



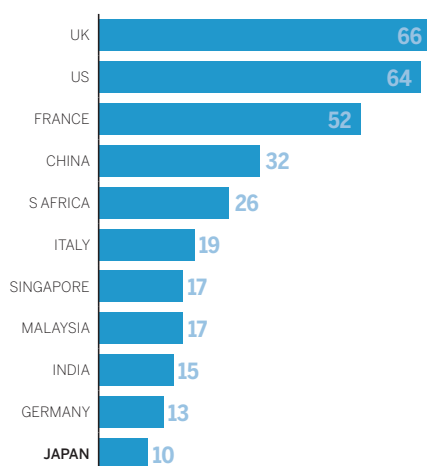
INVESTMENT STRATEGY:

Japan's Revived Africa Relations

Africa's ongoing economic transformation has opened fresh markets for a range of overseas investors. In this new era of sustainable development and diversification from traditional markets, extractives are no longer the venture of choice for countries looking to expand their activities in Africa.

Japan's recent investment strategy on the continent is an example of a multi-sectoral and forward looking approach by this leading outbound investor. As the battle for traditional resources continues, this divergent outlook promises durability in the rapidly evolving Africa marketplace. In this article we analyse Japan's expansion across Africa, the challenges faced by Japanese companies on the ground and the country's long-term strategy to expanding its footprint in the region.

FDI stock in Africa by source, 2014 (\$bn)



Source: UNCTAD, JETRO and Capital Economics
(Reviewed by Financial Times, August 2016)

Expanding ties

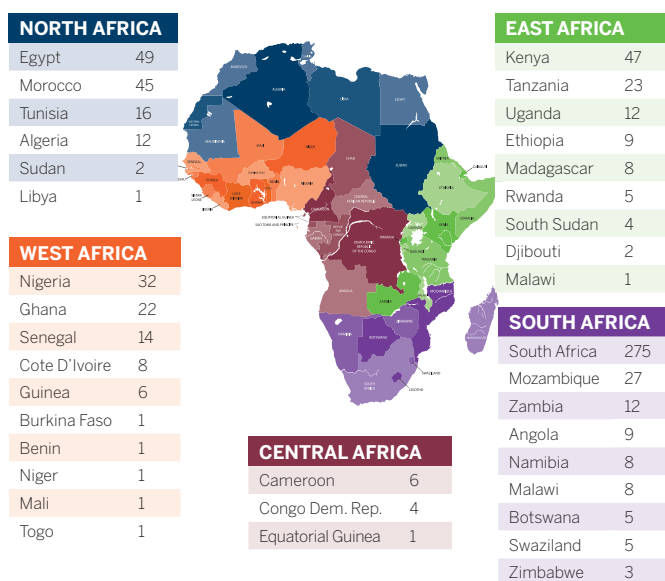
Japan has held a long-standing interest in Africa. Industrialisation in the 1960 – 70s saw the country making substantial inroads into African mineral and resource sectors. By 2016, Japan had become a top ten investor on the continent, responsible for 15 major foreign direct investment ("FDI") projects. Over 50% of all projects were in South Africa, making this country Japan's largest trade partner in Africa.

Investment has come hand in hand with development: during the Sixth Tokyo International Conference on African Development in August 2016, Japan's Prime Minister Shinzo Abe announced his pledge to cooperate with the African Development Bank. Specifically, he stated that Japan will invest \$30 billion in Africa over the next three years, with \$10 billion directed to the infrastructure and energy sectors. The Japanese government further launched a Japan-Africa economic forum and introduced the plan to work with Japan's African Business Education Initiative for Youth (ABE Initiative) to train and empower up to 10 million Africans by 2018.

Current footprint

Approximately 700 Japanese companies currently operate in Africa. Well known Japanese trading companies such as Sumitomo and construction firms including Mitsui and Mitsubishi have operated in the traditional infrastructure and natural resources space for many years. The last 10 years has seen investments in manufacturing, renewable energy and logistics followed by players from newer industries including the media and advertising sector. The Japan External Trade Organization ("JETRO") notes that over 50% of these companies intend to expand, citing "high growth potential" as the most important factor. The leading future investment destinations are projected to be South Africa, Kenya and Nigeria.

Japanese companies operating in Africa, 2017



Source: Ministry of Foreign Affairs of Japan

This steady approach to entering the market contrasts with the aggressive expansion taken by Japan's regional rival, China. While Japanese FDI currently lags behind other leading investors including newcomer China, its new strategy, coupled with Prime Minister Abe's reinvigorated engagement with Africa, may set the foundation for longer term influence across the region.

Challenges on the ground

Despite Japan's official expansion strategy, challenges remain. A January 2017 survey conducted by JETRO cited complex administrative procedures, deteriorating security and local exchange rate fluctuations as continued risks for Japanese companies looking to establish or expand in key African markets.

In South Africa, for example, foreign companies are increasingly obliged to take on local partners. The country's Black Economic Empowerment ("BEE") policy has recently come under scrutiny following the government's call in June 2017 for mining companies to increase local ownership by 30%. Already feeling the brunt of decreased commodity prices, the BEE administrative burden is unwelcome by many mining entities. Administrative change can be swift and uncompromising and there are many local partners to choose from. Understanding the original sources of wealth, reputation and ultimate beneficiaries of selected local partners in advance is critical to help structure regional expansion.

Security issues are a further challenge facing Japanese investors in many parts of Africa. The fractious build up to the August 2017 general election in Kenya and resulting instability after a contested outcome are illustrative of this. Incumbent President, Uhuru Kenyatta, retained power, but the opposition's lack of acceptance of this 'stolen election' led to an increase in the country's security risk exposure. Alongside this, the Somali-based militant group, al-Shabaab, continues to pose a terrorism threat to the safety of assets and personnel based in major Kenyan cities. Close monitoring and detailed local knowledge of the exposure risk is essential.

Nigeria is one of the markets that Japanese investors have refocused on since Prime Minister Abe's edict. Africa's largest market offers huge potential; however, the low value of the Naira coupled with Nigeria's unfavourable foreign exchange policy has added further complexity to an already tough business environment. Policy reactions to the current crisis have been criticised and graduated regulatory change is likely to be a key part of future economic reforms, which should improve the prospects for potential investors.

Progress through partnership

Japan's developed economy and limited natural resources marry well with Africa's resource-rich and expanding markets. In order to leapfrog some of the challenges international companies face when entering or expanding in the region, Japan is exploring partnerships with countries such as the UK and France who have a longer history in Africa. This 'third country cooperation' should supplement Japan's advantage across the continent. Continued awareness of the risks which come with the many opportunities available will support Japan's reconstructed strategy and set a firm foundation for sustained business throughout Africa.



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