

## **Section 5 Global development and poverty**

Emerging countries have recently achieved remarkable levels of economic development, increased their market presence, and aggressively built closer ties with other countries, which has led to the ongoing expansion of a new global market potentially comprising five billion consumers. On the other hand, people in least developed countries (LDCs) and the so-called “remaining poor countries,” as well as people who live on the edge of “poverty,” have not benefited from the “bright side” of economic globalization. To ensure worldwide sustainable development, it is important to create a social structure that enables such countries and people suffering from poverty to benefit from the “bright side” of globalization and become part of the global economy. It is also important that the global economy catch up it—achieve a convergence—smoothly. The new global market, with its potential five billion consumers, needs to turn into a literal “global economy” with a size of over 6.5 billion consumers.

In the process of enabling developing countries and their people to participate actively in the new global market, some changes need to occur “concurrently.” There must be free competition among economic entities, as well as “marketization” that allows the prices determined in that free-competition market to serve as the dominant principle in distributing resources. There must also be an “internationalization” that deeply embeds domestic economies into the worldwide economic network.

In Asia, the dynamism of “industrialization” serves as a driving force of economic development, and the introduction of technology and capital from Japan has become essential to concurrent “marketization” and “internationalization.” Economies of agglomeration have been successfully realized, creating a “world factory” in an extremely short period of time; in the process, the “flying geese pattern of development”—of which Japan is the leader—has taken place, and Asian NIEs (South Korea, Taiwan, Hong Kong, and Singapore), ASEAN members, and China have undertaken international specializations and technological transfers based on their respective developmental stages. To ensure success, these countries’ respective governments have played active roles in complementing the market with the establishment of social infrastructure for primary education, as well as enhancements to agricultural development and healthcare systems. This has led to an accumulation of productive human capital. This successful method has drawn attention<sup>1</sup>. As for approaches to promoting economic development, it is said that Asia is an area where “the Japanese-style of support for developing countries that combines trade, investment and aid yields significant results lead to a departure of the aid ultimately” and where “a double-track approach in which ‘rural and local development → spread of benefit of development → political and social stabilization → economic development’ and ‘development of infrastructure → creation of investment environment → advancement of export-driven industrialization → economic development’” has taken hold<sup>2</sup>.

These successful models of Asian economic development are likely to be effective in assisting

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<sup>1</sup> Literature that argues this point includes Amartya Sen (1999). “Beyond the Crisis: Development Strategy in Asia.”

<sup>2</sup> Proposed in “SHINJIDAI NO AJIA SENRYAKU,” by Ajia ni Okeru Nihon no Yakuwari wo Kangaeru 9-nin linkai (December 5, 2005).

Africa—especially sub-Saharan Africa, where many of the “Bottom Billion” live and there is a strong potential not only for expansion, but also for “explosions” in trade and investment. In the process, the creation of a mutually beneficial and organic international business network through direct investment by Japanese industry—which served as a driving force of economic growth in Asia—will serve as a key to that development. At the same time, efforts such as the promotion of “endogenous development” through the “One Village One Product” campaign—as well as the active provision of a place in the market for such products—is very important in terms of utilizing local African resources and promotion of a self-sustaining form of development<sup>3</sup>.

For Africa, it is of course important to attend to such conditions as unstable political systems and frequent disputes that are not found in Asia, and formulate a development policy that reflects local uniqueness. On the other hand, Africa shares many of the same needs for economic development that Asia has: (1) a need for industrial cluster development that is not dependent on natural resources, (2) a need for multi-form and gradual development through alliances led by coastal countries, which involve landlocked nations, and (3) a need for the government to play a role in improving economic governance and develop such foundations as primary education and agricultural development. By fulfilling such needs, the Asian approach will be effective in Africa, in many ways<sup>4</sup>.

Against this backdrop, in this chapter, the trends of economic development in Asia, Latin America, and Africa will be compared, by region; the reasons for regional disparities will be examined, followed by an overview of recent changes needed for Africa’s economy to “take off”—an economy whose development otherwise lags behind those of other regions. This chapter will also examine the active efforts toward recent changes that have been carried out by various countries. The final part of this chapter will study what type of social structures, including international business networks, should be created by Japan, given that country’s contribution to Asian economic development; those networks will be ultimately geared toward the elimination of “poverty” in Africa, through its integration into the new global market.

## **1. Disparity in development among regions**

### **(1) Global distribution of the poor**

Economic development remains a major issue in the international market. One of the UN Millennium Development Goals (MDGs)<sup>5</sup> formulated in 2001 was to halve the number of people in

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<sup>3</sup> In other words, in today’s rapidly advancing globalized society, Japan’s “100 million citizens” and the “Bottom Billion” need to accelerate the deepening of their economic relationships, to ensure smooth economic development.

<sup>4</sup> For example, at the conference entitled “African Development: Past, Present and Future,” hosted by the Institute of Developing Economies on February 29, 2008, the following questions were posed: “Can the Asian economic development model apply to Africa? Will the model of aid trinity—Aid, FDI, export—for example, in the Eastern Seaboard in Thailand, be realized through government coordination?” Oxford University Professor Paul Collier responded, “There is no question about the need for the coordination by the government to promote industrialization. The problem is that the ODA and FDI are not coordinated or cooperated and the need is not understood. Although there are as many as 42 (too many) production zones for exportation in Kenya, they are formed due to the political patronage and thus inefficient.”

<sup>5</sup> The UN MDGs include the following eight goals, to be achieved by 2015. They comprise a combination of the UN Millennium Declaration adopted at the UN Millennium Summit in 2000 and the major

extreme poverty—i.e., those whose daily income is less than US\$1—between 1990 and 2015<sup>6</sup>.

The trends and regional distribution of people in extreme poverty in the table below show that the number is the highest in Asia (600 million), although the population is decreasing in accordance with its economic development. On the other hand, the populations in Latin America and Africa are increasing. Especially, the proportion of those suffering from extreme poverty is extremely high in Africa (33% percent of the total population in the region in 2004), and it has changed very little since 1981 (see Table 3-5-1).

The population growth in Africa is expected to continue; the 2005 total of 920 million is likely to reach 1.15 billion in 2015 and two billion in 2050<sup>7</sup>. If the proportion of those in extreme poverty remains at about 30%, that figure will comprise approximately 600 million people in 2050—the same figure as in Asia today.

Table 3-5-1 Population in Poverty and Its Ratio in Total Population

Region by UN Classification	Number of countries	Number (millions)			Population in poverty/total population (%)		
		1981	1993	2004	1981	1993	2004
East Asia	2	634.6	334.6	128.5	63.7	28.3	9.9
China in East Asia		633.7	334.2	128.4	63.8	28.4	9.9
Southeast Asia	7	128.8	67.8	33.7	39.4	16.4	6.9
South Asia	11	448.3	432.0	441.3	45.5	33.9	28.6
India in South Asia		363.7	376.2	370.7	51.8	41.8	34.3
West Asia	6	3.5	3.7	4.1	4.9	4.0	3.6
Asia total	26	1,215.2	838.2	607.7	51.1	28.3	17.7
China and India		997.4	710.4	499.0	58.8	34.2	21.0
East Africa	11	61.3	94.1	98.2	43.9	47.6	37.9
Central Africa	2	3.7	7.0	4.9	32.6	43.9	24.7
North Africa	4	5.8	2.9	2.0	6.4	2.4	1.4
South Africa	5	3.6	6.0	6.0	11.1	14.0	12.1
West Africa	12	62.9	91.1	123.7	49.6	51.6	52.1
Africa total	34	137.3	201.1	234.8	34.2	36.3	33.0
Europe	17	0.0	11.6	0.8	0.0	3.5	0.3
Latin America	23	37.5	37.4	45.5	10.8	8.4	8.6
Total	100	1,390.0	1,088.3	888.9	40.4	25.4	17.8

Source: *Povcal Net* (World Bank)

## (2) Disparity in economic development among regions

The disparity in economic development among Asia, Africa, and Latin America is examined below<sup>8</sup>.

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development goals formulated in the 1990s:

(1) Eradicate extreme poverty and hunger, (2) Achieve primary universal education, (3) Promote gender equality and empower women, (4) Reduce child mortality, (5) Improve maternal health, (6) Combat HIV/AIDS, malaria and other diseases, (7) Ensure environmental sustainability, and (8) Develop a global partnership for development.

Halving extreme poverty is a more concrete “subgoal” of goal (1).

<sup>6</sup> The worldwide number of those in extreme poverty in 1999 was 1.22 billion.

<sup>7</sup> Source: UN statistics.

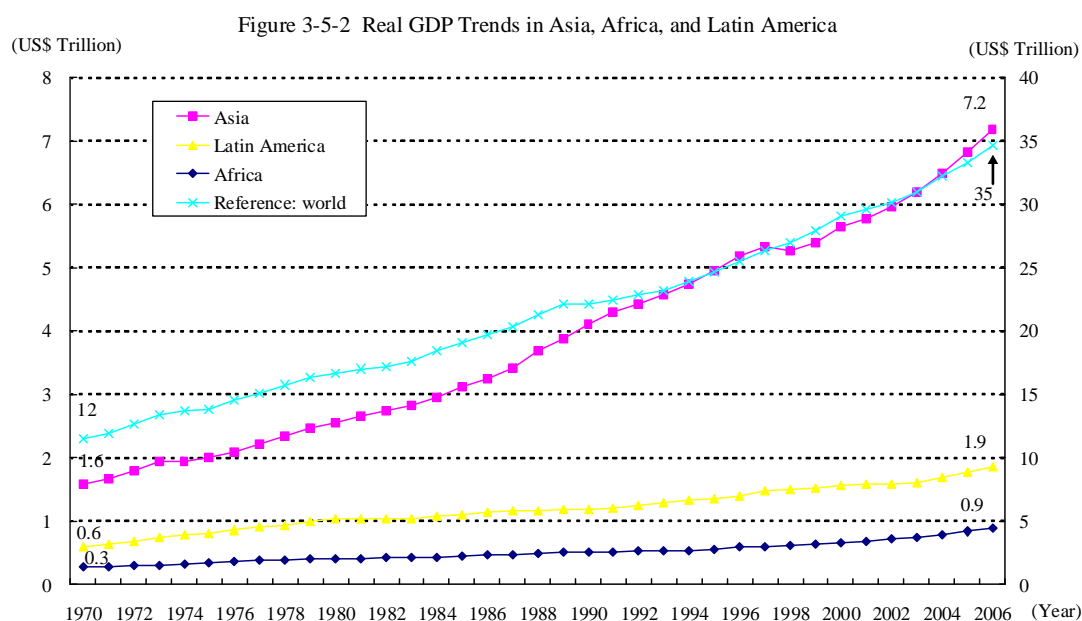
<sup>8</sup> As for disparity in economic development, one example shows that although Malaysia and Ghana both won independence in 1957, the per-capita GDP in 1958 was US\$200 in Malaysia and US\$170 in Ghana; those figures eventually rose to US\$3,884 and US\$285, respectively. In other words, the disparity became more than 10-fold in the latter half of the 20<sup>th</sup> century. (Asare, B. and W. Alan (2004), “WEST AFRICA REVIEW,” Africa Resource Center, Inc.) According to IMF statistics, the per-capita GDP in 2007 was

Development in each region in terms of real GDP, based on 1990 figures, differs very little from real GDP in the three regions as based on 1970 figures. However, the economic growth rates in Latin America and Africa have been low, whereas that in Asia has grown significantly since the 1980s. Real GDP in Asia is now eight times larger than in Africa and more than three times larger than in Latin America, leaving a sizeable gap between Asia and the other two regions (see Figure 3-5-2).

The industry structures in Latin America and Africa have seen no significant changes between 1970 and 2006; meanwhile, it has changed in Asia, as shown by the fact that the proportions of real GDP that agriculture, forestry, and fisheries contribute have decreased, while those of mining and manufacturing have increased (see Figure 3-5-3).

Many studies have been conducted into Asia's rapid economic development. From the viewpoint of "economic development and poverty eradication," it is generally said that an increase in exports of products from labor-intensive industries creates job opportunities for the poor in rural areas and changes the industrial structure<sup>9</sup>. The change in real GDP share in Asia shows how this has been part of Asia's development policy.

To further examine the underpinnings of economic disparity among the three regions, they are compared in terms of their "exports," "inward direct investments," "agricultural development," and "improvements in education"—all of which have been believed to be major contributing factors to Asia's economic development.

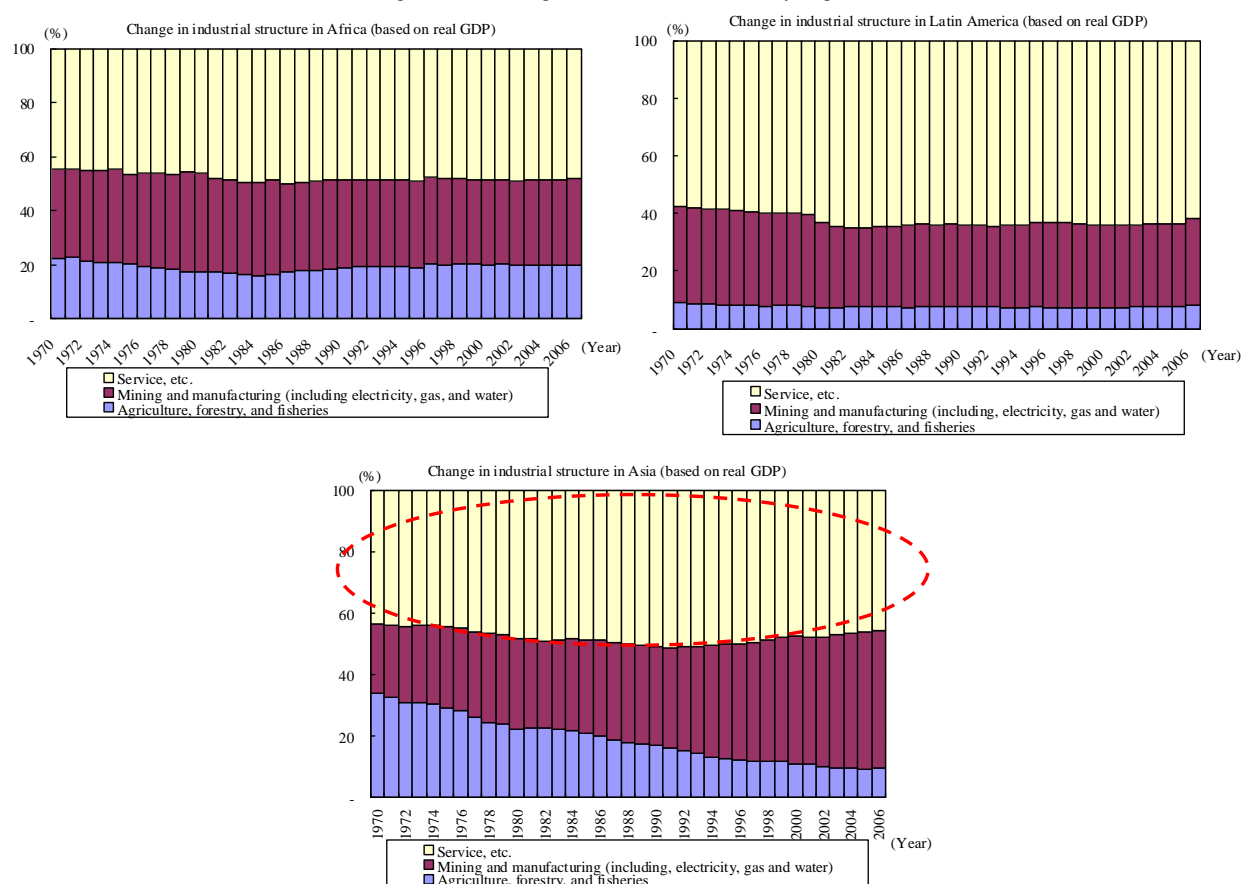


Notes: 1. Asia includes ASEAN4, NIEs, China (including Macau), and Japan. Taiwan is excluded, because no data are available.  
 2. In terms of statistics, Latin America is a total of South and Central America and Caribbean countries.  
 Africa is in accordance with statistical classification.

US\$6,948 in Malaysia and US\$676 in Ghana.

<sup>9</sup> Kuriyama M. and T. Yamagata (2003), "KAIHATSU SENRYAKU TO SHITENO PRO-POOR GROWTH." They study the development strategies of the LDCs in achieving pro-poor economic growth, in relation to industrial policy. They say that agriculture offers the most numerous job opportunities to the poor, whereas manufacturing contributed most to increases in the number of job opportunities among the poor of Thailand and Taiwan—two countries that achieved rapid economic growth between the 1970s and the 1990s.

Figure 3-5-3 Changes in Industrial Structure, by Region



Notes: Asia includes ASEAN4, NIE5, China, and Japan. Taiwan is not included, because no data are available.  
Source: *National Accounts Main Aggregates Database* (UN)

### (3) Background of disparity in economic development among regions

#### (Exports)

The table below shows that both exports and imports grew rapidly after the 1970s (see Figure 3-5-4).

At that time, national governments in Asian countries began to take measures to promote exports, to actively develop export-driven industries; the US market was typically their destination, although their business methods differed.

On the other hand, Latin America promoted imports, to replace intermediate and capital goods. Due to consideration for domestic prices, the governments tended to set the exchange rate high; exports increased very little and, instead, imports increased. Accordingly, the current account deficit increased<sup>10</sup>.

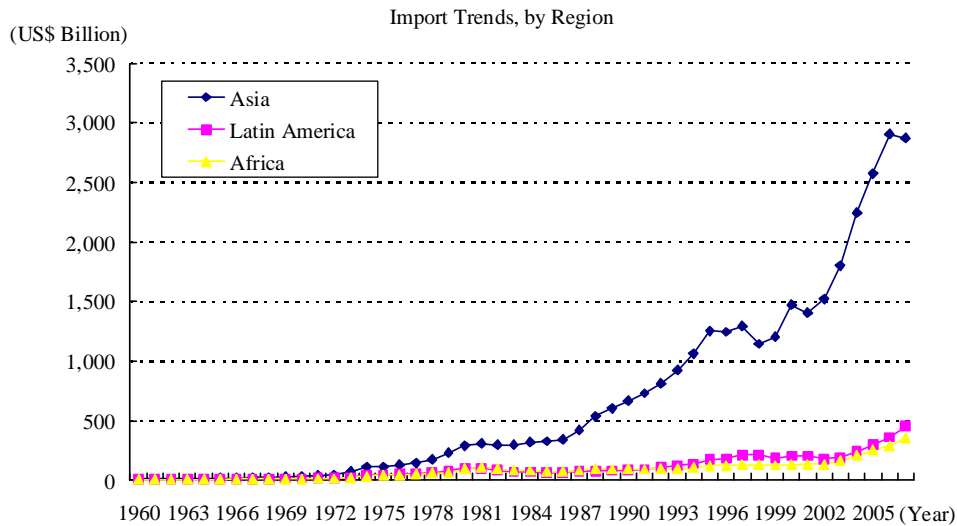
In Africa, many countries gained independence<sup>11</sup> after the late 1950s and took a policy in the

<sup>10</sup> Ikegami, M. (1993), "HATTEN TOJOUKOKU NO 1980-NEDAI NI OKERU YUSHUTSU DOUKOU TO KEIZAI SEICHOU."

<sup>11</sup> Many countries won independence during this time—especially in 1960, which was called "the African year."

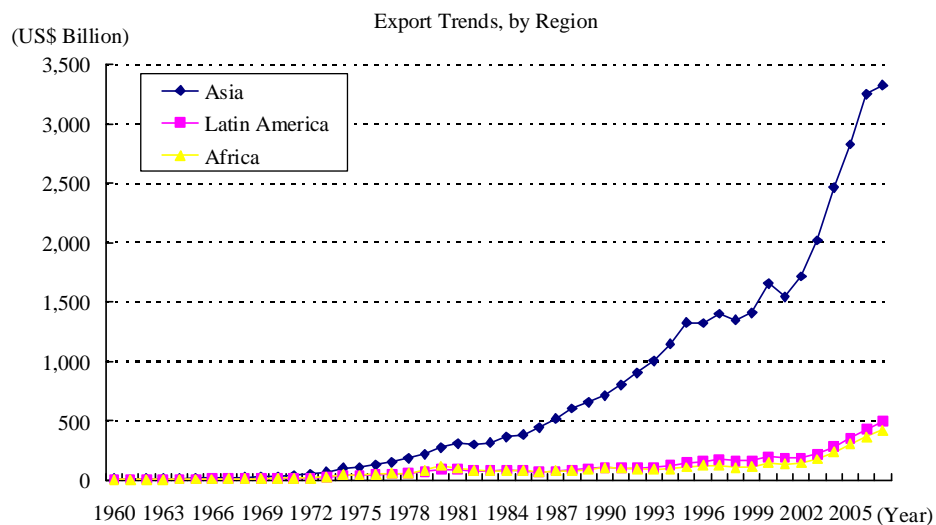
1970s of protecting their domestic industries<sup>12</sup>; eventually, they would typically develop policy in the 1970s to early 1980s, to develop import-replacing industries<sup>13</sup>. As a result, domestic industry weakened and trade volumes remained low.

Figure 3-5-4 Import and Export Trends, by Region



Notes: Asia includes ASEAN4, NIEs3, China (including Macau), and Japan. No data available for South Korea for 2007. Other regions are in accordance with statistical classification.

Source: *Statistics Database (WTO)*



Notes: Asia includes ASEAN4, NIEs3, China (including Macau), and Japan. No data available for South Korea for 2007. Other regions are in accordance with statistical classification.

Source: *Statistics Database (WTO)*

### (Inward direct investment)

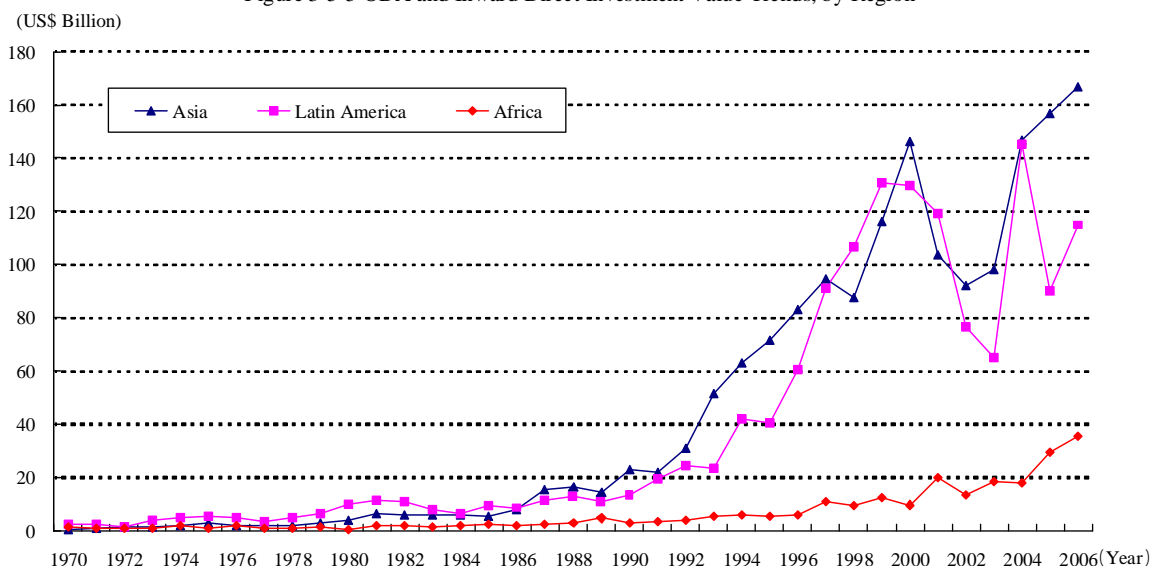
Inward direct investment from overseas, mainly from Japan, served as a driving force of export growth in Asia, especially in China and ASEAN member nations. Although the ODA in Asia has increased, inward direct investment significantly exceeded ODA in the 1980s (see Figure 3-5-5). It is

<sup>12</sup> Nishiura, A. and T. Fukunishi (2008), “AFRICA NI OKERU SANGYOU SEISAKU NO SHIN KADAI.”

<sup>13</sup> Fukasaku, K. and Y. Matsumoto (2007), “AFRICA NO MINKAN SEKUTAA KAIHATSU SHIEN.”

often pointed out that increase was the result of the creation of a positive business cycle: the investment and business environment improved as Asian countries promoted trade and investment liberalization, which led to active direct investment by cost-conscious multinational firms; this, in turn, resulted in export increase and an inflow of investment<sup>14</sup>. This cycle is the basis of the global value chain across Asia<sup>15</sup>.

Figure 3-5-5 ODA and Inward Direct Investment Value Trends, by Region



Notes: Asia includes ASEAN, NIEs, China (including Macau), and Japan. Other regions are in accordance with statistical classification.  
Source: WIR2007 (UNCTAD, 2007)

The economic effects in recipient countries of inward direct investment vary, including the creation of job opportunities and increases in productivity as a result of technological transfer. In China and ASEAN countries, foreign investment led to developments in the manufacturing industry and advancements in the industrial structure, both of which led to significant economic growth.

On the other hand, Latin America received foreign direct investment in the early 1980s more actively than Asia, for the development of import-replacing industry and infrastructure. However, due to inflation and the inefficient management of state-run corporations that had served as the centerpiece of industry, its economy became stagnant in the 1980s<sup>16</sup>. Since the 1990s, internal direct investment in the region has been on the rise, following Asia's trend of growth.

In Africa, internal direct investment, like trade, had been scarce until the 1990s.

ODA is likely to be one of the causes of disparity in private foreign investment. Overseas

<sup>14</sup> Urata, S. (2005), "HIGASHI ASIA NI OKERU JUUSOUTEKI HATTEN PUROSESU." Mr. Urata divides the factors that brought about rapid expansions of trade and investment in East Asia into domestic and external factors. He argues that the predominant internal factors were the liberalization of trade and direct investment (e.g., lowering of tariff and non-tariff barriers, establishment of export-processing zones, investment-related deregulation, and introduction of tax exemption) and that the provision of a business-friendly environment through low wages and the presence of a hard-working labor force led to success in directing inflows of direct investment, which brought about even more investment.

<sup>15</sup> Refer to Chapter 2.1.

<sup>16</sup> Ministry of Economy, Trade and Industry, Japan, *White Paper on International Trade and Economy 1986*.

economic assistance, provided by Japan for Asian countries, has been based on a scheme for assisting them to generate new ways of adding value and developing peripheral industries; it has been applied mainly to the economic sector and service industry. The assistance, through the development of infrastructure, has contributed to the development of the business environment, to bring about direct investment. Meanwhile, assistance from Europe and U.S., mainly for Latin America and Africa, has been mostly earmarked for social infrastructure and service industries related to human resources development, such as education and healthcare (see Table 3-5-6).

According to Kimura and Todo (2007)<sup>17</sup>, it has been demonstrated that Japanese assistance served as an “advance guard” to encourage private investment from Japan; as such, it is a unique feature of Japan’s assistance, which brought about foreign direct investment in Asian countries by providing a strong pro-growth impact.

Table 3-5-6 Total Assistance in Value, 1974–2006 (by Aid Provider, Sector, and Recipient Region) (\$US Million)

	Asia				Latin America				Africa			
	Social sector/ service	Economic sector/ service	Others	Total	Social sector/ service	Economic sector/ service	Others	Total	Social sector/ service	Economic sector/ service	Others	Total
US	2,986	1,080	5,968	10,034	16,428	1,670	35,286	53,384	20,512	7,282	49,789	77,584
UK	1,098	1,417	1,039	3,554	819	652	2,716	4,187	8,636	2,443	17,849	28,928
France	1,191	2,455	1,483	5,129	1,653	1,282	3,391	6,326	13,146	8,690	36,022	57,858
Japan	16,825	51,952	37,258	106,035	5,023	4,706	15,492	25,221	5,719	7,406	20,491	33,616
Total	5,276	4,952	8,489	18,717	18,900	3,603	41,393	63,896	42,294	18,415	103,661	164,370

Notes: 1. Each sector is defined as follows:

The social sector/service is for human resources development, mainly in developing countries, including education, health care, water supply, and sanitation.

The economic sector/service is the support for network, public facilities, and services for smooth ensuring economic activities, including transportation, telecommunications, energy, finance, and business services.

2. Others are the total of the production sector (which directly contribute to agriculture and manufacturing, etc.) and multiple sectors, commodities/general programs support (sector is not specified; funds whose spending is defined), and debt relief.

3. Asia includes ASEAN4, NIEs, and China. Taiwan is excluded because no data are available. Latin America is the total of and northern South America Central America. African is in accordance with statistical classification.

Source: *OECD Statistics*

## (Agricultural development)

One characteristic of economic development in Asia has been the transfer of employment from rural areas to other industries. Improvements in agricultural productivity have been considered one of the factors involved.

In fact, the yield per acre of rice, wheat, and corn has consistently increased in Asia (see Figures 3-5-7 to 3-5-9).

The so-called “green revolution<sup>18</sup>” increased grain productivity. The introduction of high-yield seed varieties and the massive application of chemical fertilizers made significant contributions to agricultural productivity improvements in Asia.

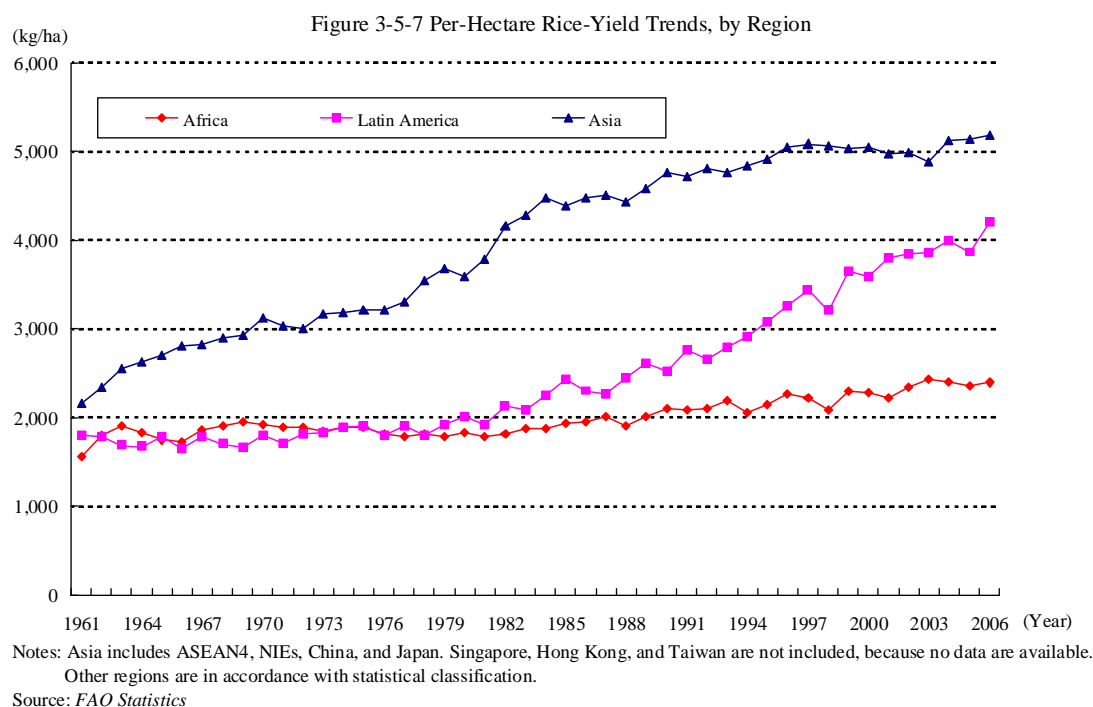
<sup>17</sup> Kimura, H. and Y. Todo (2007), “KAIHATSU ENJO WA CHOKUSETSU TOUSHI NO SENPEI KA?”

<sup>18</sup> Although there is no definitive definition for “green revolution,” most definitions agree that it is about conducting technological innovation related to irrigation, fertilizers, agricultural chemicals, and farming machinery, together with the cultivation of high-yield grain varieties; it also marks a departure from traditional farming methods, ultimately to increase food production that, in turn, addresses population increases, mainly in developing countries. The “green revolution” touches many social aspects, ranging from cultivation to social economy (Ienaga, Y. *SEKAI DAIHYAKA JITEN*. (Heibon Ltd, Publishers)).



The significant productivity increase following the “green revolution” led to a transfer of labor from rural to urban areas and brought a transformation to industrialization<sup>19</sup>. The “green revolution” also brought about a significant yield increase in Latin America, after the 1960s<sup>20</sup>.

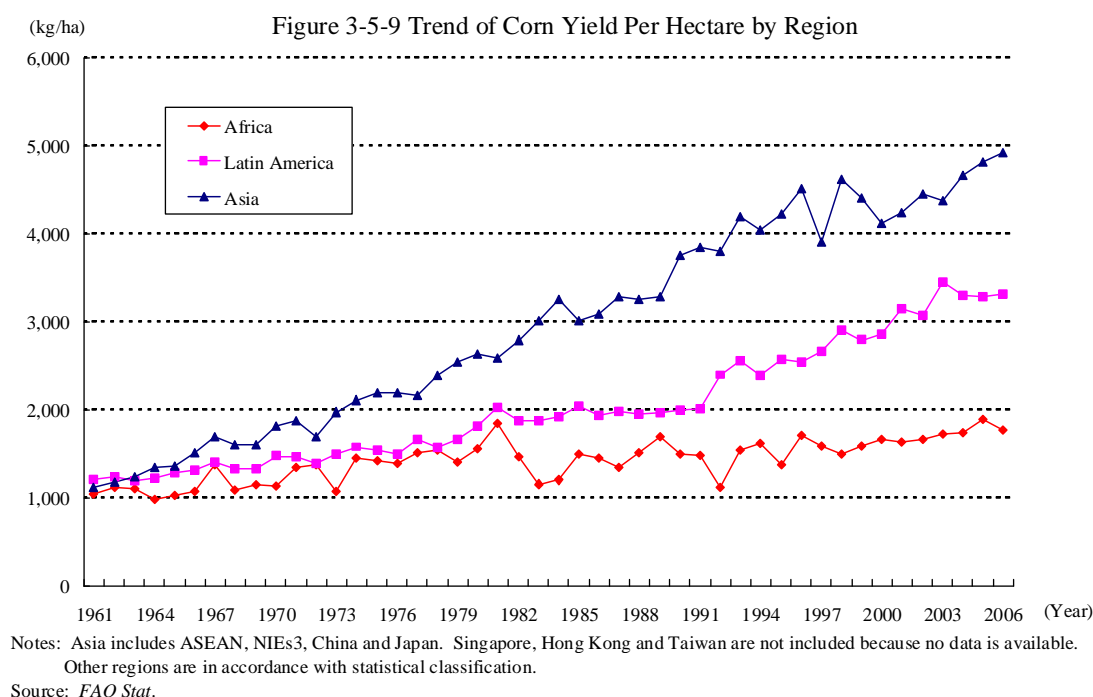
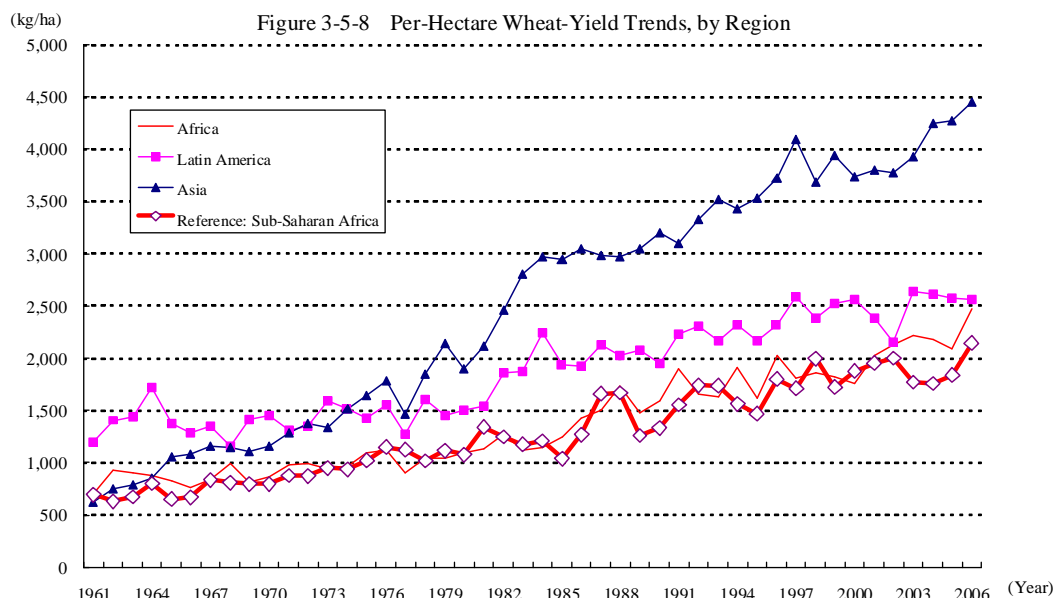
However, the “green revolution” did not take place in Africa. Africa is a drought-stricken area with little precipitation; in addition, it has insufficient infrastructure (e.g., irrigation systems and land-ownership systems) for such a revolution. A combination of these factors, together with regional conflicts, has prevented a “green revolution” in Africa, according to some sources<sup>21</sup>.



<sup>19</sup> Yamashita M. and T. Mizuno (2005), “KAIHATSUTOJOUKOKU NO INFURA TO TOUSHI KANKYOU.” They argue that improvements to the platinum chain to expand the sales channel of agricultural products by developing transportation roads and water ways has also been important to the “green revolution.”

<sup>20</sup> The Ministry of Foreign Affairs, in its “White Paper on Official Development Assistance (ODA) 2006,” argues that the prevalence of improved varieties of rice and wheat, as developed by the International Rice Research Institute and the International Maize and Wheat Improvement Center (both of which are research institutes of the Consultative Group on International Agricultural Research), significantly increased rice and wheat production after the 1960s.

<sup>21</sup> Sakurai, T. (2005). “AFURIKA NI OKERU ‘MIDORI NO KAKUMEI’ NO KANOUSEI.” In Bouake, Ivory Coast, the yield of rice in its husk per acre approaches that harvested in irrigated rice fields in the Philippines; it is technologically possible to bring about a “green revolution” in Africa. However, the stabilization of land usage rights is important for using the water management systems essential for per-acre yield increases; also, there is limited funding for purchasing different seed varieties and fertilizers. As a result, the “green revolution” can be realized only if the urban areas and transportation costs related to an underdeveloped infrastructure do not allow labor-intensive rice farming in rural areas.



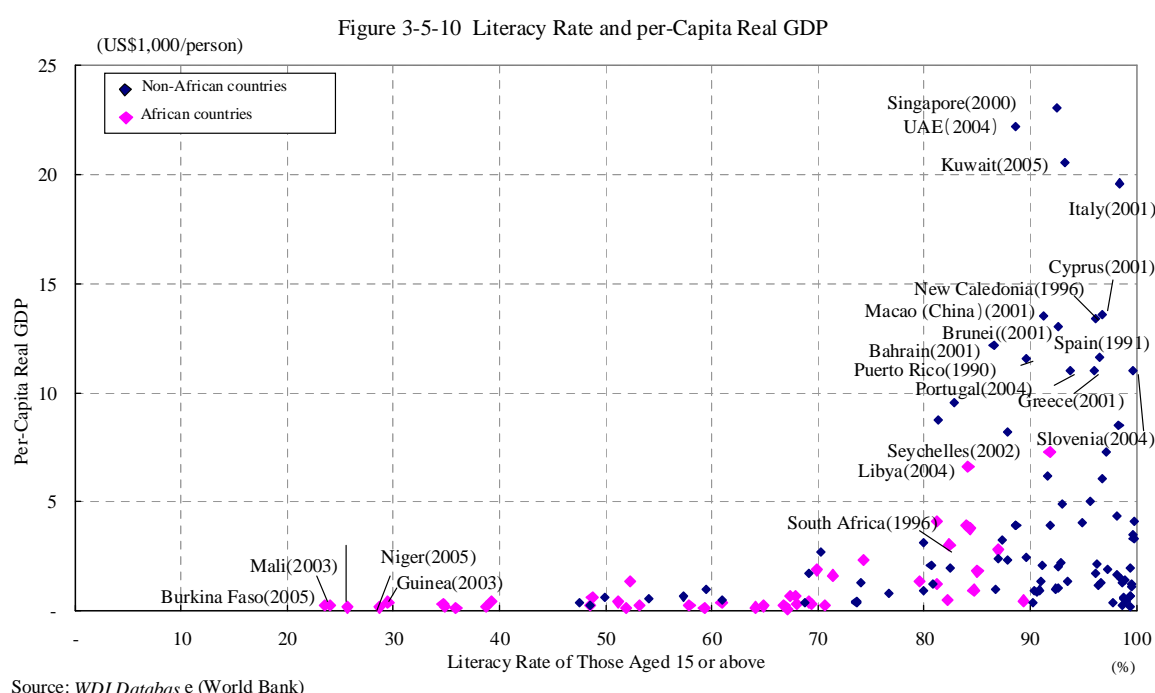
### (Improved education)

Economic growth in developing countries that have no major industry other than agriculture can be achieved by increasing agricultural income, non-agricultural income in rural areas, and income from employment in non-agricultural industries in urban areas. Education is essential, especially in developing a labor force for non-agricultural industries; it also influences long-term economic growth

in such countries<sup>22</sup>.

Takahashi and Otsuka (2007)<sup>23</sup> point out that, in the example of the Philippines, the introduction of land ownership and rice-field irrigation led to an increase in agricultural income, which contributed greatly to improvements in educational standards for farmers' children. They say that those children who received an education found employment in industries that were more economically advantageous than agriculture, and also bolstered the development of non-agricultural industries in that country.

In fact, data regarding the relationship between literacy rate and per-capita GDP show that no country with a low literacy rate<sup>24</sup> has achieved a high per-capita GDP rate. There still remain many countries in Africa with low literacy rates<sup>25</sup>, and improvements in literacy rate and educational standards are important factors in achieving economic growth (see Figure 3-5-10).



### (Special factors in Africa)

The background of disparities in development among the three regions, as explained above, shows that Africa has achieved the least amount of development and possesses few of the factors that contribute to such growth.

The actual state of agriculture, in particular, has had serious impacts on Africa. Without improvements to agricultural productivity, no surplus employment has been created in rural areas,

<sup>22</sup> Sen (2001) refers to the primary education in Japan around the Meiji Restoration and points out that almost all of those who were drafted were able to read and write by around 1906; 43% of the municipal budgets throughout Japan between 1906 and 1911 had been allocated for education.

<sup>23</sup> Takahashi, K. and K. Otsuka. (2007), "KYOUIKU TOUSHI, SHOKUGYOU SENTAKU TO HINOUGYOU CHINGIN NO KETTEIIN."

<sup>24</sup> For example, no country with a literacy rate lower than 50% has a per-capita GDP greater than US\$650.

<sup>25</sup> One reason for the low literacy rate in Africa is that former colonial powers provided little education.

which in turn makes the transfer of employment to other industries difficult. According to Hirano (2005), a scarce supply of agricultural products leads to price hikes in such products in urban areas; as a result of these price hikes, the manufacturing wages in urban areas rise, weakening the competitiveness of related industries in Africa<sup>26</sup>. In fact, Hirano demonstrated that the average wage in Africa is higher than that in Asia: The average annual wage in Asia (including China) in 1995 was US\$2,009, whereas that in Africa (excluding South Africa) was US\$2,474. He also argues that inefficient agriculture methods—and consequently, an inefficient manufacturing industry—has hindered economic growth in Africa for 20 years, and that eradicating poverty and improving employment will not occur without structural changes<sup>27</sup>.

There have been concerns about the impact of recent crop-price increases, due to stagnant grain production, on African nations. A press release by the UN World Food Program, for example, reports an estimated expansion in world food aid and a decline in the number of calories consumed by individuals in poverty-stricken rural areas, citing many African nations (e.g., Zimbabwe, Eritrea, Djibouti, Gambia, Togo, Benin, Cameroon, and Senegal) that are likely to be seriously affected<sup>28</sup>. Because food prices greatly affect commodity prices, there are concerns about inflation in Africa, just as there are in emerging and developing countries in other areas of the world. Ultimately, price hikes may restrict future economic growth.

As discussed at the beginning of this chapter, Asia's economic growth should not be left solely to the market economy; the government needs to play a complementary role. However, the governments in Africa have not sufficiently executed policies whereby wealth gained from natural resources will be used to lay the foundations of economic development<sup>29</sup>.

## **2. Countries with stronger relations with Africa**

Meanwhile, the African economy has recently shown signs of sustainable growth, or a “take off.” Recent changes in Africa and the expanding economic relations between Africa and other parts of the world are summarized below.

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<sup>26</sup> Hirano K. (2005), “NOU-KOU KAN HINKON NO RENKAN.” Hirano uses the high capital equipment ratio and labor distribution rate to analyze the reasons for higher manufacturing wages in Africa, in comparison to those in Asia; He concludes that high food prices affect that ratio, based on the efficiency wage hypothesis in Asia. He points out certain reasons for this—such as low fertilizer application, due to high prices, and low self-sufficiency rate, due to the failure to improve the land productivity of food crops—and argues that strengthening food-producing agriculture is an important prerequisite for attracting investment.

<sup>27</sup> Hirano K. (2007), “AFRICA KEIZAI-SEICHOU TO TEIKAIHATSU.” Hirano argues that, in Africa, a high food price and capital equipment ratio has increased wages in manufacturing, creating a comparative lack of labor advantage. As a result, Africa fails to attract labor-intensive industries, despite having a number of low-income countries. As a result, it cannot realize positive job-creation growth—or, consequently, a higher level of employment—through labor-intensive industries. Thus, it cannot achieve economic growth, broadly shared on an equal basis, as was the case in Asia.

<sup>28</sup> “KOKUMOTSU KAKAKU, WFP NO SHIENKATSUDOU NIMO OOKINA SHISHOU,” in News Release, WFP Japan Office, March 22, 2008.

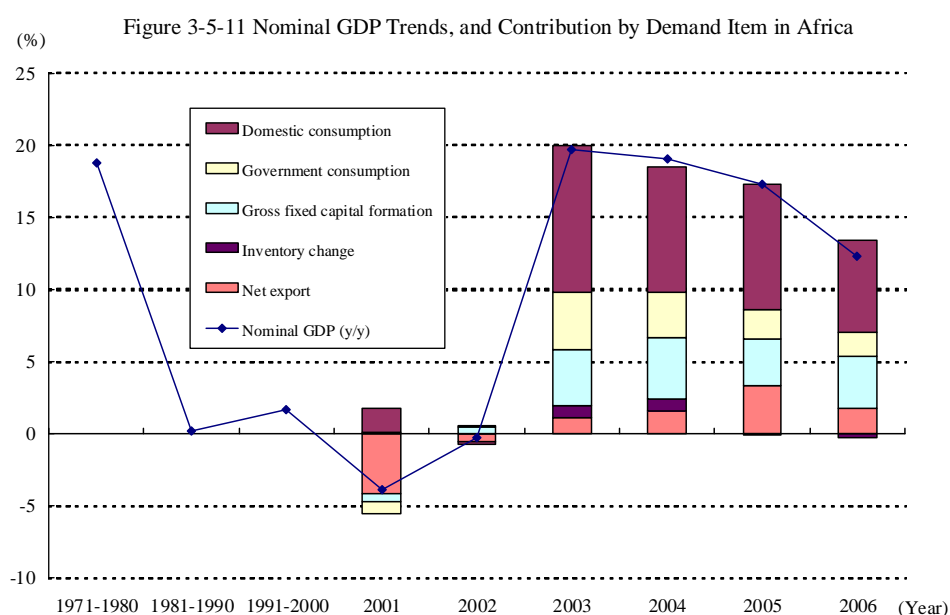
<sup>29</sup> Collier P. (2007), *The Bottom Billion*. Collier argues that although ownership of abundant natural resources provides a great opportunity for development, it can sometimes become a curse. He points to low levels of national governance, arguing that the average African country typically faces a long-term economic recession after a short growth period.

## (1) Recent economic growth and factors behind

### (Growth in nominal GDP)

The nominal GDP<sup>30</sup> in Africa showed little change in the late 1990s, in spite of steady global economic growth. However, it has rapidly increased since 2003 (see Figure 3-5-11)<sup>31</sup>.

The recent growth of nominal GDP in Africa is supported by consumption growth in African countries. Consumption accounted for 74% of nominal GDP in 2006. According to an analysis of factors contributing to the growth rate, domestic consumption has accounted for about 50%, since 2003. Of the demand factors, fixed capital formation has grown most significantly, which suggests that capital investment—such as investment in infrastructure—has become active (i.e., a 19.3% increase from the previous year, in 2006)<sup>32</sup>.



Notes: The y/y nominal GDP growth for each of 1971-1980, 1981-1990, and 1991-2000 is the average of each period.  
Source: *National Accounts Main Aggregates Database* (UN)

### (Resource price hike and increase in inward direct investment)

The trend of private investment in Africa shows rapid growth after the late 1990s, especially after 2003.

Inward direct investment occurs mainly in oil-producing countries. Of the top 10 African recipient countries of inward direct investment (in terms of total value, from 1996 to 2006), oil producers such as Nigeria (US\$23.995 billion), Sudan (US\$11.225 billion), and Equatorial Guinea (US\$8.843 billion) are ranked among those that have benefited most<sup>33</sup>. In fact, direct investment grew rapidly when crude

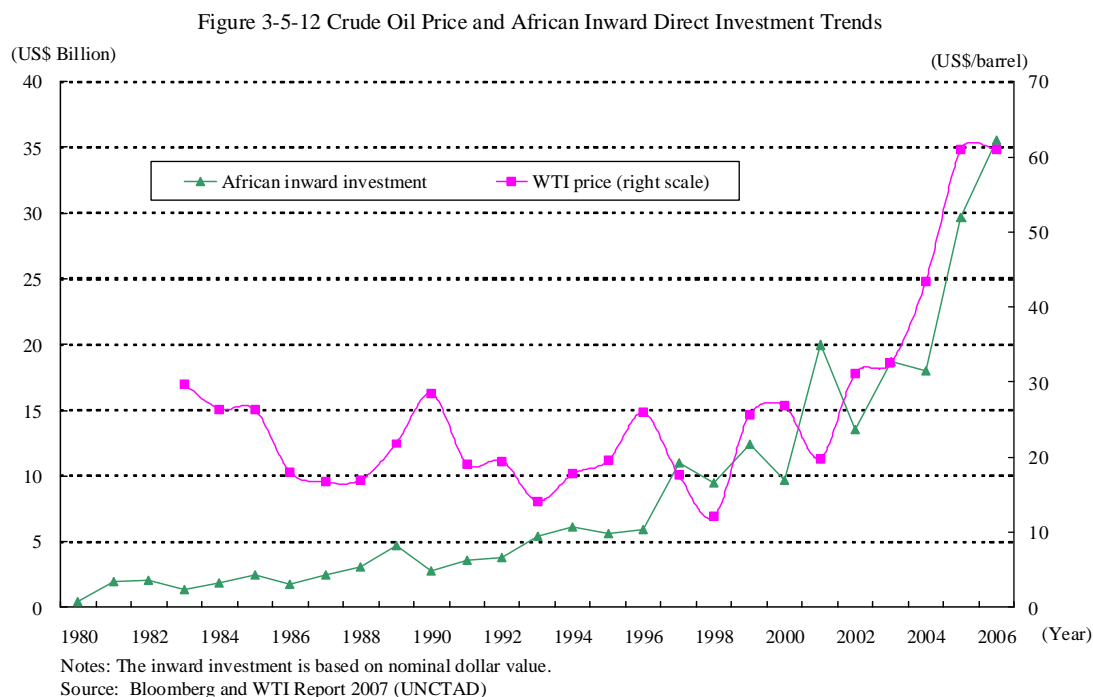
<sup>30</sup> Nominal GDP is used here, so as to not eliminate the impact of resource price hikes, the major cause of recent economic growth in Africa.

<sup>31</sup> The highest growth rate and the lowest price increase rate in the last 30 years (Marubeni Research Institute, "AFRICA NI OKERU JIGYOU KIKAI," February 2008).

<sup>32</sup> UN, "National Accounts Main Aggregates Database."

<sup>33</sup> UNCTAD (2007), "WIR 2007."

oil prices rose sharply. This suggests that the crude oil price hike affected the increase in direct investment in Africa (see Figure 3-5-12).



### (Trade growth)

Trade between Africa and other parts of the world has grown recently. According to trade-value trends, African exports began to increase in 2003, mainly in oil and metal resources, with growth exceeding 5% in the three consecutive years that followed. The import growth rate has also increased since 2001, exceeding 10% in 2005<sup>34</sup>.

### (2) Entry of various countries to trade with Africa

In addition to corporations in Europe and U.S., those in China and India have increased trade with Africa through a so-called “south-south cooperation”<sup>35</sup>. Similarly, intraregional trade and investment with South Africa has attracted attention as a model of intraregional economic cooperation.

### (European and US countries)

Corporations in Europe and U.S.—especially former colonial powers—are actively conducting trade not only in resources but commodities and food<sup>36</sup>. JETRO conducted a survey from June to

<sup>34</sup> World Bank, “WDL.”

<sup>35</sup> Other than those mentioned above, increased investment in service industries such as real estate and mobile phone service operation from GCCs has attracted attention.

<sup>36</sup> The EU hosted the Second EU-Africa Summit in Lisbon on December 8–9, 2007; the previous summit had been seven years previous, and 27 EU member states and 53 African countries participated. In the Lisbon Declaration, the relationship between the two regions is redefined as a “mutually-beneficial relationship based on equal standing.” Regarding European imports, Africa provided 20% of the crude oil and 28% of the natural gas in 2005—Europe’s second-largest energy supplier, next to Russia.

September 2007 of 112 firms that conduct business with a total of 16 African countries<sup>37</sup>. When asked a question about competitors in Africa, 38.5% of the respondents said they were primarily Japanese companies, followed by 33.0% saying they were primarily European and U.S. companies.

### **Direct investment**

European and U.S. countries are actively investing in the African resource sector. Development by foreign oil companies has led to an expansion of crude oil production and discoveries of new veins. The announcement in 2006 that the U.S. will reduce the import of crude oil from the Middle East by 75%<sup>38</sup> will further promote the entry of foreign capital to Africa.

The entry of European and U.S. corporations to Africa is expanding to sectors other than resources<sup>39</sup>. One example is the proliferation of automobiles in higher-income countries. BMW, Ford, and GM launched businesses in South Africa, with good sales performance of passenger cars<sup>40</sup>. The telecommunications market is now also booming in Africa, and European service providers have taken this opportunity to enter the market<sup>41</sup>.

### **Trade**

Trade between both Europe and U.S. and Africa is also on the rise. In terms of distinct products, among imports by Europe and U.S. from Africa, crude oil is by far the largest, followed by clothing, cocoa and other agricultural products, and precious metals (see Tables 3-5-13 and 3-5-14). The import of clothing from Africa to the U.S. is very much due to trade preferences that will be explained later. Although it does not appear in the table, the export of cut flowers to Europe is also significant; with geographic proximity to Africa being one of the factors, Europe has become a sizeable market for vegetables, fruits, and garden crops grown in Africa.

Meanwhile, the major imports in Africa are general machinery, aircrafts, electric machinery, and transportation machinery.

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<sup>37</sup> JETRO (2008c), “ZAI AFRICA SHINSHUTSU NIKKEI KIGYOU JITTAI CHOUSHA” (March 2008).

<sup>38</sup> In the State of the Union address in January 2006, the U.S. announced an advanced energy initiative, saying that it would decrease crude oil import from the Middle East by 75% in the next 20 years.

<sup>39</sup> For example, IBM summarized the future innovation and economic growth in Africa in its strategy document; it focuses on African major universities, etc., by, for example, providing educational support programs using email and other electronic systems (Source: IBM website ([www.ibm.com](http://www.ibm.com))).

<sup>40</sup> Website of the National Association of Automobile Manufacturers of South Africa (<http://www.naamsa.co.za/members/>).

<sup>41</sup> JETRO (2007a), “FRANCE TELECOM GA KOTEI KEITAI DENWA JUGYOU NI SANNYU (Niger)” (*JETRO TSUSHOU KOUHOU*, November 29, 2007.)

Table 3-5-13 US Trade with Africa, by Good (2006)

Rank	Import			Export		
	Article	HS	Import value (US\$)	Article	HS	Export value (US\$)
1	Mineral fuel and mineral oil, etc.	27	61,543,904,929	Nuclear reactors, boilers, machinery, etc., and parts thereof	84	2,697,052,192
2	Articles of apparel, accessories (knitted or crocheted excluded)	62	1,164,260,008	Aircraft, spacecraft, and parts thereof	88	1,964,849,227
3	Articles of apparel, accessories (limited to knitted or crocheted)	61	969,674,232	Grains	10	1,884,115,892
4	Cocoa and cocoa preparations	18	577,514,203	Electric equipment, parts thereof, sound-recording and reproducing devices, etc.	85	1,087,488,259
5	Pearls, precious stones, precious stones, semiprecious stones, precious metals	71	477,434,345	Vehicles other than railway, tramway, and parts thereof	87	1,067,975,229
6	Iron and steel	72	423,110,836	Other products	99	585,776,089
7	Rubber and articles thereof	40	153,986,617	Mineral fuel and mineral oil, etc.	27	548,989,601
8	Salt, sulfur, earth, stone, plaster, lime, cement	25	153,952,833	Articles of iron or steel	73	350,252,074
9	Coffee, tea, mate, spices	9	152,465,934	Optical, photo, movie, measurement, precision, etc. apparatus	90	330,095,848
10	Other goods	99	151,753,678	Plastic and plastic products	39	310,372,974
Total			13,506,921,055	Total		67,348,999,569

Notes: HS is HS code in 2002.

Source: *Comtrade* (UN)

Table 3-5-14 European (EU) Trade with Africa, by Good (2006)

Rank	Import			Export		
	Article	HS	Import Value (US\$)	Article	HS	Export Value (US\$)
1	Mineral fuel and mineral oil, etc.	27	73,265,371,178	Nuclear reactors, boilers, machinery, etc., and their parts	84	14,402,718,395
2	Articles of apparel, accessories (knitted or crocheted excluded)	62	5,113,768,730	Electric equipment, parts thereof, sound-recording and reproducing devices, etc.	85	10,147,782,672
3	Pearls, precious stones, precious stones, semiprecious stones, precious metals	71	4,391,798,287	Mineral fuel and mineral oil, etc.	27	7,178,705,921
4	Electric equipment, parts thereof, sound-recording and reproducing devices, etc.	85	3,528,401,885	Vehicles other than railway, tramway, and parts thereof	87	6,751,023,243
5	Articles of apparel, accessories, (limited to knitted or crocheted)	61	2,965,708,632	Pharmaceuticals	30	3,159,707,387
6	Cocoa and cocoa preparations	18	2,500,188,555	Articles of iron or steel	73	3,070,585,837
7	Aluminum and articles thereof	76	2,203,431,409	Plastic and plastic products	39	2,631,230,455
8	Fish, crustaceans, mollusks	3	2,164,688,261	Optical, photo, movie, measurement, precision, etc. apparatus	90	2,146,185,415
9	Edible nuts, peels of citrus fruit, etc.	8	1,279,920,192	Iron and steel	72	1,855,307,855
10	Edible vegetables and certain roots and tubers	7	1,188,679,986	Cotton and cotton textile	52	1,422,280,210
Total			117,653,992,965	Total		82,506,137,377

Notes: HS is HS code in 2002.

Source: *Comtrade* (UN)**(China)**

China has recently accelerated its entry to Africa and actively provided international cooperation,



mainly with an eye to acquiring resources<sup>42</sup>.

### **Direct investment**

Investment in Africa from China has increased recently, exceeding a flow of US\$2.5 billion in 2006, mainly in the resources sector; the major targets in that year were Sudan (US\$497.13 million), Algeria (US\$247.37 million), and Nigeria (US\$215.94 million)<sup>43</sup>. China has actively invested in oil producers, whereas corporations in other countries have experienced difficulty in entering, due to poor security as a result of civil war and terrorist attacks. However, the mine sites China has obtained in these countries have not necessarily been productive, and some argue that the investment has not led to efficient resource acquisition<sup>44</sup>.

China promotes investment in Africa, in sectors other than resources. The list of industry guidelines for overseas investment, by country, was formulated as part of China's overseas advancement strategy; it includes 13 African nations. Additionally, the Chinese government provides a preferential policy for corporations that make overseas investments in any of the target industries<sup>45</sup> (see Table 3-5-15). Partially because of this policy, clothing companies—in addition to state-run resource-related corporations—are making larger investments in such countries.

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<sup>42</sup> Also in the survey by JETRO (2008c, previously cited), more than 80% of respondents cited China as the country most likely to strengthen its economic relations with Africa—more so than other countries. Another 45.9% of the respondents said that intensified competition with Chinese firms and products has had an impact on their company.

<sup>43</sup> Source: CEIC database.

<sup>44</sup> Hirano K. (2008), “AFRICA WA DOUSUREBA “RIRIKU” DEKIRU NOKA.” Hirano points out that although China was, in terms of resource acquisition, “pushed out” by Africa through the expansion of resource demand as a world factory, China—as a newcomer—will acquire resources with lower expected profits or politically risky conditions, because the interest in resources is in the hands of major resource “players” in Europe and U.S..

<sup>45</sup> Kamiwazumi, A. (2005). “CHUGOKU NO TAI AFRICA SEISAKU TO BOUEKI TOUSHI.”

Table 3-5-15 Chinese List of Industry Guidelines for Overseas Investment, by Country (Africa only)

	Target country	Agriculture, forestry, stockbreeding, fisheries	Mining	Manufacturing	Service
1	Egypt	Cotton	Oil, natural gas	Electric appliances such as refrigerators and air conditioners and parts thereof; automobiles, motorcycles, and parts thereof; textiles, plastic, metal products, chemical materials and products	Trade, retail, construction, tourism
2	Sudan		Oil, natural gas	Tractors, diesel engine, farming machinery, oil refining, pharmaceuticals	Geological research, construction
3	Algeria		Oil, natural gas	Electric appliances such as refrigerators and air conditioners and parts thereof; food, pharmaceuticals	Construction
4	Mauritania	Fisheries		Farm-product processing, leather, fur, feather products	
5	Mali		Gold mine	Farm-product processing, clothing, chemical materials and products, building materials	Telecommunication
6	Nigeria	Fruit, vegetable oil and fat	Oil, natural gas	Electric appliances such as refrigerators and air conditioners and parts thereof; tractors, diesel engines, transport equipment, motorcycles, bicycles, and parts thereof; iron and steel, plastic, metal products, pharmaceuticals	Trade, retail, construction
7	Kenya			Transportation equipment and parts thereof, farming machinery, pharmaceuticals	Trade, retail, construction
8	Tanzania	Sisal		Tractors, diesel engine, transportation equipment, farming machinery, daily commodities, earthenware, plastic product, pharmaceuticals	
9	Zambia	Grain	Copper ore, gold mining	Farm product processing, transportation equipment, motorcycles, bicycles, tricycles	
10	Mozambique	Fisheries		Transportation equipment and parts thereof, motorcycles, bicycles, pharmaceuticals, daily commodities, earthenware	
11	Namibia	Fisheries	Zinc	Farm-product processing, textile, clothing, electric appliances, plastic products	
12	Madagascar	Fisheries		Textile, clothing, farm-product processing, pharmaceuticals	
13	South Africa		Chrome ore, iron, steel	Electric appliances such as refrigerators and air conditioners and parts thereof; electronic devices, video/CD players, metal products, plastic product, textile, clothing, food, building materials	Trade, retail, construction, transportation, finance

Original Source: Chinese Ministry of Commerce website

Source: *Chugoku no Tai Africa Seisaku to Boueki Toushi* (Kamiwazumi, A., 2005)

### [Column 34] China's overseas economic trade industrial park<sup>46</sup>

In late 2005, China's Ministry of Commerce decided to institute a policy to develop external economic trade industrial parks (hereafter referred to as "industrial parks"), to establish Chinese firms in countries where small businesses with little overseas experiences can make investments. These industrial parks allow Chinese companies to share information and receive support easily from the

<sup>46</sup> JETRO (2007b), "KIGYOU SHINSHUTSU SHIEN NO TAME KAIGAI 50 KASHO NI KOUGYOU DANCHI SETSURITSU-KOKUGAI KEIZAI BOUEKI GASSAKUKU (1): KEII-(CHUGOKU)" (*JETRO TSUSHOU KOUHOU*, November 9, 2007); JETRO (2007c), "HOUFU NA SHIGEN TO OOKII SHOUHI SHIJOU WO NERAU- KOKUGAI KEIZAI BOUEKI GASSAKUKU (4): AFRICA-(CHUGOKU)" (*JETRO TSUSHOU KOUHOU*, November 14, 2007); JETRO (2008a), "TAKAMARU CHUGOKU KIGYOU NO PUREZENSU-SENYOU NO KOUGYOU DANCHI KENSETSU GA GUTAIKA-(EGYPT)" (*JETRO TSUSHOU KOUHOU*, January 16, 2008); JETRO (2008b), "VIET NAM NADO 11KASHO NO KOUGYOU DANCHI WO GASSAKUKU TO SHITE NINTEI (CHUGOKU)" (*JETRO TSUSHOU KOUHOU*, February 1, 2008).

national government of the host country<sup>47</sup>. At the 2006 China-African Forum, President Hu Jintao announced a plan to develop three to five industrial parks in Africa in the following three to five years. The following table lists the industrial parks that established by the Ministry of Commerce, as of February 2008.

Column Table 34-1 Africa Economy Trade Industrial Parks Approved by China's Ministry of Commerce

Name of industrial park	Location	Investor	Total investment (US\$ 10 millions)	Size of premises
Zambia-China Economic and Trade Cooperation Zone	Zambia	China Nonferrous Metal MINING (Group) Co., Ltd	1.1	8.56 million m <sup>2</sup>
Nigeria-Guangdong Economic and Trade Cooperation Zone	Nigeria	Guangdong Xinguang International Group	2.0	10 million m <sup>2</sup>
Mauritius Tianli Economy and Trade Cooperation Zone	Mauritius	Shanxi Tianli enterprise Group	5.0	10 million m <sup>2</sup>
Lekki free trade zone	Nigeria	CCECC-Beyond International Investment Development Co.,Ltd(Jiangsu Province)	Approx. 3.0	1,000 ha (1st phase)
Egypt-China Economy and Trade Cooperation Zone	Egypt (Suez district)	Teda Investment Holding Co.,Ltd (TEDA)	Approx. 2.7	Approx. 500 ha
Algeria-China Jiangling Economy and Trade Cooperation Zone	Algeria	Zhongding International Engineering Co.,Ltd(Jiangxi Province), Jiangling Motor Co.,Ltd (GROUP)	Approx. 5.0	500 ha

Notes: Investment for Guangdong Trade Industrial Park is for first phase.

Source: JETRO Tsushou Kouhou.

Chinese Nonferrous Metal Mining Group, which has invested in Zambia, is one of China's largest state-run corporations involved in the mining and processing of nonmetals. It has obtained copper ores and development rights for surrounding areas. The economic trade industrial park to be developed plans to accomodate downstream industries—mainly mining and metallurgical companies under the umbrella of the state-run firm—as well as food and pharmaceutical companies and a hospital. It plans to bring approximately 60 Chinese firms into the fold, representing a total investment of US\$800 million. A total of US\$2.5 billion is expected to be invested in Egypt, mainly in textiles, ready-to-wear clothes, electric appliance, and energy. The government of Guangdong Province in China plans to have major firms in the province develop an industrial park in Nigeria—which has the largest biggest population in Africa, and where the demand for commodities such as apparel and light industrial products is therefore expected to increase. The government looks to reduce investment risk by concentrating them in one area<sup>48</sup>; more than 200 firms have sought to establish their business in the industrial park, and the provincial government plans to expand it, ultimately to gather 700–800 firms in 10 years.

However, in Africa in general, human resources have yet to be developed; engineers and workers who can speak foreign languages such as English are in short supply. Because hiring qualified workers requires high wages in comparison to those offered by European and U.S. companies, some Chinese companies recruit workers in China and dispatch them to Africa. It has been also pointed out that in some African countries, political conditions are unstable and public safety is poor; there have also

<sup>47</sup> Although no concrete assistance program for approved industrial parks has been announced, preferential treatment in finance, insurance, immigration and taxation are reported to be taken, including financial assistance of about 200 million to 300 million yuan (about ¥2–4.5 billion (1 yuan=¥15) is provided per industrial park and a maximum of 2 billion yuan of long-term loans are available.

<sup>48</sup> Companies based in Guangdong Province are involved in 25% of China's trade with Nigeria, in terms of overall value.

been frequent occurrences of kidnapping, simply because China has close ties with the local national government.

## Trade

As explained in Chapter 1.3, China's trade with Africa has significantly grown since 2003. The major imports are primary products, mainly crude oil. The main exports to Africa from China have been machinery and textile products (see Table 3-5-16).

Table 3-5-16 Chinese Trade with Africa, by Good (2006)

Rank	Import			Export		
	Article	HS	Import in value (US\$)	Article	HS	Export in value (US\$)
1	Mineral fuel and mineral oil, etc.	27	15,352,188,345	Electric equipment and parts thereof, sound-recording and reproducing devices, etc.	85	3,185,593,645
2	Cotton and cotton textile	52	606,856,804	Nuclear reactors, boilers, machinery, etc. and their parts	84	2,352,118,649
3	Ores, slag, and ash	26	596,795,647	Vehicles other than railway, tramway and parts thereof	87	1,725,550,877
4	Electric equipment and parts thereof, sound-recording and reproducing devices, etc.	85	290,756,529	Cotton and cotton textile	52	1,106,976,579
5	Copper and articles thereof	74	206,938,461	Articles of iron or steel	73	1,008,806,286
6	Oil seed, oil fruits, seed, fruit, etc.	12	196,707,935	Articles of apparel, accessories (limited to knitted or crocheted)	61	850,470,140
7	Tobacco and manufactured tobacco substitutes	24	111,685,365	Footwear, gaiters and the like, parts thereof	64	576,310,700
8	Salt, sulfur, earth, stone, plaster, lime, and cement	25	107,814,008	Man-made long fibers and textiles thereof	54	556,905,634
9	Wood and articles of wood, wood charcoal	44	85,897,568	Special woven or tufted fabric, lace, tapestry, etc.	58	546,839,622
10	Fertilizers	31	75,899,772	Articles of apparel, accessories (knitted or crocheted excluded)	62	518,340,408
Total			18,071,742,674	Total		20,265,915,995

Notes: HS is HS code in 2002.

Source: *Comtrade* (UN.)

## Economic relations

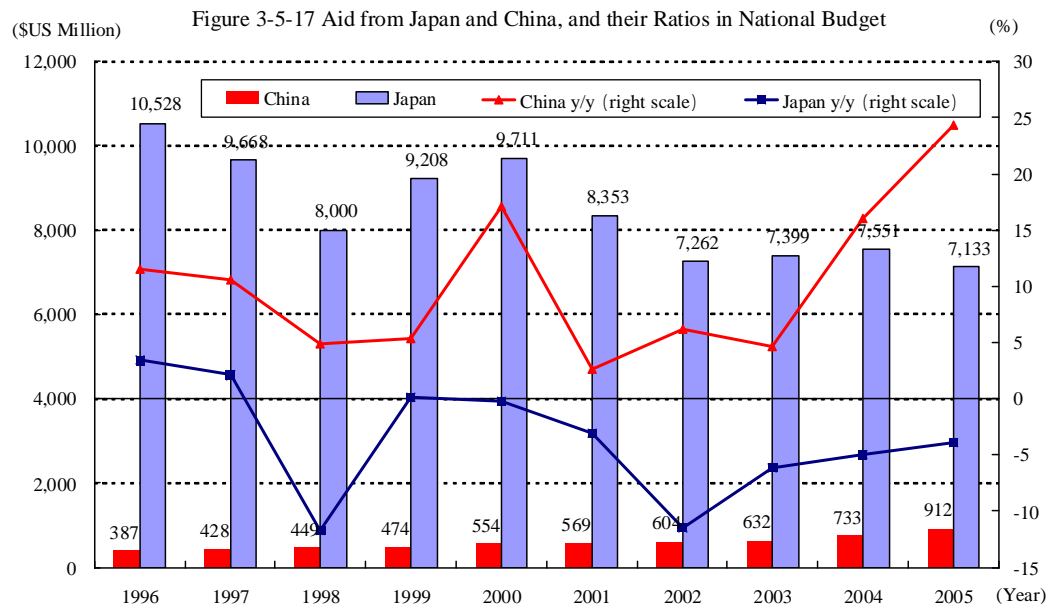
Construction of diplomatic relations between China and Africa accounts for the current active economic relations. China has held China-Africa Cooperation Forums every three years starting in 2000, to establish a comprehensive economic cooperation framework with Africa<sup>49</sup>.

Although no detailed data—such as that pertaining to China's overseas aid, by country—has been released, its aid to developing countries has increased in value terms, according to China's fiscal expenditures. Comparisons with Japan's ODA budget illustrate the scale involved<sup>50</sup>. The data regarding the completion of so-called full-set projects—such as large-value plants—by regions show

<sup>49</sup> For example, the third China-Africa Forum in 2006 decided that China would provide Africa in the next three years with such support as loans worth US\$3 billion, with concessional terms, and a US\$2-billion buyers' credit; an increase in the number of tax-free items and debt-relief mechanisms; and a strengthening of its positive impact on Africa, as an aid provider. The ministerial meeting of the Forum was attended by the heads of some states, government leaders, and representatives of as many as 48 African countries, which shows their expectations with regards to China.

<sup>50</sup> However, in terms of fiscal expenditures, the ratio has decreased from 0.42% to 0.22% over the same period; the GNI estimate over the 10 years from 1995 is also stable, at around 0.01%.

there are many such projects in Africa (62.9% in 2005). This suggests that China concentrates its aid in Africa<sup>51</sup> (see Figure 3-5-17). In the past, such projects were mainly in the forms of construction projects (e.g., stadiums, etc.), assistance for transportation, telecommunications, and energy; the value of those projects has increased recently.



Notes: The original source of Chinese data is China's Fiscal Yearbook; aid funded by Chinese Export Bank is not included.

Japan data are from the ODA general account budget.

Source: Chugoku no Enjo Seisaku (Kobayashi, T., 2007), website of Ministry of Foreign Affairs, Japan, and IFS (IMF)

## (India)

India, which has close ties with Africa through (1) the framework of the Commonwealth of Nations and (2) a large number of Indian immigrants and non-resident Indians in Africa, has recently deepened India's economic relations with African countries.

### Direct investment

Indian energy companies have actively invested in Africa, due to an expansion of domestic demand for resources. For example, the Indian state-run oil firm ONGC has a mining base in Sudan and has acquired businesses in Egypt, Nigeria, and Libya through its subsidiaries<sup>52</sup>, to secure resources.

### Trade

According to the breakdown of India's trade with Africa on a good-by-good basis, primary

<sup>51</sup> Source: Kobayashi, T. (2007), "CHUGOKU NO ENJO SEISAKU," *KAIHATSU KINYU KENKYUJO HOU* Vol. 35, JBIC. The ODA used for the international comparison is the data reported to the OECD Development Assistance Committee (DAC) by the donor countries that belong to the DAC. Because China is not a member of the DAC, it is difficult to obtain equivalent data. For this reason, in this paper, data is collected from figures in various official yearbooks released by the Chinese government. It also includes China's history, systems, principles, objectives, and strategies of assistance, in addition to the data.

<sup>52</sup> UNCTAD (2007a), "WIR 2007."

products such as fuel, mineral resources, and commercial crops rank among the top imports. As for exports, mining resources are ranked at the top (petroleum products other than crude oil, by breakdown); machinery, pharmaceutical products, and automobiles also rank highly. Among the manufacturing industries in India, relatively competitive oil refineries and pharmaceutical and automobile industries account India's main exports to Africa and acquire its market shares (see Table 3-5-18).

Table 3-5-18 India's Trade with Africa, by Good (2006)

	Import			Export		
Rank	Article	HS	Import value (US\$)	Article	HS	Import value (US\$)
1	Mineral fuel and mineral oil, etc.	27	9,875,346,265	Mineral fuel and mineral oil, etc.	27	1,798,494,574
2	Inorganic chemicals, precious metal compounds, isotopes	28	585,700,003	Nuclear reactors, boilers, machinery, etc., and their parts	84	576,590,106
3	Edible nuts, peels of citrus fruit, etc.	8	360,846,910	Pharmaceuticals	30	571,191,680
4	Salt, sulfur, earth, stone, plaster, lime, and cement	25	210,238,300	Vehicles other than railway, tramway, and parts thereof	87	548,764,784
5	Iron and steel	72	150,788,115	Grains	10	468,280,250
6	Ores, slag, and ash	26	132,129,828	Cotton and cotton textile	52	424,232,794
7	Wood and articles of wood, wood charcoal	44	126,758,770	Iron and steel	72	336,689,506
8	Fertilizers	31	65,504,650	Articles of iron or steel	73	324,954,855
9	Pearls, precious stones, precious stones, semiprecious stones, and precious metals	71	65,043,474	Plastic and plastic products	39	264,306,674
10	Cotton and cotton textile	52	62,501,357	Electric equipment, parts thereof, sound-recording and reproducing devices, etc.	85	245,263,696
Total			12,055,492,929	Total		7,725,007,540

Notes: HS is HS code in 2002.

Source: *Comtrade* (UN)

## Economic cooperation

India hosted the India-Africa Forum Summit in New Delhi on April 8–9, 2008; it was attended by representatives from 14 African countries and the president of the African Union.

Indian President Singh said in the opening remarks that the country would offer a preferential tariff treatment for LDCs to 34 African countries, for 92.5% of their exports (including cotton, cocoa, aluminum, and copper ore).

The Summit also adopted a joint declaration (the Delhi Declaration), which contains extensive points *vis-à-vis* cooperation and collaboration on international issues. In the Delhi Declaration, India and Africa promised a cooperative relationship with regards to efforts that tackle global warming, within the frameworks of the UN and WTO. In that cooperative framework, there is a course of action toward stronger cooperation, by sector; joint efforts that maximize interests through trade liberalization, which include the intent to provide duty-free and quota-free market access for Africa products; the development of public-private partnerships that support infrastructure development; and the creation of an environment that supports investment in and development of renewable and

nonrenewable energies<sup>53</sup>.

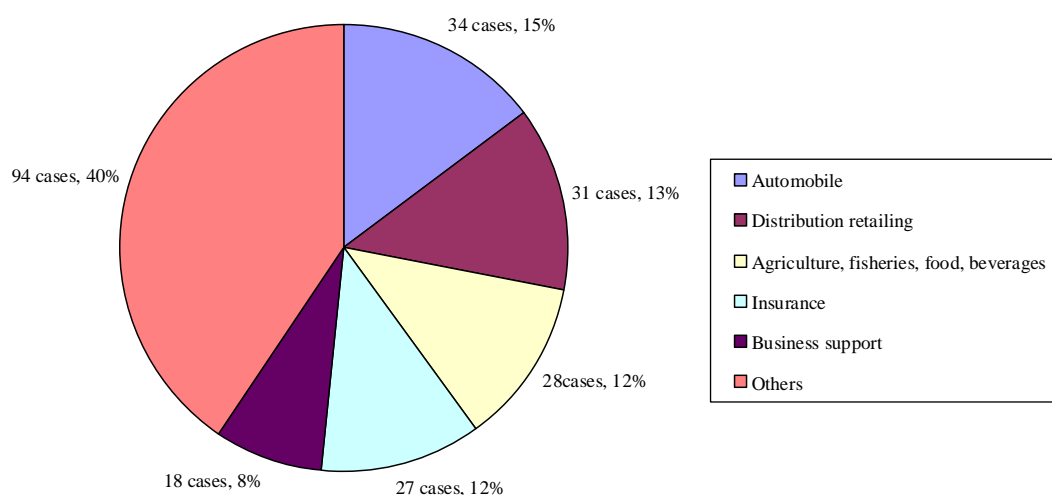
### (South Africa)

Intraregional economic relations are also developing in Africa. The most significant example is the stronger relationship between South Africa and other African nations.

As for trade, major exports include primary products such as mineral resources; the major exports are machinery and automobiles.

Investments in African nations have mainly been made in the areas of automobiles and distribution/retailing (see Figure 3-5-19).

Figure 3-5-19 Major Investment Sectors of Listed Companies in South Africa



Notes: Total number of investment of companies listed on the Johannesburg Stock Market, South Africa (34 companies), by 2004  
Source: Kodama, T. (2006), "MIMANI AFURIKA RYUTSU KOURIGYOU NO AFURIKA SHINSHUTSU".  
Original Source: Africa Inc., *Who Owns Whom* 2005.

The high volume of investment in distribution/retailing sector is a reflection of the trend of an increasing number of supermarkets in various African countries. A major supermarket chain based in South Africa has established more than 1,000 stores in Africa and promotes local purchases. Some have pointed out that as the supermarkets play a greater and greater role in consumption, whether or not farmers can sell their products through these supermarkets is becoming a life-or-death matter for them<sup>54</sup>.

Also, in Africa, the use had begun of mobile phone services in acquiring agricultural and fisheries market information and in microfinancing, and so such use is expected to promote economic development<sup>55</sup>. The mobile phone business in South Africa leads that of other African countries; according to the International Telecommunication Union, although the prevalence rate of mobile phone use in Africa was 27%—far below the world average of 49%, as of the end of 2007—the average rate of increase in African subscribers has been the highest in the world, at 39%, since 2005. A

<sup>53</sup> Special forum pages on the respective websites of the Ministry of Foreign Affairs of India and the African Union.

<sup>54</sup> Nishiura and Fukunishi (2008), cited earlier.

<sup>55</sup> UNCTAD (2007a), "Information Economy Report, 2007–2008."

total of 260 million people in Africa are mobile phone subscribers, and the market is expanding rapidly. MTN, funded by South Africa, operates a mobile phone business in 15 sub-Saharan African countries and is estimated to have 54 million subscribers (as of the end of September 2007)<sup>56</sup>.

However, recently, there have been concerns that power shortages due to rapid economic growth could adversely affect the business operations of incoming companies in South Africa<sup>57</sup>. Some have argued that there is a need to improve the business environment, including further infrastructure development.

### **3. Japan's action for building a new Japan-Africa relationship**

The trade and investment increase and economic growth in Africa is mainly pulled by the resources it possesses. How Africa's relationship with the global economy will expand in fields other than resources, and how the African economy will be integrated with the new global economy has been disputed. Meanwhile, Africa, with its huge population, also has the potential to become a huge consumer market, as seen from the recent consumption growth<sup>58</sup>.

Against this backdrop, it is important for Japan to clarify how the Asian development strategy adopted by them can assist in the takeoff toward economic development in Africa.

#### **(1) An overview of the trade and investment relations between Japan and Africa**

Although Japan has trade and investment relations with Africa, the scale of these relations is relatively smaller than Africa's relations with Europe, U.S., and China.

##### **(Trade)**

Trade between Japan and Africa increased at an annual rate of 18.8% between 2002 and 2007. However, it lags behind the annual growth rate of 40% between China and Africa, with the export value accounting for approximately 50% of the U.S. and about one-third of China and the import value accounting for approximately one-sixth of the U.S. and about 50% of China<sup>59</sup>.

The major export from Japan to Africa is machinery, which includes automobiles and other transport machinery, construction machinery and engines. This is due to the increasing demand for automobiles in Africa and active investment in infrastructure (see Table 3-5-20).

Major exports from Africa to Japan are crude oil and other mineral fuels, fish, coffee and other farm products<sup>60</sup>. U.S. imports of textile and clothes exceed about 1 billion dollars and EU imports exceed 5 billion dollars. Japan's is much smaller at the 40 million dollar level.

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<sup>56</sup> Nagamatsu. Y. (2008), "AFRICA KUGYOU NO UGOKI, IKUNAI DE KAPPATSU NI."

<sup>57</sup> Released in JBIC newspaper (June 8, 2007).

<sup>58</sup> Some points out that high population growth has curbed labor productivity and per capita GDP. Some also points out that because Africa is vast and divided into many small countries, it is not easy for private firms to conduct business efficiently (Marubeni Research Institute (2008)).

<sup>59</sup> IMF. "DOT."

<sup>60</sup> Rare metals such as platinum are also imported.



Table 3-5-20 Japan's Trade with Africa, by Good (2006)

Rank	Import			Export		
	Article	HS	Import in value (US\$)	Article	HS	Export in value (US\$)
1	Mineral fuel and mineral oil, etc.	27	4,967,130,163	Vehicles other than railway, tramway and parts thereof	87	2,329,733,275
2	Fish, crustaceans, and mollusks	3	331,865,972	Boats and floating structures	89	900,596,940
3	Coffee, tea, mate, and spice	9	139,708,732	Nuclear reactors, boilers, machinery, etc. and their parts	84	609,924,425
4	Aluminum and articles thereof	75	109,022,235	Articles of iron or steel	73	232,175,274
5	Cocoa and cocoa preparations	18	95,643,598	Electric equipment and parts thereof, sound recording and reproducing devices, etc.	85	229,349,059
6	Oil seed, oil fruits, seeds, fruit, etc	12	71,593,236	Rubber and articles thereof	40	163,556,998
7	Articles of apparel and clothing accessories (knit or crochet excluded)	62	43,220,729	Iron and steel	72	158,832,671
8	Other base metals, cermet and articles thereof	81	42,961,905	Optical, photo, movie, measurement, and precision apparatuses	90	73,785,223
9	Ores, slag and ash	26	40,942,751	Other articles	99	72,384,971
10	Tobacco and manufactured tobacco substitutes	24	30,853,628	Wadding, felt, non-woven fabric and special yarn	55	62,329,022
Total			6,164,471,217	Total		5,165,090,217

Notes: HS is HS code in 2002.

Source: *Comtrade* (UN.)

### (Direct investment)

Japan's direct investment in Africa (based on flow and the balance of payments statistics) in 2006 was 889 million dollars, which is one-third that of China's. More than 50% of the investment, or 466 million dollars was in South Africa, which shows that Japan's direct investment in Africa is limited geographically and in value terms, compared to other countries<sup>61</sup>.

With respect to the country-wise investment by private firms, there are 114 Japanese companies that invested in Africa in 2007<sup>62</sup>; their main destinations were South Africa, Nigeria and Egypt. This also shows that investment by Japanese firms in Africa is limited geographically<sup>63</sup>.

### (Tokyo International Conference on African Development (TICAD))

Since 1993, Japan has been hosting the Tokyo International Conference on African Development (TICAD) in cooperation with the UN, the UN Development Program (UNDP), the World Bank, as well as some other organizations. The TICAD IV was held in May 2008 in Yokohama. Participants had lively discussions, with the priority issues being (1) boosting economic growth; (2) ensuring human security, including achieving Millennium Development Goals (MDGs), consolidation of peace, and good governance; and (3) addressing environmental issues and climate change.

One of the main concerns at the TICAD IV was the apparent poverty and social insecurity caused

<sup>61</sup> Data obtained from investment statistics on the JETRO website, "NIHON NO KUNI / CHIIKI BETSU TAIGAI CHOKUSETSU TOUSHI (based on the balance of payments, flow, net)."

<sup>62</sup> According to some press reports, 4,000 Chinese companies have invested in Africa.

<sup>63</sup> However, according to the JETRO survey cited earlier (JETRO (2008c)), interestingly, 50.9% of the firms that have invested in Africa responded that their business performance has improved in the last five years.

by skyrocketing food prices. As described earlier, grain yield per acreage in Africa is significantly lower than in other regions. Improvement in agricultural productivity,<sup>64</sup> which affects the food supply and is the basis of healthy economic activities, is expected for sustainable economic growth in Africa. Financial and technical assistance is needed for the development and dissemination of high-yield varieties and the development of infrastructure, which includes irrigation and road construction for transporting crops and fertilizers. At the TICAD IV, Japan proposed a 100% increase in rice production in Africa within the next 10 years, through cooperation with other international organizations. This is expected to support Africa's economic growth<sup>65</sup>.

## **(2) Toward building the international business network with Africa**

Japanese firms have begun to take action toward strengthening economic ties with Africa, which has shown the signs of “takeoff” as a new frontier. Japan is competing with China and India, as well as Europe and U.S.

### **(African market development)**

As mentioned earlier, although Japan has not achieved as much for Africa as the other countries have in value terms, some industries that are expected to grow as a market have recently been active in Africa<sup>66</sup>. For example, automakers have set up their production base (for exportation) in South Africa, using the Motor Industry Developing Program (MIDP)<sup>67</sup>. Their sales have increased in those countries with a relatively high income such as South Africa and Egypt.

Japanese firms that conduct business in Africa are improving the business environment, protecting their employees and providing education programs for them as part of their corporate activities. This has greatly contributed to the region where they conduct their business (see Figure 3-5-21).

The following are efforts by Japanese companies for building the international business network by utilizing the local characteristics of Africa:

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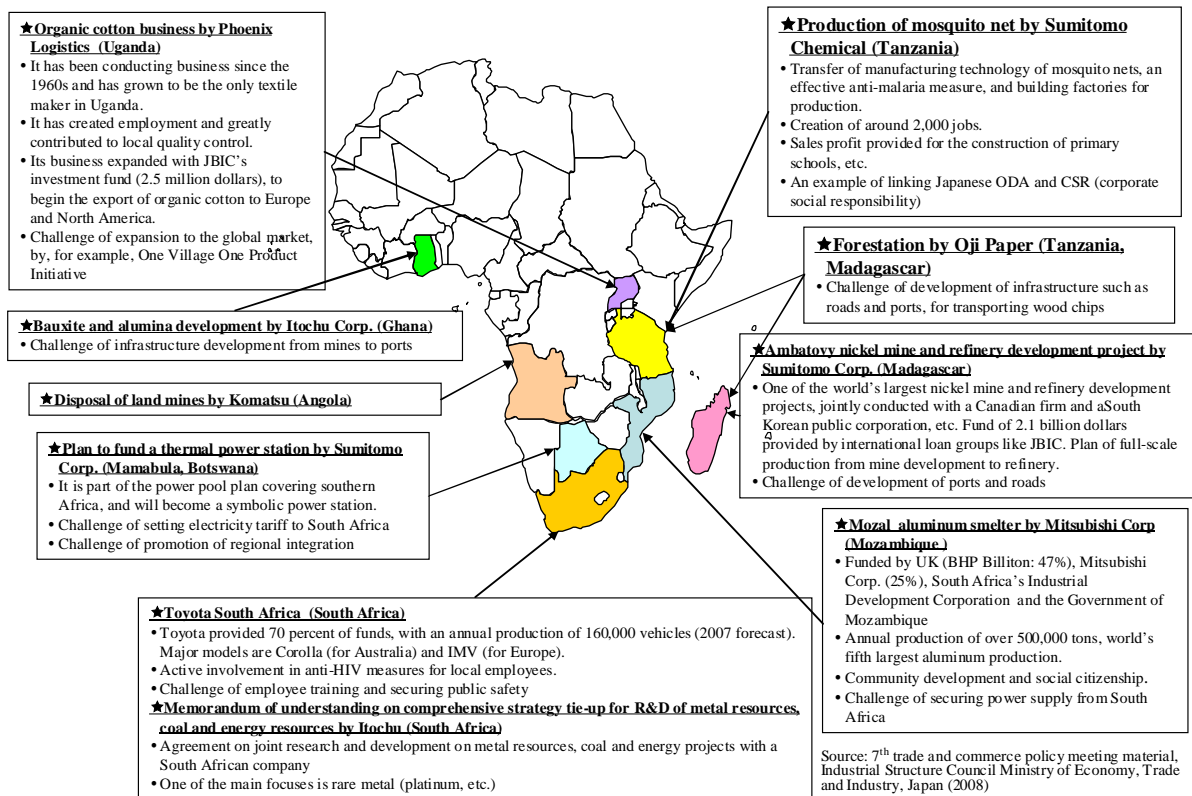
<sup>64</sup> In other words, the “green revolution” explained earlier.

<sup>65</sup> For example, the effect of the “green revolution on” economic growth is described in Otsuka, K. (2003), “HIGASHI ASIA NO SHOKURYOU NOUGYOU MONDAI.”

<sup>66</sup> In the JETRO survey cited above (JETRO (2008c)), in response to the question pertaining to the reason for investing in Africa, 71 percent of the respondents answered “its potential,” 33.6 percent answered “market size,” and 29.9 percent answered “natural resources.”

<sup>67</sup> A scheme for reduction and exemption of tariffs on automobiles and their parts in accordance with their export value from South Africa.

Figure 3-5-21 Examples of Japanese Business Activities in Africa



### (a) An example of a private firm: Oji Paper Co., Ltd.

Oji Paper Co., Ltd., which obtains raw materials from Africa, is carrying out a forestation project in Madagascar.

Oji Paper began the forestation activity in the 1970s in response to an increase in the demand for wood feedstock. It aims at forestation of 300,000 hectares overseas by 2010. The forests in Madagascar are decreasing and deserted grasslands increasing due to excessive logging operations for fuelwood materials and swidden cultivation. With the intent to acquire renewable paper materials and carbon credit through sustainable forest production activities, Oji Paper is considering forestation in Madagascar (total investment of 2 billion yen). The company has planted trees covering 100 hectares on a trial basis and plans to plant eucalyptus trees covering a total of 15,000 hectares. It plans to import raw materials starting 2016 provided the forestation project is in full scale operation in 2009.

The project is expected to contribute to sustainable development of the target area through local forestation and sustainable forest production activities. Around 2,500 jobs will be created; support for school education provided, which will help improve people's lives; and with nursery trees and forestation technologies provided to farmers.

The evaluation of carbon dioxide absorption by forests was decided at the COP3 in 1997. The importance of forestation was newly recognized in view of global warming. The forestation project involves planting trees on land whose recovery as a forest is not expected. Because of its community- and environment-conscious reforestation operation and the use of satellite data for monitoring, it was officially accepted as a new methodology of an A/R CDM project (new forestation and reforestation

projects under the clean development mechanism) at the COP 13 in 2007. It shows the new potential of CDM projects in Africa.

**(b) An example of a private firm: Sumitomo Chemical Co., Ltd.**

Sumitomo Chemical Co., Ltd. entered Africa as a sales market.

The company had a relationship with Africa in the past; it has sold agricultural chemicals in Africa and purchased chrysanthemums for insect removal there. Being aware of the prevailing malaria problem in the region, in the 1990s, they successfully developed a mosquito net with a long-term insecticidal effect. Later, for its anti-malaria campaigns, the WHO used long-lasting insecticidal nets (LLINs), which are chemically treated so that the insecticidal effects last even after being washed. The demand grew rapidly and the mosquito net is now provided in over 50 countries, mainly in Africa, through organizations such as the UN Children's Fund (UNICEF).

Sumitomo Chemical also provided a Tanzanian company the production technology for low-cost manufacturing of the net and job creation, free of charge. The joint venture of this company and Sumitomo Chemical has an annual combined production capacity of 10 million nets in Tanzania, which means the creation of more than 3,200 jobs just for the net production<sup>68</sup>.

Sumitomo Chemical is examining the possibility of constructing sewing plants in Kenya, Mozambique, Ethiopia, Madagascar and Malawi, and a production plant in West Africa. It aims to create a business model of "By African for Africa," which means producing what Africa needs in Africa. In cooperation with NPOs and other companies, Sumitomo Chemical uses the profit from the mosquito net for securing school buildings, facilities for providing meals at primary and middle schools, teaching materials, and accommodations for school teachers in Africa. As of March 2008, seven such facilities were established.

**(Efforts for further development of Africa)**

Due to the lack of political governance in Africa, conducting business there is said to be very risky<sup>69</sup>. Private firms have to shoulder health and safety costs of their employees, and development and education costs of the neighboring areas. Such costs are unique to Africa.

To overcome these situations, it is necessary to create a good cycle from Official Development Assistance (ODA)-funded development of infrastructure to direct investment, and build the foundation for development through human resources development, which, in addition to the improvement of political governance, has played an important role in the Asian development strategy.

**(a) Development of infrastructure**

Foreign direct investment and corporate activities of overseas firms (including Japanese

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<sup>68</sup> Data as of April 2008.

<sup>69</sup> According to the JETRO survey cited earlier (JETRO (2008c)), in response to the question pertaining to the problems of conducting business in Africa, 85.6% of the respondents answered "creation and application of legal systems," 79.3% answered "employment and labor issues," and 72.1% answered "political stability".

companies) in Africa serve as the engine of its economic development. However, insufficient infrastructure restricts their inflow. Infrastructure has been underdeveloped because it has been said that it is too costly. As a result, the existing infrastructure is not sufficient enough for the rapidly expanding economic activities. Electricity and infrastructure for transport is essential for the development of resources. If the distribution network such as ports and harbors, railways, and roads is developed, further investment and expansion of corporate activities can be expected.

As described earlier, underdeveloped infrastructure has led to price hikes of farm products in urban areas, which has raised the average wage of workers there. Thus, development of infrastructure is important for lowering the average wage and promoting rural areas (easing the transportation of products to the city zone will increase product sales).

Using the ODA factor obtained from Kimura and Todo (2007) to calculate the “advance guard effect” of Japanese ODA for foreign direct investment in Africa, the direct investment from Japan to Africa increased by 22.1% in 10 years from 1996 to 2005. Thus, it is fair to say that our ODA has the effect of promoting private investment in Africa, similar to the case in Asia. Development of infrastructure with ODA is extremely important for the introduction of our Asian development strategy in Africa.

#### **(b) Investment promotion**

Although there are business opportunities in Africa, investment is very risky. Therefore, the government has an investment assistance plan. The Japan Bank for International Cooperation (JBIC) plans to establish a “fund to support doubling investment in Africa (Africa investment facility).” The fund will invest in and loan for projects of Japanese companies investing in Africa. With the JBIC shouldering part of the investment risk, the project is expected to have a pump-priming effect to promote private investment. The Nippon Export and Investment Insurance (NEXI) plans to agree on a memorandum of understanding on cooperation with the Islamic Corporation for Insurance of Investments and Export Credits (ICIEC) to handle export insurance for Japanese companies.

#### **(c) Development of human resources for industries**

Human resources development efforts are important in Africa, where even primary education is not sufficiently provided. Companies require skilled workers in order to run successful businesses. Development of human resources for industries such as skill training is effective to satisfy the both needs. The programs for developing human resources for industries include training and manpower dispatching programs of the Association for Overseas Technical Scholarship (AOTS), in addition to efforts by private firms. The transfer of manufacturing skills and marketing skills is expected to facilitate trade and investment.

#### **(Provision of Japanese market)**

For the sustainable development of Africa, it is also important to promote the production of goods other than natural resources such as industrial products and horticultural crops for exports. However, as described earlier, partly due to the uncompetitive wages in manufacturing in Africa and the lack of

infrastructure, Japan needs to provide itself as a market for Africa to establish an international business network and thus, integrate Africa into the new global market.

Europe and the U.S. have created a preferential scheme to give Africa preferential treatment in trade (see Table 3-5-22). There are some examples of the potential inflow of inward direct investment in labor-intensive industries by improving market access in Africa within the scheme<sup>70</sup>.

Table 3-5-22: European and North American Preferential Treatment Schemes

	Scheme	Applicable countries	Outline, characteristics
US	African Growth and Opportunity act (AGOA)	34 sub-Saharan African countries (approved on the basis of the economic policy criteria for market economy, rule of law and eradication of poverty)	Items excluding textile and apparel: Articles not subject to general preferential treatment are also tariff-free in principle. Textile and apparel: Articles made with raw materials from the US or subject country and processed in subject countries are tariff-free in principle. * To receive the preferential treatment, requirements such as visa procedures and domestic laws to prevent roundabout need to be satisfied.
Europe	Cotonou Agreement	77 countries in Africa, the Caribbean Sea and Pacific (ACP nations)	Aims to form a new EU-ACP cooperative relationship on the basis of free trade agreements and general system of preference (GSP). Plans to form a free trade zone by 2020.
	EBA (Everything but Arms)	Least Developed Countries (LDCs)	Duty-free and quota-free access for all products from LDCs, excluding arms. * Transitional periods are set for sensitive products such as bananas, sugar and rice.

Source: Report on the WTO Inconsistency of Trade Policies by Major Trading Partners (2002 and 2005 versions), METI, Japan

Japan already has duty-free and quota-free measures for the Less Developed Countries (LDCs), which include many African countries. It will become important to promote business utilizing such schemes.

The international version of “One Village One Product Initiative” promoted by Japan as part of the “Development Initiative” announced by the then Prime Minister Koizumi in December 2005, will facilitate, to a great extent, the integration of African products into the new global market.

The “One Village One Product Initiative” is to help local residents discover a specialty product they can be proud of, and to make it competitive, not only in the domestic market but also overseas. It is expected to introduce the principle of market mechanism in a self-sufficient, closed economy, by selling the product in the market and promoting endogenous economic development; non-workers will be trained to be workers and entrepreneurs through human development efforts. This has already been successfully introduced in Asia (see Column 35).

Support for trade fairs and business seminars, as well as dispatching experts can effectively turn local specialties into products not only for the local market but for the international market as well. It is also necessary to promote innovation to increase their competitiveness based on the needs of the markets of the industrialized countries.

### **(Strengthening governance for the future of Africa)**

Although Africa has achieved a relatively high economic growth rate in recent years, poverty and the prevalence of HIV/AIDS and other infectious diseases remain serious problems. Africa is also

<sup>70</sup> For example, the African Growth and Opportunity Act (AGOA) had the effect of entry of foreign apparel companies in Africa, in addition to a trade increase. Fukunishi, T. (2005), “KENYA HOUSEI SANGYOU NO KOKUSAI KYOUSOURYOKU.” Soon after the application of the AGOA, sewing companies began to enter into the export processing zone (EPZ) and their production is in accordance with orders from major U.S. retailers. Many companies in the EPZ are overseas-based companies from South Asia, the Middle East and Asia.

behind other regions with regard to their response to new challenges like climate change. Further, many African countries are still politically unstable.

Strengthening the governments of African countries is essential for solving these problems. The development of resources has now triggered the inflow of funds and technologies into Africa and it is important to link this to the eradication of poverty throughout Africa.

**[Column 35] One Village One Product Initiative: Thai version (OTOP project)**

Thailand achieved rapid economic growth after the late 1980s while utilizing foreign investment. However, it faced the problem of economic disparity between the urban and rural areas.

Prime Minister Thaksin Shinawatra, who assumed the post in 2001, adopted the promotion initiative to eliminate the economic disparity between the urban and rural areas. The One Village One Product Initiative is called the “OTOP program,” an acronym of One Tambon One Product. Tambon is the equivalent of a Japanese municipality.

Under the strong leadership of Prime Minister Thaksin, the “OTOP office” was set up within the Prime Minister’s Office and special organizations were also set up within the central government, provinces and Tambons to promote efforts into the project all over the country. Efforts were made to raise people’s motivations. For example, it actively promoted the initiative through the media so that it becomes widespread in the rural areas as well. In addition, OTOP product competitions were held and excellent products introduced at big exhibitions. One million bahts were provided to each of the 6,000 Tambons in the country as funds for producing the specialty product. This program helped raise the motivation of participants and they worked hard to repay the loans.

There are about 30,000 products of the local specialty promotion initiative, sometimes called “OTOP products,” varying from handcrafts and general merchandise that utilize traditional skills to clothing ornaments. They are distributed domestically, and many even exported overseas. The export of OTOP products increased at a rate of over 10% on a year-to-year basis from 2003 in value terms, reaching 972 million dollars in 2005. Although the increase rate in 2006 was not as sharp as in previous years, it is still on the rise

**[Column 36] Sending out brand products from Bangladesh: an example of Mother House Co. & Ltd.**

Another preferential scheme of aid through trade is fair trade. Although its definition varies, it can be summarized as a “scheme for securing producers and employment, improving workers’ lives, and promoting their independence in developing countries, by continuously purchasing their raw materials and products at a ‘fair price.’” The fair price is often defined as a “price higher than the international price.” In other words, the main objective of fair trade is to support producers.

Apart from fair trade, a Japanese company named Mother House Co. & Ltd. has attracted attention as a company exporting products from one of the least less developed countries to industrialized countries, by positively responding to the market needs.

Mother House produces quality- and design-conscious bags of jute (a major export material for Bangladesh, the least less developed country in Asia) at the local factory in Bangladesh, and exports them to Japan. The utmost objective is “customer satisfaction” and it has had a tremendous effect. The production factory initially had four employees; this figure has now increased tenfold, half of whom have never had a real job. Factories in Bangladesh used to produce cheap knock-off version products, whose prices were beaten down. Mother House introduced, to a local factory, the process of joint product development, which provided jobs that local employees can take pride in. Their customers and sales offices are gradually increasing in Japan<sup>71</sup>.

Product development in developing countries has recently been conducted as part of the ODA activities like technical cooperation. However, one problem of product development as an aid program is the difficulty of setting a clear quality goal and standard.

However, private firms have buyers’ know-how, which is essential for product development, and they set a clear standard of “what they can sell.” It also means that sales are secured for factories and hence, certain economic outcomes are expected.

Governmental governance is often poor in developing countries, and industrialized companies that have entered into these countries often end up making a contribution not just to the economy but to health and welfare as well. Empowerment of local companies will lead to them having a louder voice against the government.

The efforts of Mother House suggest a new solution, beyond the fair trade scheme to eradicate poverty through business.

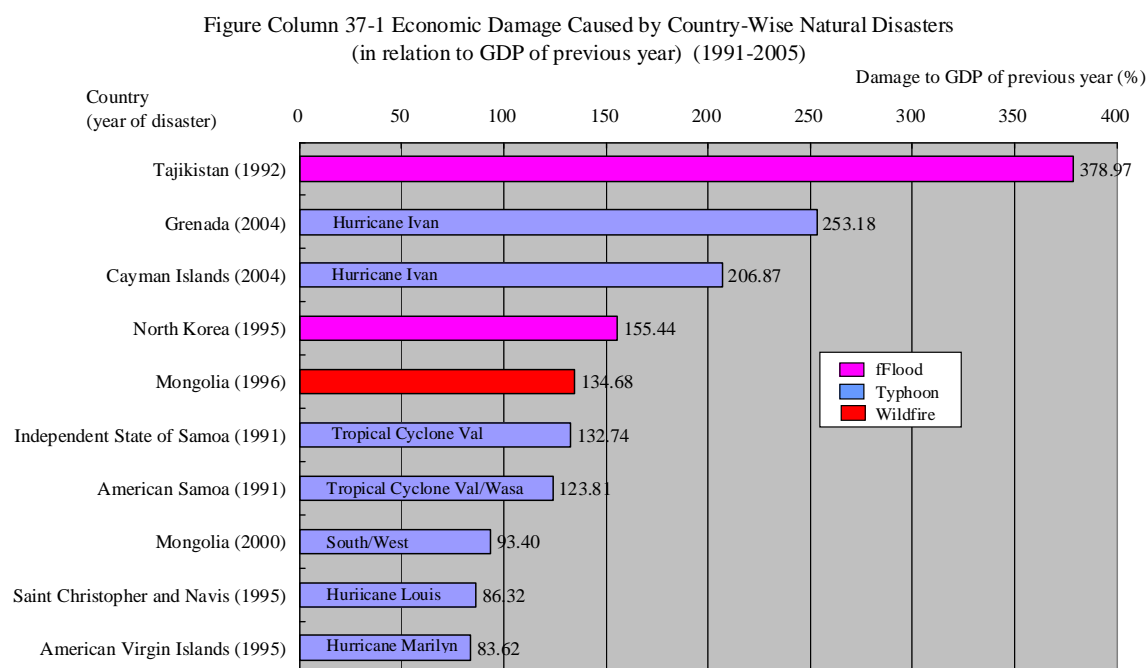
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<sup>71</sup> Compiled from an interview article with Mother House Co. & Ltd. CEO, Eriko Yamaguchi, “JIDAI WO HIRAKU CHIKARA: FEA TOREDO NO KANCHIGAI,” *VOICE*, April 2008 (PHP Interface).



### [Column 37] Overcoming natural disasters in developing countries

Natural disasters can occur in any country—industrialized or developing. However, most often, the damages are in developing countries. According to the World Bank (2001), 94% of the 568 natural disasters that caused serious damages between 1990 and 1998 and 97% of their fatal victims were in developing countries. The damage resulting from natural disasters in these countries is enormous in comparison with their economic scale. According to the UN International Strategy for Disaster Reduction (UN/ISDR)<sup>72</sup>, developing countries fall in the top of the list of figures of damage in value terms to their GDP (see Figure Column 37-1).



The government and private sector in developing countries have a limited budget and cannot inject sufficient funds for anti-disaster measures. Natural disasters cause serious damage and the developing countries have to half forcibly inject their insufficient funds for restoration efforts; this delays the eradication of poverty. Thus, anti-disaster measures are required for the eradication of poverty, and governments of industrialized countries and international organizations must cooperate to improve and expand anti-disaster measures of developing countries through ODA and other schemes<sup>73</sup>.

For the improvement and expansion of anti-disaster measures in developing countries, the development of infrastructure, such as dams to prevent floods and droughts as well as weather forecast and alarm systems, is important.

It is also important to create a system to mitigate the damage caused by disasters. If private citizens and companies take anti-disaster measures, damage can be mitigated. For example,

<sup>72</sup> UN / ISDR website, "Economic damages: share of GDP by natural disaster and country 1991-2005."

<sup>73</sup> Anti-disaster measures are also effective in view of the economy. According to the International Federation of Red Crescent Societies (2001), the damage of 280 billion dollars caused by natural disasters in the 1990s would have been prevented with a 40-billion-dollar investment for anti-disaster measures.

companies will have to suspend its business activities if their buildings and facilities are damaged or if the infrastructure can no longer be used due to natural disasters. To prepare for such situations, they are expected to formulate the Business Continuity Plan (BCP).

It is also important to create a system that encourages citizens and companies to make anti-disaster efforts voluntarily. For example, the creation of a system that enables the sales of financial instruments such as the catastrophe (CAT) bond<sup>74</sup> or insurance derivatives<sup>75</sup> to compensate for damage caused by natural disasters will allow their purchasers to use them for recovery from the damage.

Japan is one of the countries frequently hit by earthquakes and typhoons. It is important for Japan to support the development of developing countries by utilizing its considerable experience with such disasters and contributing to disaster prevention in these countries, through the development of infrastructure and creation of anti-disaster systems. In addition, various anti-disaster activities in such countries become valuable learning experiences for Japan because they provide us with a lesson for disaster prevention in our own country.

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<sup>74</sup> The CAT bond is a scheme of securitization of risks such as earthquakes, typhoons, cold wave, and hurricanes, which are often said to be difficult to provide insurance for, catastrophes with a low potential of actually occurring but which cause enormous damage when they do occur, and transfer of risk to the financial and capital market.

<sup>75</sup> Insurance derivatives are derivatives trading for the fluctuation of index linked with insurance-related risks. These are different from the insurance that compensates for damage caused by abnormal climate or other occurrences. They cover insurance even when the damage is not clearly determined. For example, weather derivative for abnormal climate and earthquake derivative for earthquakes are insurance derivatives. The trade volume of weather derivatives increased to such a level that its future was listed in the Chicago Mercantile Exchange (CME) in September 1999.