automotive industry has managed to attract substantial investment and increase its productivity since 1994. The reason for this has been the implementation of the Motor Industry Development Programme (MIDP) in 1995.<sup>57</sup> The MIDP has enabled auto manufacturers to import components and vehicles duty-free depending on the value of their locally produced exports.<sup>58</sup> The government recently announced that the MIDP will be extended until 2012. The implementation of the MIDP has attracted investment by several foreign automobile companies such as BMW, Volkswagen, DaimlerChrysler, Nissan, and Toyota. In essence, the MIDP has given foreign companies an incentive to establish production plants in South Africa with the purpose of exporting locally produced vehicles to foreign markets.

Perhaps the most significant investment from Japan was Toyota Motor Corporation's (TMC) acquisition of a majority shareholding in Toyota South Africa (Toyota SA). TMC increased its share from 35 percent to 75 percent in 2002. Does this investment from Toyota signal a renewed interest in South Africa by Japanese companies?

According to Yoshio Ishizaka, Executive Vice-President of TMC, the 2002 investment by Toyota "signifies a strengthening of our commitment to South Africa and our intention of growing our business in this region".<sup>59</sup> Toyota's investment has created expectations in South Africa that other Japanese companies will follow suit. The South African Vehicle Manufacturers Association have expressed optimism about Japanese component makers venturing into South Africa as a result of Toyota's investment, and the Gauteng Economic Development Agency (GEDA) have said that it expects "a flood of Japanese interest in this area".<sup>60</sup> These expectations are not unrealistic when one looks at Nissan's investment in the United Kingdom (UK) during the 1980's. Nissan's investment was followed by Honda and Toyota and these companies made a significant contribution to vehicle production in the UK.

In 2003, Toyota embarked on a process to export South African-built vehicles to Australia.<sup>61</sup> This international export programme marks the first of its sort for Toyota in Africa. The challenge for

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<sup>57</sup> See "SA auto industry rides MIDP wave". *SouthAfrica.info*. 26 June 2002. [Available at <http://www.safrika.info>] and "Car sector shows rise in productivity". *Business Day Online*. 11 July 2002. [Available at <http://www.businessday.co.za>]

<sup>58</sup> For example, if Toyota exports vehicles/components worth R20 million, and 50 percent were locally produced, then Toyota can import vehicles/components duty-free to the value of R10 million.

<sup>59</sup> "Toyota strengthens SA position". *SouthAfrica.info*. 18 July 2002. [Available at <http://www.safrika.info>]

<sup>60</sup> "Toyota's SA investment may draw new money in from Japan". *Business Day Online*. 13 January 2003. and "Japanese investors expected to follow closely on heels of Toyota". 17 January 2003. *Business Day Online*. [Available at <http://www.businessday.co.za>]

<sup>61</sup> "SA-built Toyotas head down under". *Business Day Online*. 20 March 2003. [Available at <http://www.businessday.co.za>]

Toyota SA will be to convince its Japanese parent company that South Africa is competitive in terms of quality and reliability. Australia is not the only export market that Toyota will be targeting and there are plans to expand to Europe in the future. According to Toyota SA's chairman Elizabeth Bradley, Japan has a more positive view of South Africa as a production base now as opposed to previous years.<sup>62</sup> There are also expectations that in the long-term Toyota SA may move entirely into Japanese hands. It seems that future investment from Toyota Japan is a virtual certainty.

Nissan have also increased its presence in the South African automotive industry. Nissan South Africa has stated its intention to expand export opportunities with assistance from its Japanese parent company. The company aims to broaden its export market beyond Africa and chief executive Mike Whitfield recently expressed hope that Nissan SA would be contracted by Japan to produce "bakkies" for the world market.<sup>63</sup> Nissan have also been in negotiation with the Ford Motor Company to invest in new export-driven vehicle assembly plants in South Africa.<sup>64</sup> This could lead to significant job creation and increase of exports since a considerable number of the vehicles will be destined for foreign markets.

In 2000, Japanese company NGK Insulators Ltd established NGK Ceramics South Africa with an investment of 2 billion yen.<sup>65</sup> The market situation created by the MIDP provided the incentive for NGK to produce HONEYCERAM, a ceramic substrate for automotive exhaust catalytic converters, in South Africa. NGK Ceramics South Africa became the fourth overseas production base for NGK after Belgium, the United States, and Indonesia. Control of NGK South Africa is divided between NGK (95 percent) and Mitsui & Co (5 percent).

The South African automotive industry has attracted significant foreign investment since 1994. Prior to Japan's investment companies such as BMW, Volkswagen, and DaimlerChrysler established successful export-oriented programs in South Africa. Former Trade and Industry minister Alec Erwin also visited the United States in 2003 in order to encourage companies such as Ford and General Motors to invest in South Africa's automotive sector.<sup>66</sup> The strong presence of Japanese and German companies may convince American companies to get involved as well. The question is whether other South African industries can draw lessons from the success of the

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<sup>62</sup> "Toyota SA may end up entirely in Japanese hands". *Business Day Online*. 13 December 2003. [Available at <http://www.businessday.co.za>]

<sup>63</sup> "Nissan predicts strong growth". *Business Day Online*. 17 February 2003. [Available at <http://www.businessday.co.za>]

<sup>64</sup> "Nissan-Ford vehicle export deal could earn SA billions". *Business Day Online*. 7 March 2003. [Available at <http://www.businessday.co.za>]

<sup>65</sup> "NGK Starts Production of HONEYCERAM in South Africa". *NGK News Release*. 31 January 2001.

<sup>66</sup> "Erwin in bid to persuade US car makers to invest in SA". *Business Day Online*. 8 May 2003. [Available at <http://www.businessday.co.za>]

automotive industry on how to attract foreign investment. Japan has expressed interest in other South African industries and it remains to be seen whether these industries can capitalise on Japan's willingness to invest.

### 3.2.2 Other Investment

Japan has also invested in other Southern African countries with South African companies providing knowledge and assistance. Mitsubishi invested in the 1998 MOZAL project in Mozambique with assistance from the Industrial Development Corporation (IDC). The major investment in MOZAL came from South African mining company Billiton that has a 47 percent share. Mitsubishi owns 25 percent and the IDC 24 percent. The MOZAL project was completed six months ahead of schedule, came in under budget, and was the largest single project investment ever in Mozambique. The IDC, in addition to being an investor in MOZAL, also assisted in the facilitation of the project. It also assured Billiton and Mitsubishi of the South African government's confidence in the project.

The success of MOZAL prompted Billiton, Mitsubishi, and the IDC to expand the project. The ownership of MOZAL II will be aligned with that of the previous project, meaning a 25 percent share for Mitsubishi. MOZAL represents the largest involvement by Mitsubishi in an industrial project in the Southern African region, and the company has encouraged other investors to search for opportunities in the region.<sup>67</sup>

The main sectors for Japanese investment during the 1990's were automotive, mineral, and metals as witnessed by investments from Toyota Motor Corporation in Toyota SA and Mitsubishi in Mozambique's aluminium project. Japanese companies have also shown interest in other areas such as finance, telecommunication/IT, energy and oil, and petrochemicals.<sup>68</sup> In 2002, SASOL, the South African energy and petrochemicals group, formed an alliance with a Japanese consortium comprising two companies - Ishikawajima-Harima Industries and Nissho Iwai Corporation.<sup>69</sup>

The Coega Industrial Development Zone (IDZ), the first of its kind in South Africa, may lure significant foreign investment into South Africa. Located in the Eastern Cape region, the Coega

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<sup>67</sup> "Expansion at MOZAL Aluminium Smelter". Mitsubishi Press Release. 21 June 2001. [Available at <http://www.mitsubishi.co.jp/En/news/press/release87.html>]

<sup>68</sup> See Davies, Martyn. "Extending the Hand of Cooperation from Africa to Asia". *Asia Review*. Autumn 2001: 88-96 and The Department of Trade and Industry South Africa. "South Africa and Japan – Forging an Economic Partnership".

<sup>69</sup> "Sasol in partnership with Japanese consortium". *Dieselnet*. 17 April 2002. [Available at <http://www.dieselnet.com/news/0204sasol.html>]

IDZ has already attracted attention from Japan. In 1997, Japanese group Mitsui expressed interest in a proposed zinc smelting project at the Coega IDZ.<sup>70</sup>

### 3.3 Trade

Trade relations between Japan and South Africa, unlike that of investment, have shown more consistency. In 1987 Japan emerged as South Africa's number one trading partner despite international sanctions. Since the resumption of normal diplomatic relations Japan has regularly been South Africa's third or fourth largest trading partner. The balance of trade between the two countries has recently been in South Africa's favour. At the sixth South Africa-Japan Partnership Forum held in 2003, South Africa expressed its hope to further increase the balance of trade in its favour.

There has also been a considerable increase in the level of trade, with South African exports to Japan rising from almost R17 billion in 2000 to R24 billion in 2003. Imports from Japan rose from approximately R15 billion to R18 billion over the same period (See Table 3.1).

During apartheid the nature of trade was typical of that between first world and third world countries. South Africa exported mostly natural resources to Japan and imported manufactured products. Since 1994 the nature of trade has become more horizontal with South Africa starting to export manufactured products. In 2000 the three main export items to Japan were precious metals and stones, ferro alloys, and aluminium. Vehicles were the 6<sup>th</sup> largest export to Japan. Except for precious metals and vehicles the majority of South African exports to Japan are still natural resources and raw materials.

There has been a shift towards diversifying products to Japan. At a 2003 Japan External Trade Organisation (JETRO) seminar in Pretoria the emphasis was on exporting more processed food products to Japan such as rooibos tea.<sup>71</sup> Processed foods currently represent less than one percent of South African exports to Japan. South African exporters will need to identify products that are made from materials not available in Japan for this percentage to increase. In addition, it is necessary to find products with unique characteristics since South Africa will have to compete against other countries, especially Southeast Asian ones. Japan is a major food importer and there is definitely potential for South African food products such as wine. South Africa is currently the seventh largest exporter of wine to Japan.

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<sup>70</sup> "Coega port project attracts big names in industry". *The Sunday Times*. 2 February 1997.

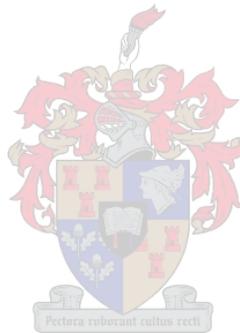
<sup>71</sup> "Healthy rooibos could just become Japan's cup of tea". *Business Day Online*. 13 February 2003. [Available at <http://www.businessday.co.za>]

**Table 3.1****South Africa's Trade with Japan**

(Unit: R1000)

	<b>Exports</b>	<b>Imports</b>
<b>2000</b>	16,867,009	14,838,870
<b>2001</b>	19,474,064	14,698,791
<b>2002</b>	24,783,866	19,122,094
<b>2003</b>	24,172,021	18,236,646

Source: The Department of Trade and Industry Economic Database. [Available at <http://www.thedti.gov.za/econdb/>]



### 3.4 Challenges To Investment: Why Japan Is Staying Away

Observers have identified the importance and benefits of Japanese investment in South Africa. According to Simmonds, “For a region in need of foreign investment in commercial operations and the human and physical infrastructure associated with it, Japan represents an important partner. Japan is in a position to provide capital and technology for the development of these projects, while their resource hungry industries will benefit from the prospect of increasingly regular and secure supply into the future”.<sup>72</sup> Contrary to high expectations, Japanese investment in South Africa did not increase substantially since 1994. Why has Japanese investment in South Africa not reached the levels that many have hoped for? One needs to examine factors in both South Africa and Japan to achieve an understanding of why investment has been low.

The majority of the focus has been on South Africa’s challenges, and those of Africa in general, and how they create a negative perception among foreign investors. Issues such as the level of crime, HIV/AIDS, political instability in Zimbabwe, the value of the Rand<sup>73</sup>, the size of the South African market, labour costs, and the introduction of new economic initiatives such as Black Economic Empowerment (BEE) have received a fair amount of coverage in the media and academic literature. There is, however, the danger of over-emphasising challenges on the South African side that may detract attention from factors in Japan that also affect investment levels. Therefore, it is also necessary to examine factors on the Japanese side.

#### 3.4.1 *The Japanese Economy*

The bursting of Japan’s “bubble” economy and its subsequent financial problems has been extensively researched. Economic reform has become unavoidable and the question is how long will Japan’s recovery take? More importantly, how does Japan’s economic struggles impact on South Africa’s goal to attract more investment? Since Japan’s recession during the 1990’s has been extensively researched it is not necessary to venture into detail here. A brief overview of Japan’s problems will illustrate the effect on South Africa and possible future actions by Japanese companies regarding foreign investment.

An important point to consider is the coinciding of South Africa’s democratisation as well as the liberalisation of its economy during the early 1990’s, with the collapse of the Japanese “bubble” economy. While South Africa was attempting to develop an export-oriented economy and one

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<sup>72</sup> Simmonds, M. 2003. “Japan, South Africa and the Region: Possibilities and Prospects” in Chris Alden and Katsumi Hirano (eds), *Japan and South Africa in a Globalising World*. England: Ashgate Publishing Limited.

<sup>73</sup> For an overview of the Rand’s severe depreciation against the US dollar since 1994 see “The rand’s stormy decade”. *The Sunday Times*. 15 February 2004.

that prioritises FDI, Japan was focusing its attention inwards. The situation was not improved by the onset of the Asian financial crisis in 1997. Japanese companies had enormous business commitments in Asia as well as significant historical ties. The prevailing opinion at the time was that Japan's priority was to assist the Asian economies to recover before new foreign investments could be made.<sup>74</sup> It is therefore not surprising that Japanese companies did not rush to invest in South Africa, a country that at the time presented several uncertainties for foreign investors.

Despite still being the second-largest economy in the world, Japan has seen its spectacular economic growth of the 1960's and 1970's rapidly decline during the 1980's when the "bubble" burst. Unemployment has also risen to above 5 percent in 2003 (See Table 3.2). Perhaps the largest threat to the Japanese economy is its rapidly aging population and the continuing decline of fertility rates (See Table 3.3). The percentage of people over the age of 65 was almost 18 percent in 2001 and is estimated to reach 26 percent by 2015. Therefore, with one of the highest life expectancy rates in the world and a declining number of childbirths, the implications for the Japanese economy are severe. The only solution would be either an increase in fertility rates or Japan must attract a larger number of immigrants to counter the effect of its declining work force.

Japan has already started to reform its economy, albeit slowly. Current Prime Minister Junichiro Koizumi was elected in 2001 mostly as a result of his promise to turn the economy around. Despite Koizumi's popularity and promises to revive the economy, it may take Japan "ten more years to reach this promised land".<sup>75</sup> The reason for this is that the current economic system is still ruled by the practices and institutions that created it. There have also been strong opposition to the implementation of reforms since various interests and a large number of jobs are at stake. There can be no argument that structural reform is necessary in Japan, however, it will be a politically difficult process as it requires a "fundamental overhaul of institutions".<sup>76</sup> This will invariably affect Japan's economic actions abroad.

Japan's economic struggles have actually prompted several of its companies to establish production bases overseas. During the 1980's Japanese companies became increasingly transnational until it emerged as one of the largest foreign investors in the world.<sup>77</sup> For example, Honda and Sony have approximately 60 percent of their physical assets abroad and Toyota 40 percent. A recent NIKKEI survey on the overseas shifting of Japanese business reinforces this

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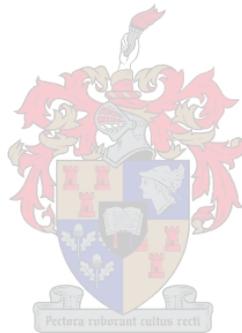
<sup>74</sup> "Mbeki's Visit Rekindles Interest in South Africa". *Inter Press Service*. 10 April 1998. [Available at [http://www.oneworld.org/ips2/apr98/10\\_32\\_022.html](http://www.oneworld.org/ips2/apr98/10_32_022.html)]

<sup>75</sup> Katz, Richard. 2003. "Japan's Phoenix Economy". *Foreign Affairs*. 82(1): 114-128.

<sup>76</sup> Ibid.

<sup>77</sup> Schoppa, Leonard J. 2001. "Japan, the Reluctant Reformer". *Foreign Affairs*. 80(5): 76-90.

trend.<sup>78</sup> Although the movement of these corporations to foreign markets is an indication that the Japanese are avoiding their domestic economic problems, developing countries such as South Africa will welcome this trend. However, even though Japanese companies are increasing their presence internationally, its foreign investments no longer have the “industrial dominance or political clout they once did”.<sup>79</sup> Japan is facing more opposition from American and European companies, especially in Asia, with Taiwan and Hong Kong also becoming larger regional investors. In South Africa, the United States, the UK, and even Malaysia outrank Japan as far as foreign investments are concerned. Ultimately, South Africa should hope for a quick economic recovery in Japan since that country has always used its economic power for global influence and that may be vital for Africa’s, and specifically South Africa’s, chances to attract larger amounts of foreign investment.



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<sup>78</sup> See “Expanding South African Business with Japanese Business into the Japanese and Global Markets”. Presentation by Kenji Yoshida, Director of Japanese Chamber of Commerce and Industries in South Africa and General Manager of Marubeni Corporation (Johannesburg Branch), at the South Africa-Japan Business Forum. 21 February 2002.

<sup>79</sup> Overholt, William H. 2002. “Japan’s Economy, at War with Itself”. *Foreign Affairs*. 81(1): 134-147.

**Table 3.2****Selected Economic Indicators (Japan)**

	2000	2001	2002	2003
GDP per head (\$ at PPP)	25,948	26,639	26,944	28,000
GDP (% real change pa)	2.14	0.60	-0.24	2.72
Government consumption (% of GDP)	16.43	17.08	17.66	17.50
Budget balance (% of GDP)	-7.43	-6.08	-7.12	-7.42
Consumer prices (% change pa: av)	-0.67	-0.73	-0.92	-0.25
Public debt (% of GDP)	133.06	141.52	147.28	154.62
Labour costs per hour (USD)	22.27	19.61	18.83	20.49
Recorded unemployment (%)	4.72	5.03	5.38	5.26
Current-account balance/GDP	2.52	2.11	2.83	3.16
Foreign-exchange reserves (mUS\$)	354,902	395,155	461,186	663,289

Source: Economist Country Briefings. (<http://www.economist.com/countries/Japan/>)

**Table 3.3****Human Development Index (Japan), Selected Indicators**

Life expectancy at birth (years), 2001	81.3
Total population (millions), 1975	111.5
Total population (millions), 2001	127.3
Total population (millions), 2015	127.2
Population over age 65 (% of total), 2001	17.7
Population over age 65 (% of total), 2015	26.0
Total fertility rate (per woman), 1970-75	2.1
Total fertility rate (per woman), 2000-05	1.3

Source: Human Development Indicators 2003. United Nations Development Program.

### 3.4.2 South Africa's Challenges

South Africa is viewed by many foreign investors as perhaps the most promising market in Africa. However, compared with several non-African developing countries it is still perceived to be an under-achiever in terms of attracting foreign investment. Foreign investors still have several concerns and these concerns are not reducible to a single phenomenon such as HIV/AIDS, political instability in Zimbabwe, or the level of crime. South Africa's FDI problems stem from a combination of financial, economic, political, and social factors. What are Japan's main concerns regarding South Africa?

The Japanese business community still has a limited perspective of South Africa. South Africa is seen as an emerging economy and a political leader in Africa. However, the geographical distance between the two countries, the size of South Africa's market, and the level of crime continue to occupy the minds of Japanese business.<sup>80</sup>

South Africa's image as a country with a high incident of crime continues to be a concern for Japan. This view was expressed during a 2002 Japan Business Federation (Nippon Keidanren) visit to South Africa.<sup>81</sup> According to the leader of the Keidanren delegation, Satoru Anzaki, "There are many opportunities here...but there is a lack of understanding on our part on the areas of sanitation, safety and health".<sup>82</sup> The head of economic research at Mitsubishi's Tokyo headquarters, Shigeru Nakahira, also commented on the issue of crime stating that "Law and order is the key to foreign direct investment".<sup>83</sup>

A 2003 World Economic Forum (WEF) survey also highlighted crime as a major impediment to South Africa's competitiveness as an economy.<sup>84</sup> Organised crime and corruption also affected South Africa's performance in the survey. Three other African countries, Botswana, Tunisia, and Gambia achieved higher scores than South Africa in the survey. Botswana was viewed as having the best corporate governance of the African countries surveyed. Despite negative perceptions on crime, other studies have suggested that crime is not always such an important factor among potential investors. A 1997 study by the Investor Responsibility Research Centre (IRRC), which

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<sup>80</sup> "Expanding South African Business with Japanese Business into the Japanese and Global Markets". Presentation by Kenji Yoshida, Director of Japanese Chamber of Commerce and Industries in South Africa and General Manager of Marubeni Corporation (Johannesburg Branch), at the South Africa-Japan Business Forum. 21 February 2002.

<sup>81</sup> "South Africa scares Japanese investors". *BBC News Online*. 25 October 2002. [Available at <http://news.bbc.co.uk/1/low/business/2360549.stm>]

<sup>82</sup> *Ibid*

<sup>83</sup> "Envoy seeks talks on SA free trade". *Business Day Online*. 22 February 2002. [Available at <http://www.businessday.co.za>]

<sup>84</sup> "SA crime rate sounds alarm for investment". *Business Day Online*. 12 June 2003. [Available at <http://www.businessday.co.za>]

surveyed 356 multinational companies in 16 countries, found that only 13 percent of respondents wanted a more effective crime strategy in South Africa.<sup>85</sup> According to the survey, the main concern among foreign investors was exchange controls.

The increasing number of people with HIV/AIDS has also created a negative perception among foreign investors of South Africa. There can be no doubt that social problems such as HIV/AIDS and crime influence the perceptions of foreign investors. However, these social aspects of South Africa have received such a substantial amount of coverage in the media and elsewhere that the negative perceptions among investors are hardly surprising. Instead, the focus should be on economic reform and financial aspects such as the value of the rand, labour costs and skills, the size of South Africa's market, and physical and financial infrastructure. These influence FDI in a much more direct manner and will ultimately determine the length of time that companies maintain investments in the country.

The damage being done by negative perceptions regarding crime, corruption, and HIV/AIDS can only be reversed through co-operation between various groups in the economy. It will take a concerted effort by the business community, government institutions, and labour groups to create a more positive image of South Africa internationally.<sup>86</sup> Although HIV/AIDS is viewed with some concern among foreign investors, studies indicate that their main concerns lie elsewhere. According to a 2003 survey by Oxford University and the London School of Economics - *Characteristics of Foreign Enterprises and Some Implications for Economic Growth - HIV/AIDS* was not seen as a fixed deterrent to FDI.<sup>87</sup> Instead, investors were more concerned with factors such as the quality of governance and exchange rates.

The political instability and land seizures in Zimbabwe have made many foreign investors cautious about the Southern African region. In addition, the South African government's initial unwillingness to apply pressure on the Mugabe regime increased concerns among foreign investors. There was speculation that similar land seizures may ultimately occur in South Africa. The Zimbabwe situation remains a pressing political problem for the region. However, its supposedly negative effect on investor confidence in the Southern African region is questionable. It has been frequently reported that foreign companies and diplomats view Zimbabwe as their number one concern.<sup>88</sup> Several recent surveys conducted among foreign companies provides

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<sup>85</sup> "Crime doesn't deter". *Business Africa*. 1-15 July 1997. The Economist Intelligence Unit.

<sup>86</sup> "Government urged to engage firms to undo negative perceptions of SA". *Business Day Online*. 10 November 2003. [Available at <http://www.businessday.co.za>]

<sup>87</sup> "SA 'Dogged by Image Problems'". *Mail and Guardian*. 22 April 2003.

<sup>88</sup> See for example "SA being hurt by silence on Zimbabwe". *Business Day Online*. 23 September 2002. [Available at <http://www.businessday.co.za>]

evidence to the contrary and highlight economic considerations such as exchange controls and market size as the main factors.

The MOZAL project in Mozambique involving investors from South Africa and Japan also indicates that political instability is not such a major factor anymore. The Industrial Development Corporation that has a 24 percent share in MOZAL, played a significant part in smoothing over the doubts of foreign investors. The former CEO of the IDC, Khaya Ngqula, made the following statement regarding MOZAL: “The successful completion of MOZAL phase 1 has significantly increased investor and lender confidence in the SADC region...The participation of major international investors like BHP Billiton and Mitsubishi Corporation as well as the Mozambique Government have made the world aware of potential to be harnessed within the SADC region”.<sup>89</sup> Mitsubishi’s investment in Mozambique will hopefully pave the way for other Japanese companies to see potential in South Africa and the surrounding region.

The introduction of the black economic empowerment (BEE) initiative by the South African government has created uncertainty in the minds of foreign investors. The basic idea of the BEE process is to transfer ownership of certain industries to people who were disadvantaged by apartheid. The mining industry has been targeted first and there was initial panic when the government proposed that 30 percent of existing mining assets and 51 percent of new ventures should be transferred to black ownership. The government ultimately retreated from this proposal when local and foreign investors started selling their shares in the mining business. BEE poses a significant threat to FDI in South Africa. Foreign investors are not always aware of South Africa’s social and political history and might interpret BEE as a type of nationalisation policy, such as the land reform policy in Zimbabwe.<sup>90</sup> This is especially true of Japanese investors who continue to have a basic perspective of South Africa’s economy.

There is still confusion among foreign companies whether they will have to meet BEE requirements when entering into South Africa and this may prevent them from investing. The South African government will have to ensure that foreign investors have a comprehensive understanding of the BEE process. On the other hand, some observers do not regard BEE as an impediment to foreign investment. According to Reg Rumney, executive director of BusinessMap, BEE is not a severe deterrent for foreign companies investing in South Africa.<sup>91</sup>

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<sup>89</sup> “Expansion at MOZAL Aluminium Smelter”. Mitsubishi Press Release. 21 June 2001. [Available at <http://www.mitsubishi.co.jp/En/news/press/release87.html>]

<sup>90</sup> “South Africa’s black economic empowerment policy worries investors”. *New York Amsterdam News*. 93(34): 2-3.

<sup>91</sup> “Attention seekers”. *fDi Magazine*. 2 June 2004. [Available at <http://www.fdimagazine.com>]

The availability of skilled labour has also had an impact on South Africa's ability to attract FDI. Although labour cost has been a major consideration for many foreign investors entering South Africa, the level of skilled labour is perhaps more important. As Wocke and Klein observe: "Investing companies no longer simply choose a destination for their low factor cost, such as cheap labour, but also consider the flexibility of such factors with regard to changes in the global market place. This has meant that labour workforce composition and training have become essential when attracting FDI. The correct form of FDI plays an important role in the transfer of technology and updating skills to attract further FDI and improve a country's competitiveness".<sup>92</sup> The continuing flow of skilled labour to other countries should be a major concern for South Africa. A deficiency of skilled labour will invariably lead to foreign companies importing their own workers for operations in South Africa.

Despite several negative factors influencing South Africa's ability to attract foreign investment, there are reasons to be optimistic. South Africa has been able to attract FDI due to its first-rate physical and financial infrastructure, possessing abundant natural resources, and its potential to serve as an export base to regional markets. According to the Japanese vice-minister of foreign affairs Tetsuro Yano, the Japanese private sector has been paying more attention to South Africa as an export base for markets in Europe.<sup>93</sup> Toyota and other vehicle manufacturers have already started assembling vehicles in South Africa for export to third-country markets such as Australia.

Japan has also praised South Africa's economic and social infrastructure.<sup>94</sup> According to former Japanese Ambassador to South Africa Yasukuni Enoki, South Africa is possibly the only African country where global business principles can be applied and this makes investors more comfortable.<sup>95</sup> Japan has shown a certain level of confidence in South Africa's future through investment in the automobile industry. However, Japanese investors would like to see longer-term policy clarity in industries where they have invested.<sup>96</sup>

### 3.4.3 *The Role of China*

Japanese investment in South Africa has also been affected by the continuing economic expansion of China. China's economic explosion and its effect on global affairs have become a focus-point in

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<sup>92</sup> Wocke, Albert and Saul Klein. 2002. "The implications of South Africa's skills migration policy for country competitiveness". *Development Southern Africa*. 19(4): 441-454.

<sup>93</sup> "SA and Japan hail healthy trade ties". *ANC Daily News Briefing*. 28 August 2003. [Available at <http://www.anc.org.za/anc/newsbrief/2003/news0829.txt>]

<sup>94</sup> *Ibid*

<sup>95</sup> "Bridging the gap between nations". *Financial Mail*. 25 October 2002.

<sup>96</sup> *Ibid*

International Relations.<sup>97</sup> China has emerged as one of the top recipients of FDI in the world. In 2003, it overtook the United States as the top recipient of FDI.<sup>98</sup> China's FDI performance affects South Africa's ability to attract foreign investment, and more specifically, investment from Japan. Developing economies in Asia, such as Thailand and Vietnam, have complained that China attracts more than its share of FDI.<sup>99</sup> It is not only other Asian economies that are struggling for FDI because of China, but also other emerging markets such as South Africa. However, South Africa has been prioritising its relations with China in the hope of increasing mutual investment. According to South African Deputy Foreign Minister Aziz Pahad, "China is developing into a major economic superpower and we need to take advantage of that".<sup>100</sup> The South African mining sector is already focusing its attention on China.<sup>101</sup> Companies such as Anglo American, Gold Fields and Kumba Resources are already involved in China and examining other prospects. Although China has a complex business environment and cultural and linguistic difficulties remain, South African companies have achieved good results.

China is being prioritised in the mind of the South African business community. The importance that South Africa is attaching to China will undoubtedly have an effect on its relations with Japan. Although both countries represent cultural and linguistic challenges, as well as other investment barriers, South Africa may view China as a more important economic partner. In addition, with China attracting such high levels of FDI it will become increasingly difficult for South Africa to lure investment from Japan. Japanese companies are likely to focus on China and will not see South Africa as an important investment destination. China's low labour costs are just one of the factors that have been attracting an increasing number of Japanese companies.<sup>102</sup> Companies such as Canon, NEC and Honda have made significant investments in China. China is also emerging as a major market for Japanese goods. China's entry into the World Trade Organisation (WTO) will undoubtedly lead to an increase in Japanese exports. Although Japan's global FDI is still small compared to the size of its economy<sup>103</sup>, China may become one of its main FDI destinations.

### 3.5 Conclusion

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<sup>97</sup> See for example Hale, David. "China Takes Off". *Foreign Affairs*. 82(6): 36-54.

<sup>98</sup> "China tops US in attracting foreign funds". *Business Day Online*. 29 June 2004. [Available at <http://www.businessday.co.za>]

<sup>99</sup> "Why China Is So Alluring". *Business Week*. 15 March 2004. Issue 3874.

<sup>100</sup> "SA looks to fast-growing China for investment". *Business Day Online*. 22 June 2004. [Available at <http://www.businessday.co.za>]

<sup>101</sup> "SA's mining players eye the Chinese dragon's treasure". *Business Day Online*. 19 April 2004. [Available at <http://www.businessday.co.za>]

<sup>102</sup> "China's low-cost labor lures Japanese firms". *USA Today*. 20 November 2002. [Available at <http://www.usatoday.com>]

<sup>103</sup> See "Is Investment in China Hollowing Out Japan?". *China in Transition*. 15 February 2002. Research Institute of Economy, Trade and Industry. [Available at <http://www.rieti.go.jp>]

Despite a few promising investments in the automotive sector, Japanese companies have not flooded into South Africa since 1994. President Thabo Mbeki's 2001 state visit to Japan generated high expectations of substantial future Japanese investment in South Africa. Actions by the Japanese business community reflect a different picture.

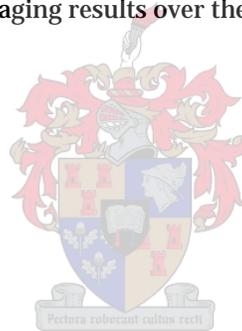
The MIDP has generated a substantial increase in investment in the automotive sector. Japanese companies such as Toyota and Nissan has taken advantage of the incentives provided by the MIDP. However, there has been little else to attract Japanese companies to specific sectors. One of the few highlights has been the development of the Coega IDZ near Port Elizabeth, which has already attracted interest from Japanese companies such as Mitsui.

Factors influencing future Japanese investments are the state of the Japanese economy, Japanese uncertainty about business conditions in South Africa (labour costs, safety and sanitation, BEE) and the emergence of China as a top FDI destination. South Africa may start to view China as its main economic partner in Asia and relations with Japan could become of secondary importance. Japanese business may also become pre-occupied with China and the result for South Africa will be a continuing absence of large-scale Japanese investments.



## Conclusion

Japan is economically very important for South Africa. The world's second-largest economy represents an abundance of trade and investment potential for South Africa. Despite a few noteworthy investments in South Africa's automotive sector (Toyota) and the Southern African region (MOZAL), there has not been a substantial increase in Japanese investment since 1994. Both South Africa and Japan have expressed a desire to expand economic relations. This has not been reflected in the amount of trade and investment between the two countries. Actions by Japanese companies in the South African economy paint a different picture than the one created at the governmental level. Japanese investor confidence remains low and South Africa is not yet an important investment destination for Japan. South Africa has to compete with China and other emerging markets in Asia for Japanese investment. Geographical distance, general lack of knowledge on South Africa among the Japanese, and South Africa's market size are some of the main impediments to investment. Although the outlook is bleak for a short-term substantial increase in Japanese investment, the continuing facilitation of stronger relations between Japan and South Africa may produce encouraging results over the long-term.



## Recommendations

There have been efforts at the governmental level and the private sector in an attempt to generate more trade and investment opportunities. At a governmental level there have been regular state visits by officials from both countries, as well as the creation of long-term initiatives such as Japan's Tokyo International Conference on African Development (TICAD) and the South African-led New Partnership for Africa's Development (NEPAD). The willingness to increase co-operation between the business communities of both countries have resulted in the establishment of the South Africa-Japan Business Forum.

### The South Africa-Japan Business Forum: Bringing in "New" Blood

The most significant initiative to date has been the establishment of the South Africa-Japan Business Forum in 2001. The primary aim of the Forum is to expand economic cooperation, but the emphasis will not just be on commercial aspects. Attempts will also be made to capitalise on personal links in order to broaden the relationship.<sup>104</sup> The Forum could have a considerable impact on bilateral trade and investment. The challenge is not just to promote investment by Japan in South Africa, but also by South Africa in Japan. The fostering of strategic partnerships between companies in both countries will also be a priority.

Japanese companies have highlighted four areas that are crucial for the development of stronger economic relations. These are: (1) The need to develop a supporting industry for South Africa's manufacturing sector in order to achieve high quality at a low cost; (2) Increasing the quality of labour; (3) Problems regarding labour and (4) Improving public safety and sanitation.<sup>105</sup> The Forum therefore enables both sides to address problems that are impeding trade and investment, as well as other areas of interest. The success of the Forum should be measured by how effective it is in bringing together key players in South Africa and Japan. This will involve expanding the membership of the Forum beyond business companies, and incorporate other organisations such as the Japan External Trade Organisation (JETRO) and the Japanese Chamber of Commerce and Industry (CCI-J). The sharing of views and strategies between groups from both sides will be crucial for strengthening the relationship.

**Recommendation:** Although the Forum is based on existing business contacts between South Africa and Japan, efforts will be made to incorporate new "blood". This will be vital for the facilitation of increased Japanese investment. South Africa needs to attract a larger number of

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<sup>104</sup> "SA, Japan link up for business". *Business Day Online*. 1 October 2001. [Available at <http://www.businessday.co.za>]

<sup>105</sup> "Japan-SA Business Forum: Creating jobs and fighting poverty". *Financial Mail*. 25 October 2002.

small and medium-sized Japanese companies to its economy. Focusing solely on the large and well-known Japanese companies will not lead to a substantial increase in new investment.

#### Developing Stronger Ties with the Japan Business Federation

A concerted effort should be made by South Africa, at both the public and private level, to develop a better relationship with the Japan Business Federation (Nippon Keidanren). The reasons for this are simple. Despite being Japan's largest business lobby it also wields significant influence over political affairs in Japan. Before 1994 the Keidanren solicited donations for political parties from member companies by allocating the amount each would contribute. The Keidanren's contribution was not only financial as it has been known to voice political opinions as well. However, the Keidanren discontinued its monetary donations in 1994 following the collapse of the Liberal Democratic Party and several political scandals. In 2003, the Keidanren announced its intention to increase its influence on Japanese politics by resuming its monetary donations to politicians.<sup>106</sup> With this decision the feeling has been made clear that politicians are not doing enough to revitalise the economy. The Keidanren has become exasperated with political leaders and their seeming inability to implement effective economic measures.<sup>107</sup> The Keidanren has expressed the opinion that the international competitiveness of Japanese business must be improved before the economy can recover.<sup>108</sup>

**Recommendation:** Developing strong ties with the Keidanren should therefore be a priority for South Africa. Although the Keidanren has dispatched several economic delegations to South Africa since 1992, it has not always received the proper attention. For example, when the Keidanren visited South Africa in 1994 there appeared to be a lack of interest from the South African side and this was viewed by the Japanese as “both a diplomatic slight and a crucial oversight”.<sup>109</sup> If South Africa does not attach special importance to future Keidanren delegations it may amount to more than just missed opportunities. It could also damage future economic relations between the two countries.

#### Creating a Synergy Between TICAD and NEPAD

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<sup>106</sup> “Top business lobby set to strengthen influence on politics”. *Japan Economic Newswire*. 27 May 2003.

<sup>107</sup> “How business can write policy”. *The Daily Yomiuri*. 24 December 2002.

<sup>108</sup> “Nippon Keidanren head has mixed feelings about Koizumi”. *Japan Economic Newswire*. 2 October 2003.

<sup>109</sup> Alden, Chris. 2003. “North and South: The Changing Contours of Japanese-South African Relations” in Chris Alden and Katsumi Hirano (eds), *Japan and South Africa in a Globalising World*. England: Ashgate Publishing Limited.

Africa has been described as the frontier of Japanese diplomacy.<sup>110</sup> In other words, Africa has become the focus point of Japan's foreign policy. The Okinawa summit held in July 2000, indicated Japan's willingness to create a meaningful dialogue between the G8 countries and those of Africa. Why this new emphasis on Africa? The early 1990's saw a decline in interest in Africa by the international community due to the end of the Cold War.<sup>111</sup> Japan, concerned over this lack of interest among the developed world, organised the Tokyo International Conference on African Development (TICAD) in 1993 in an attempt to refocus global attention on Africa. The launching of the first TICAD signalled Japan's intent to create awareness among the international community of the development challenges facing Africa.<sup>112</sup> Since 1993 two additional Tokyo Conferences have been organised, the most recent in September 2003. The third Conference (TICAD III) also emphasised support for Africa's own development initiative, the New Partnership for Africa's Development (NEPAD), by bringing together the knowledge and experience of the international community.<sup>113</sup> Many see the development of a possible synergy between TICAD and NEPAD.

President Thabo Mbeki suggested the creation of a possible synergy when he spoke at the third TICAD in 2003. He commented that, "We need to collaborate on issues of trade and investment. In this regard, we should start a Japan-Africa dialogue pertaining to ways in which Japan can support issues of trade and investment in Africa".<sup>114</sup> The basic goal will be to channel development support from TICAD through Africa's economic self-help plan - NEPAD. The promotion of trade and investment between Africa and Asia is an integral part of the TICAD process. There are several mechanisms and initiatives available through which to promote trade and investment. These include the Asia-Africa Joint Forum, the Africa-Asia Business Forum, and co-operation among the Chambers of Commerce and Industry of African and Asian countries. In 2004, a TICAD Asia-Africa Trade and Investment Conference is scheduled to be held in Tokyo. Expectations are high that this conference will generate closer cooperation between the private sectors of Africa and Asia.<sup>115</sup>

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<sup>110</sup> "Aiding Africa Benefits Japan". *The Asahi Shimbun*. 29 September 2003.

<sup>111</sup> "NEPAD viewed by a G8 member". Speech by Ambassador of Japan Yasukuni Enoki at the Africa Institute. 16 April 2002.

<sup>112</sup> Keynote Address by Prime Minister Morihiro Hosokawa of Japan at the Tokyo International Conference on African Development (5 October 1993, Tokyo). [Available at <http://www.mofa.go.jp/region/africa/ticad/address9310.html>]

<sup>113</sup> Keynote Speech by Prime Minister Junichiro Koizumi at the Third Tokyo International Conference on African Development (29 September 2003, Tokyo). [Available at <http://www.mofa.go.jp/region/africa/ticad3/pmspeech.html>]

<sup>114</sup> "Mbeki Calls on Japanese Business to Invest in Africa". *allAfrica.com*. 29 September 2003. [Available at <http://www.allAfrica.com>]

<sup>115</sup> See Statement by UNDP Associate Administrator Zéphirin Diabré at the Asia Africa Public-Private Joint Forum (24 May 2004, Kuala Lumpur). [Available at <http://www.undp.org/dpa/statements/associate/2004/24may04.html>]; and "Forum highlights 'huge' Asia-

There are concerns that TICAD will produce nothing more than the usual pledges and political rhetoric. Disappointment over similar recent initiatives such as the World Economic Forum and the International Conference on Financing for Development has bred scepticism that TICAD might also be just “another expensive indulgence between leaders”.<sup>116</sup> The real test for Japan will be whether it can emerge as a leader of African development, and not simply be perceived as a mediator between African states and the developed world. TICAD has allowed African states to express some of its major concerns, among them the issue of unfair trade practices. African states have expressed frustration at the level of protectionism by industrialised countries in agricultural products and other commodities, and see this as the greatest obstacle to development.<sup>117</sup>

Some observers also see TICAD as a selfish initiative designed to benefit the Japanese industry as well as a political ploy to gain a seat on the United Nations Security Council.<sup>118</sup> Several African leaders have expressed their support for Japan’s Security Council ambitions. In an interview with the BBC and allAfrica.com, Malian President Amadou Toumani Toure responded to the suggestion that Japan has underlying interests in aiding Africa, “But Japan does deserve a Security Council seat. How can we be here looking at the industrial might of Japan in this day and age and yet it’s not a member of the council? I think it’s fundamentally a political desire first for the Japanese, but also I feel that, one day, Japan must take its rightful place among the world leaders at the UN”.<sup>119</sup> However, support for Japan’s Security Council bid has not been forthcoming without a certain level of concern. Zambian President Levy Patrick Mwanawasa has expressed support for Japan’s Security Council campaign but has said, “To maintain Japan’s good standing in Africa, we want the Japanese to do more than what they have been doing. The problems are gigantic”.<sup>120</sup>

**Recommendation:** The criticisms of TICAD and Japan’s commitment to Africa are understandable. However, there are encouraging signs that Japan is sincere in its effort to expand its relations with Africa. Several Japanese observers have already identified the need for Japan to

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Africa trade and investment potential”. *UNDP Newsfront*. 28 May 2004. [Available at <http://www.undp.org/dpa/frontpagearchive/2004/may/28may04/>]

<sup>116</sup> “Justified scepticism”. *The Sowetan*. 1 October 2003.

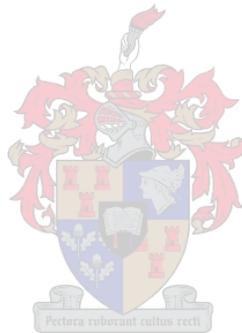
<sup>117</sup> “Challenges in African aid”. *The Asahi Shimbun*. 3 October 2003. [Available at <http://www.asahi.com>]

<sup>118</sup> See Alden, Chris. 2002. “The chrysanthemum and the protea: re-inventing Japanese-South Africa relations after apartheid”. *African Affairs*. 101(404): 365-386.

<sup>119</sup> “Japan should have a Security Council seat, says president Toure”. AllAfrica Global Media. 2 October 2003. [Available at <http://www.allafrica.com>]

<sup>120</sup> “TICAD exposed flaws in UNSC bid”. *The Asahi Shimbun*. 2 October 2003. [Available at <http://www.asahi.com>]

make an even greater effort in engaging the continent.<sup>121</sup> Japan will undoubtedly see South Africa as its most important partner in establishing this. There should be a desire on both sides to expand political and economic cooperation. The creation of a synergy between TICAD and NEPAD must become a priority.



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<sup>121</sup> See Oda, Hideo. 2002. "Japan-Africa Relations in the Twenty-First Century". *Gaiko Forum*. Winter Issue; and Ogura, Kazuo. 2003. "A New Outlook on Africa: Reconsidering Japan's Foreign Policy". *Gaiko Forum*. Fall Issue.

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