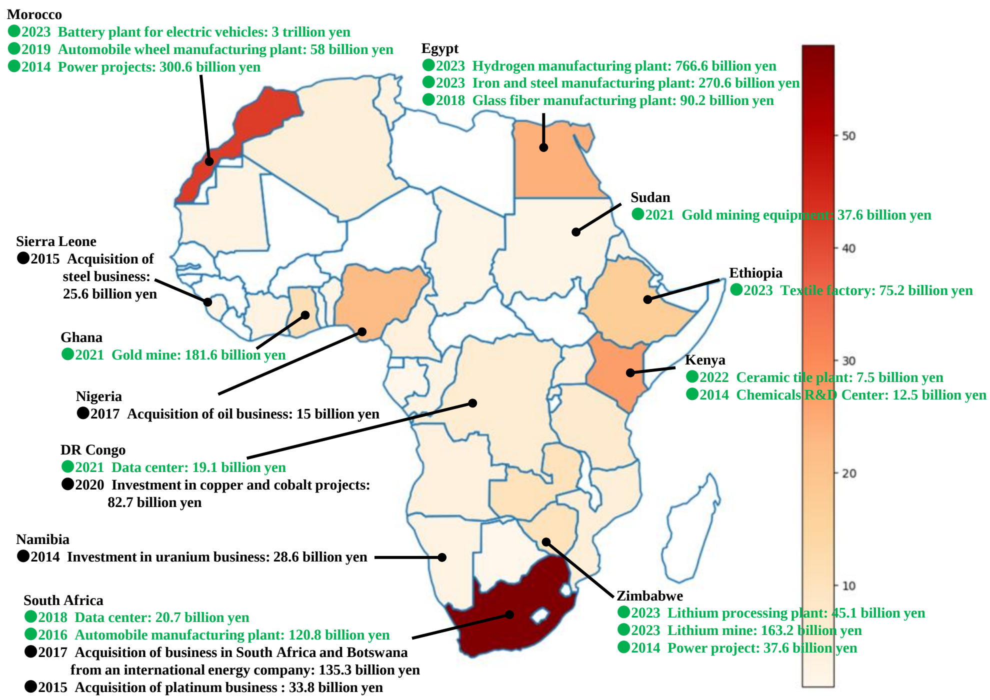
Column 1 Current status of investments in Africa by Japanese companies

In Africa, various countries are stepping up their presence by increasing investments in the region because the region's economic size is expected to expand considerably due to rapid population growth. Those countries are also presumed to be earning profits through their investments in Africa. For example, according to an analysis by UNCTAD (2019),[12] the return on the total amount of investments made in African countries by the rest of the world in 2018 was 6.5%, higher than the return on investment in Latin America (6.2%) or in the whole of developed countries (6.0%).

In particular, China has been active in making greenfield investments in Africa, including the construction of factories and infrastructure. According to the OECD (2023),[13] China accounted for 18.2% of the overall amount of greenfield investments in Africa. Column Figure 1-1 shows an overview of Chinese investment projects (including both greenfield investments and M&A [merger and acquisition] projects) in Africa in the past ten years. The figure indicates that China's presence is growing not only in the mining industry, which has traditionally been the main recipient of investments in Africa, but in a broad range of sectors, as exemplified by an automotive project in Morocco, and the construction of textile factories in Ethiopia and data centers in South Africa and the Democratic Republic of Congo.

Column Figure 1-1. Chinese investment projects in Africa (2014-2023)



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12 UNCTAD (2019), "World Investment Report 2019," June 2019 (https://unctad.org/system/files/official-document/wir2019_en.pdf, p.15). However, annual rates of return are measured as annual FDI income for year t divided by the average of the end-of-year FDI positions for years t and t - 1 at book values.

13 OECD/African Union, "Africa's Development Dynamics 2023."

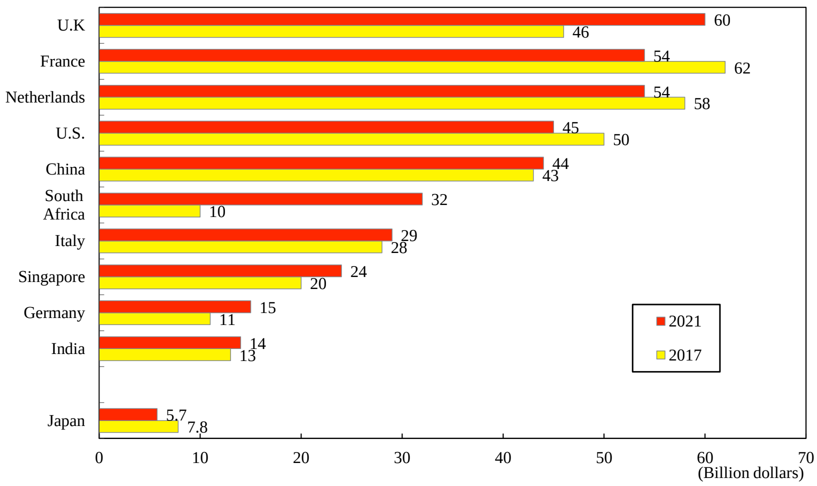
Note: The color intensity on the map changes in accordance with the number of greenfield and M&A projects.

Characters in green: Greenfield projects and investment amount; Characters in black: M&A projects and transaction amount; The total amount in yen is the result of calculations using the yen-dollar exchange rate as of February 20, 2024.

Source: Orbis Crossborder Investment.

On the other hand, Japanese companies have been sluggish in advancing into Africa compared with their counterparts from the United Kingdom, the United States, France, China, and India, among other countries. In 2021, the outstanding balance of direct investments in Africa by Japanese companies was approximately 5.7 billion dollars, less than a tenth of the outstanding balance of investments by the world's largest investor, the United Kingdom (approximately 60 billion dollars) (Column Figure 1-2).

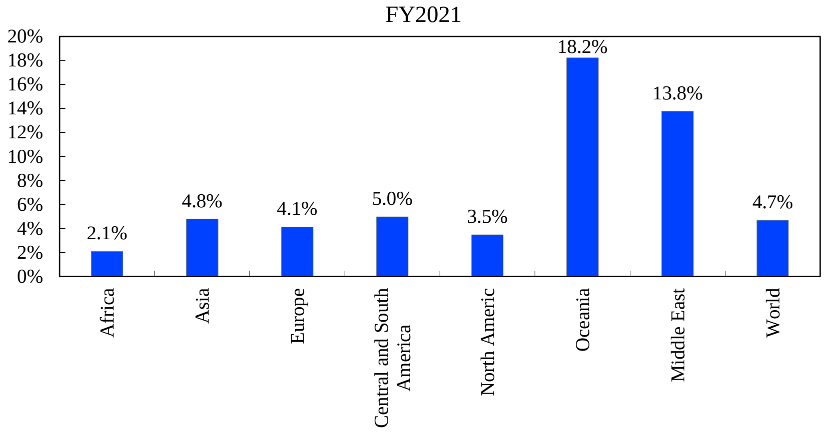
Column Figure 1-2. Outstanding balance of direct investments in Africa by country (comparison between 2017 and 2021)



Source: *World Investment Report 2023* (UNCTAD), *Invest Japan Report* (JETRO).

One possible factor behind Japanese companies' reluctance to be active in advancing into Africa is the low profitability of investments in Africa. According to a region-by-region comparison of the profitability (net profit rate) of Japanese companies' foreign subsidiaries based on the Basic Survey on Overseas Business Activities by the Ministry of Economy, Trade and Industry, in FY2021, the profitability was 2.1% in Africa, against the rate of 4.8% in Asia, a finding that underscored the low level of profitability in Africa (Column Figure 1-3).

Column Figure 1-3. Profitability (net profit rate) of Japanese companies' foreign subsidiaries

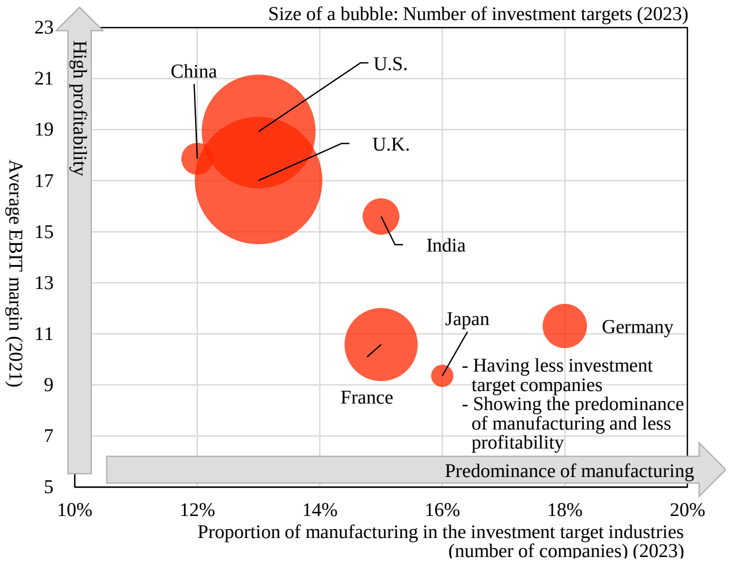


Source: *Basic Survey on Overseas Business Activities* (METI).

Another possible factor behind the low profitability of Japanese business activities in Africa is the predominance of manufacturing companies among Japanese companies operating in the region.[14] An analysis using the ORBIS database of Moody's Analytics, which enables an international comparison of corporate financial data, suggested the presence of an inverse correlation between investment in manufacturing industries and investment profitability—that is, the investment profitability tends to be lower for countries, such as Japan and Germany, that have targeted a relatively large portion of investments in Africa at manufacturing industries than for countries, such as the United States and China, that have targeted a relatively small portion of investments in Africa at manufacturing industries (Column Figure I-4).

[14] When Japanese companies that had capital relationships with African countries were selected from the ORBIS database and the share of manufacturing industries was calculated based on the NACE industry classification, manufacturing industries accounted for 53% of the Japanese companies (parent companies) that were operating in Africa and around 16% of the recipients of investments (local affiliates, subsidiaries, etc.) from Japanese companies.

Column Figure 1-4. Proportion and profitability of the manufacturing industry in the investment in Africa



Source: ORBIS.

As for Japanese companies' investment projects in Africa in recent years, there have been many cases of investment not only in manufacturing industries but also in the information and communication industry. Column Table 1-5 shows year-to-year changes in the industry-by-industry breakdown of major countries' M&A projects in Africa. According to this table, in the periods from 2003 to 2007 and from 2013 to 2017, manufacturing industries accounted for the largest number of Japanese M&A projects in Africa, but in the most recent five-year period (from 2018 to 2022), the information and communication industry (or the IT industry) accounted for the largest number. In Africa, demand for investments in the information and communication industry is presumed to be growing because of the emergence of startups using digital technology and the launch of proactive policy initiatives to train workers with IT skills in some countries.

Column Table 1-5. Year-to-year changes in industries having conducted many M&A projects

	2003-2007	2008-2012	2013-2017	2018-2022
U.S.	Manufacturing (19)	Manufacturing (26)	Manufacturing (27)	Information and communication (121)
U.K.	Finance (29)	Manufacturing (28)	Manufacturing (45)	Finance (32)
France	Manufacturing (17)	Finance (13)	Manufacturing (12)	Finance (25)
Germany	Manufacturing (3)	Wholesale and retail trade (6)	Finance (11)	Information and communication (5)
Japan	Manufacturing (4)	Wholesale and retail trade (5)	Manufacturing (8)	Information and communication (17)
China	Finance (2)	Mining industry (2)	Manufacturing (5)	Manufacturing (4)
ROK	-	Mining industry (1)	-	Finance (1)
India	Manufacturing (8)	Information and communication (7)	Manufacturing (10)	Manufacturing (6)
Turkey	-	Manufacturing (1)	Mining industry (1)	Wholesale and retail trade (2)
World total	Finance (118)	Manufacturing (132)	Manufacturing (202)	Information and communication (304)

Note: Figures in parenthesis refer to the number of M&A projects.
Source: ORBIS.

The Third Japan Africa Public-Private Economic Forum and the Ninth Tokyo International Conference on African Development (TICAD 9) are scheduled to be held in 2024 and in 2025, respectively. There are expectations for Japanese companies to use those occasions to incorporate the African market, which is expected to record high growth, into their business strategy.