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My Kingdom for an Ore: Japanese Relations with South Africa

Japan-South Africa relations have always been dominated by Japan's need for raw materials to supply its huge manufacturing machine, regardless of changing political circumstances in South Africa. The result has been a typical North-South relationship, with Japan importing mostly minerals and South Africa importing mainly manufactured goods. But the African National Congress (ANC) government is trying to change that by persuading Japan to contribute to building South Africa's manufacturing capacity.

The Undermining Politics Of Minerals

Diplomatic relations between the two countries began in 1937 when Japan opened a legation in South Africa, mainly to deal with a large volume of wool imports from South Africa. The war prevented South Africa reciprocating. The new National Party (NP) did not pursue formal relations because it did not classify Japanese as whites until rapidly expanding exports of minerals to Japan persuaded it to classify Japanese as 'honorary whites' in the 1960s.

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In keeping with its subordinate relationship to the US — which sought to contain Communism by supporting strongly anti-communist governments — Japan maintained open economic ties with South Africa. However, in 1974 Japan followed the US and the world by supporting a UN ban on direct investments in South Africa and in 1986 backed the comprehensive US sanctions plan. Beneath the surface, though, business continued as usual: in 1987 Japan was South Africa's largest trading partner. That was particularly embarrassing because Japan was then deepening contact with other African countries to broaden its raw material supply base.

After the unbanning of the ANC in 1990, Japan quickly lifted sanctions against South Africa in 1991. Full diplomatic relations were established for the first time on 13 January 1992. **Nelson Mandela** paid a state visit to Japan and Deputy President **Mbeki** visited twice. Japan did not respond with the same high level visits, but the former Prime Minister **Hashimoto**, still an influential consultant to the present government, visited last year to launch a Japan/South Africa joint commission which elevated official relations to the first rank.

During the *apartheid* era Japan relied quite heavily on South Africa for strategic minerals. In 1979 for example, Japan imported 99.1% of its silo-chrome from South Africa; 76.1% of its ferrochrome; 56.2% of its iridium; 49.8% of its rhodium; 48.7% of its ferro-manganese; 41.4% of its chrome ore; and 33.9% of its platinum. Even with less strategic minerals such as coal and iron ore, Japan was reluctant to give up long-term contracts with South Africa because they provided a reliable supply, an increasingly important consideration in its just-in-time approach to manufacturing inputs.

Japan Seeks Its Own Identity

South Africa's emergence from *apartheid* and isolation coincided with Japan's own emergence from its post-World War Two political dependence on the US, which largely determined its foreign policy stance. But in the post-Cold War period Japan has started seeking its own political identity, more commensurate with its status as the world's second-largest economy. The new outward policy has, to a degree, been prompted by international demands that Japan use its wealth to shoulder a greater share of the burden of maintaining peace and order in the world. This criticism peaked following Japan's stance in the 1991 Gulf War when it contributed money to the international alliance against Iraq, but no manpower. This was widely regarded as the epitome of a policy dubbed 'yen not men' in the West. After the Gulf War embarrassment, the Japanese government contributed troops for the first time to UN peacekeeping missions, first in Cambodia and then Mozambique.

The same was true of financial assistance for developing countries. In response to increasing pressure from Western donor countries that Japan share the burden of relieving extreme poverty, Japan began to play a greater role in dispensing aid, particularly in Africa. In 1993 Japan hosted the high-profile Tokyo International Conference for African Development (TICAD) which brought together African aid recipients and all the developing countries and international financial institutions providing aid to the continent. The aim was to discuss ways of boosting, co-ordinating and better utilising aid.

Nevertheless, most observers believe that Japan's increased contribution to international peacekeeping and to development aid, were both motivated by its newly-acquired ambition to secure a permanent seat on an expanded UN Security Council. To do that, Japan needed to demonstrate that it was prepared to fulfil all the duties of a world player. The increased foreign aid to Africa, and the high-profile TICAD Conference publicising it, undoubtedly boosted Japan's chances of winning the support of Africa's vital 53 seats in the UN General Assembly.

This does not mean one should disregard either the aid or the peacekeeping. All donor countries use aid more or less directly in pursuit of their own national interests. It is just that Japan's quest for a Security Council seat is making its intentions more obvious. Deborah Sharp has argued that TICAD and Japan's general expansion of aid towards Africa in the 1990s, are signs that Japan is using Africa as a stage for the expression of a more assertive and independent foreign policy, than it is conducting elsewhere. That seems to be true but only as long as one sees this more 'independent' foreign policy as being, at least in part, an instrument of Japan's more general campaign to win a Security Council seat.

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Japan And The New South Africa

Is Japan's foreign policy towards South Africa merely an example of this general expansion of aid to Africa so as to establish itself as a world player? Some analysts think so and certainly Japan has tried to lever African support through South Africa. But there is another dimension to Japan's relationship with South Africa that is almost unique in Africa — foreign direct investment (FDI). Japan has made very little direct investment in the rest of sub-Saharan Africa but its FDI in South Africa — or in regional projects in Mozambique, for example, where the risk is covered by South Africa — has been significant over the past few years.

At least nine of the largest Japanese trading houses — the main channels for Japanese foreign investment — have opened offices in South Africa. Some 26 investment projects, worth about R2.5 billion, have been announced or concluded. They have been mostly in mining, motor vehicles and electrical production, in that order of importance. The mining ventures have included several joint ventures with Samancor, the key South Africa player in ferrochrome and manganese, and another major ferrochrome producer, CMI. Various Japanese companies are involved in consortia with South African companies: the big Mozal aluminium smelter, the Maputo Iron and Steel Project and the Beira Hot Briquetted Iron project in Mozambique. The principal investments in the motor industry have been Toyota Motor Corporation's acquisition of 27.8% of Toyota South Africa and Nissan Japan's acquisition of 50% of Automakers South Africa, the holding company for Nissan South Africa. As a result of this new FDI, some analysts are inclined to see Japan's foreign policy towards the new South Africa as being less typical of its general policy towards Africa and more of a continuation of its old minerals-focused policy.

ODA Support Of FDI: The East Asian Precedent

Within the South Africa government some also see Japan's involvement as bearing some similarity to Japan's policy towards east Asia. East Asia receives by far the largest share of Japanese official development assistance (ODA) — 46.5% in 1997, compared with just 12.1% for Africa, the second-largest recipient. This is true despite the fact that the average African country is far poorer than the average East Asian country. This anomaly can partly be explained by the fact that east Asia is closer to Japan both geographically and ethnically and that Japan naturally feels a greater responsibility towards it. But it can also be explained by investment. Japan's FDI is much greater in east Asia than in any other region of the world, and its FDI and ODA in that region are closely connected.

In 1987 Japan's Ministry of International Trade and Industry — world-renowned for its role in shaping the corporate strategy of 'Japan Inc' — published a report called 'The New Aid Plan', which described the function of the Japanese Government's ODA as supporting Japanese corporations in east Asia. The New Aid Plan has been studied closely in South Africa's Department of Trade and Industry (DTI) where it has helped shape a view that Japanese aid to South Africa is being used as an instrument of Japanese business interests and more specifically of the historic quest for raw materials. It is also feeding a perhaps optimistic view that Japan might be contemplating inserting South Africa into its global production network, as it has inserted east Asia.

Japan gave the new South African government a seemingly-generous aid package of $1.3 billion in 1994. It was the more generous because under Japan's own rules, South Africa should not have qualified for assistance because of its relatively high per capita GDP (between $2,500 and $3,000 per annum). This helps explain why very little of the assistance was in the form of pure 'something-for-nothing' grant aid, as compared to aid packages to other African countries, and much more industrial support, as with aid to east Asia. In the South African package just $50 million came in the form of grants (and of that $15 million went to the development of judo); $250 million consisted of concessional loans; $500 million was for loans from the Export-Import Bank of Japan (EXIM); and $500 million was in the form of trade and overseas investment insurance. So in total one billion dollars of the package was devoted to assisting Japanese businesses to invest in or export to South Africa.

A closer analysis of the package reveals more about how the Japanese government views South Africa. The original $500 million worth of loans from the EXIM Bank was increased by $250 million:

- $300 million went to Eskom for improving transition and distribution line grids;
- $100 million to the Development Bank of Southern Africa (DBSA) for fostering small businesses, modernising agriculture and improving economic infrastructure;
- $300 million to Transnet for constructing or improving ports and railways; and
- $50 million to the Industrial Development Corporation for export financing to South African companies to buy machinery and services from Japan.

The investment and trade guarantees were dispensed to cover the risks of Japanese companies investing in or trading with South Africa.

The DTI interpreted this package very much as a support for Japan's sourcing of raw materials from South Africa. They saw the assistance to Eskom as helping the metals processing industries which Japan was investing in — such as ferrochrome production where electricity accounts for up to one quarter of the cost; the funding to the DBSA and to Transnet as improving the infrastructure both in South Africa and elsewhere in SADC (especially Mozambique) necessary for Japanese companies to extract raw minerals; while the IDC funding was seen as linked to its involvement with Japanese trading companies in a number of these big mineral-extraction projects.

These investments have helped to boost Japan to South Africa's fourth largest trade partner — with R18.3 billion in total trade last year.

Trying To Change The North-South Relationship

The upshot of the heavy concentration on investment in mineral extraction is that the fundamental pattern of trade is still the same: Japan imports mostly minerals and food and exports mainly advanced machinery — 60% of its exports to South Africa are motor-related. Where the isolated NP government was content to have any Japanese investment, the ANC government would like both aid and investment to contribute towards its own development and industrial strategies. It has had some small successes. South Africa refused to participate in the first TICAD conference in 1993, largely because it saw it principally as a vehicle for Japan's Security Council ambitions. That gave it some leverage which it used to make its participation in TICAD II in October last year conditional on the inclusion of certain items on the agenda — for instance debt relief and greater market access for African countries. Debt relief did in fact become the major issue of the conference.

The South African government has also helped to change the focus of Japanese aid to SA a little. Japan's second aid package, announced at the inauguration of President Mbeki in June 1999, though overall the same, showed some significant changes from the first, including a doubling of the grant component to $100 million and the lowering of interest rates on concessional loans from 1.7% to 0.75%, because the South African government had argued that though 1.7% might seem concessional, it was not really so when the likely yen/rand exchange rate difference over the loan repayment period of 40 years, was taken into account. The result had been that only one loan was taken out of the 1994 package.

South Africa is also trying to use Japanese ODA to change the fundamental, typically North-South pattern of the economic relationship. It has persuaded Japan to use some of the new aid package for training local manufacturers of small motor vehicle components so they might benefit from the increased Japanese investment in the motor industry, and perhaps eventually participate in Japan's global motor production networks. It is also trying to persuade Japan to invest more in South African electronics and agro-processing where South Africa could be competitive, including in the Japanese market, if Japan would provide greater market access.

Scenarios

Though political relations between Japan and South Africa are excellent, the crunch question is: where do economic relations go? These are still too new to forecast with much confidence.

In a 'low road' scenario, Japanese investment even in raw materials production tails off because of concerns about the South African investment environment, including fears of crime, bad decision-making from government, or labour costs. The cancellation of Mitsui Corporation's investment in the Coega smelting project is a warning sign pointing along this low road.

In the 'middle road' scenario, the fundamental historic economic relationship continues, but with some variations, ie Japan continues to view South Africa largely as a source of raw materials and a market for manufactured goods. Even in this scenario there are more benefits for South Africa than there were in the past as Japanese companies have begun to invest in the extraction of the minerals they need, thus increasing local capital and helping to maintain a healthy balance of payments.

In the 'high road' scenario Japan would substantially increase its overall investment, devoting a greater share to South Africa's manufacturing sector and increasingly incorporating South African companies into its global manufacturing networks, as it has with east Asia, transferring technology as it does so. The joint venture between Samancor and Japan Metals and Chemicals to produce refined, low-carbon manganese which will be used by Japan to produce special steels, points in this direction. This represents an important step up on the ladder of beneficiation and technology transfer. Previously only unprocessed manganese ore was shipped to Japan. The Toyota and Nissan investments are also pointers to a high road scenario as there are indications that the South African plants may be incorporated into each Japanese company's global production network.

In the end, though, the South African government will be the major determinant of which road is followed. The government has been inclined to see itself as a rather passive agent of Japanese grand designs, with power only to influence its destiny by tweaking the Japanese government's aid package. It will have to think bigger than this, by visualising the requirements of large Japanese international corporations to persuade them to install part of their production networks here rather than Taiwan or Malaysia. Japanese corporations' decisions to move part of their manufacturing processes offshore to east Asia were largely dictated by cheaper labour costs in that region. Turning the trickle of Japanese investments so far into a flood will presumably require a large increase in productivity, including the relaxing of labour standards — as already hinted at by President Mbeki — and a drastic improvement in education. It will require greater transparency, predictability and efficiency in government's awarding of contracts and decision-making on projects. And since investment in manufacturing also requires moving more Japanese business people and their families offshore, it will require a decline in the rate of crime. In other words, the changes that are required to put Japanese economic relations on the high road are those required to put our economic relations with the world on the high road. Given the slow pace of such changes, it would probably be unwise to predict more than a middle road scenario for some time to come.