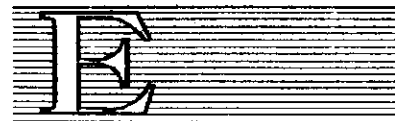




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TECHNOLOGY TRANSFER THROUGH FOREIGN DIRECT INVESTMENT:

The case of Japanese Investment in Africa *

* The views expressed therein are those of the Author and do not necessarily represent those of the United Nations Economic Commission for Africa.

I. INTRODUCTION

1. Foreign direct investment (fdi) can be a major driving force of economic development of a poor country as it usually carries not only capital, but technology, business knowhow and often also market. This has been proved indisputably by the experience of the Asiannies (Hong Kong, Korea, Singapore and Taiwan) in the past. Their records also suggest that, contrary to the view commonly held by third world policy-makers, the host economy can develop indigenous technological and marketing capabilities and therefore outgrow the dependence on multinational enterprises (MNEs) from richer countries fairly rapidly, if a passive inflow of FDI continue over a sufficiently long period and if the host government acts properly in all the relevant policy areas. The example set by these countries are now being replicated by the ASEAN-4 except the politically troubled Philippines (i.e. Indonesia. Malaysia and Thailand).

2. Experience also shows, however, that FDI from richer counties tends to be concentrated in a limited number of countries and sub-regions. It is also clear from a comparison of these Asian countries with Mexico, for example, that FDI creates varied developmental impacts in different host countries. Hence, mixed feeling of expectations and frustrations among host nations, actual or potential.

3. Host nations' frustrations regarding foreign investors' performance accrue, more often than not, from overestimation of their adaptive capacity and from neglect of the important bearing of the time factor and the local market size on the growth of such capacity (cf. Watanabe. 1981 for a detailed discussion on related subjects.).

4. How much a foreign investor in a given industry can contribute to the development of the host economy also depends on the latter's absorption capacity. For example, where supporting industries are fairly well developed, his investment can create a considerable impact on local employment and incomes through linkages and multiplier effects. Where most of his inputs have to be imported and where his employees spend most of their wages on imports, in contrast, such impact would be minimal. Similarly, the technological impact of foreign investment is narrowly determined by the local absorption capacity, that is, the number and competence of local technical staff who can absorb technology and

know how brought about by the foreign investors and that of the entrepreneurial class who can imitate their practices.

5. In section II of the present paper I will discuss, first, the types of technological impact to be expected from FDI and then major determinants of the MNE's technological choice in manufacturing industries. It will be shown that, once decisions have been made on the product, the target market and the target sale of production in the given context of the host economy, the pattern and extent of technological impact to be expected from an FDI project are more or less narrowly fixed. In Section III the trend and structural changes in the Japanese FDI in Africa will be reviewed with reference to the 1951-92 period, and the factors responsible for them will be explored. Japanese never invested much in this region. Although the bulk of what meagre investment made was directed to mining and manufacturing industries in earlier years, moreover, the share of such "productive FDI has been negligible since the late 1970s as the tax haven of Liberia became the almost exclusive recipient. Apart from the small sizes of local markets and the distance from Japan, the persistent political instability and the underdevelopmental and institutional infrastructure discourage potential investors from Japan, even more than in the cases of those from other industrialised countries because of the lack of any historical relationship.

6. Although the analysis in Section III was initially intended for preparing a base for an assessment of the technological and other developmental impacts of Japanese FDI, the marginal existence of investment in productive industries renders such an attempt meaningless. Therefore, the final section will be devoted to a discussion on the prospect in the near future and on the possible areas of efforts African nations might consider in the hope of encouraging the inflow of Japanese and other FDI.

II. TECHNOLOGICAL IMPACTS OF FOREIGN DIRECT INVESTMENT

A. Different kinds of technological effects

7. FDI may create technological impacts of three broad categories: (i) the hardware and related software technology introduced at the investor's own plant, (2) the managerial knowhow including marketing and work organisation applied by the investor and (3) production and managerial technologies and knowhow transferred to local suppliers. All these elements may spread among other firms through demonstration effects. While FDI in the manufacturing sectors will carry more or less of the elements of all three categories, FDI in the tertiary sector will be associated primarily

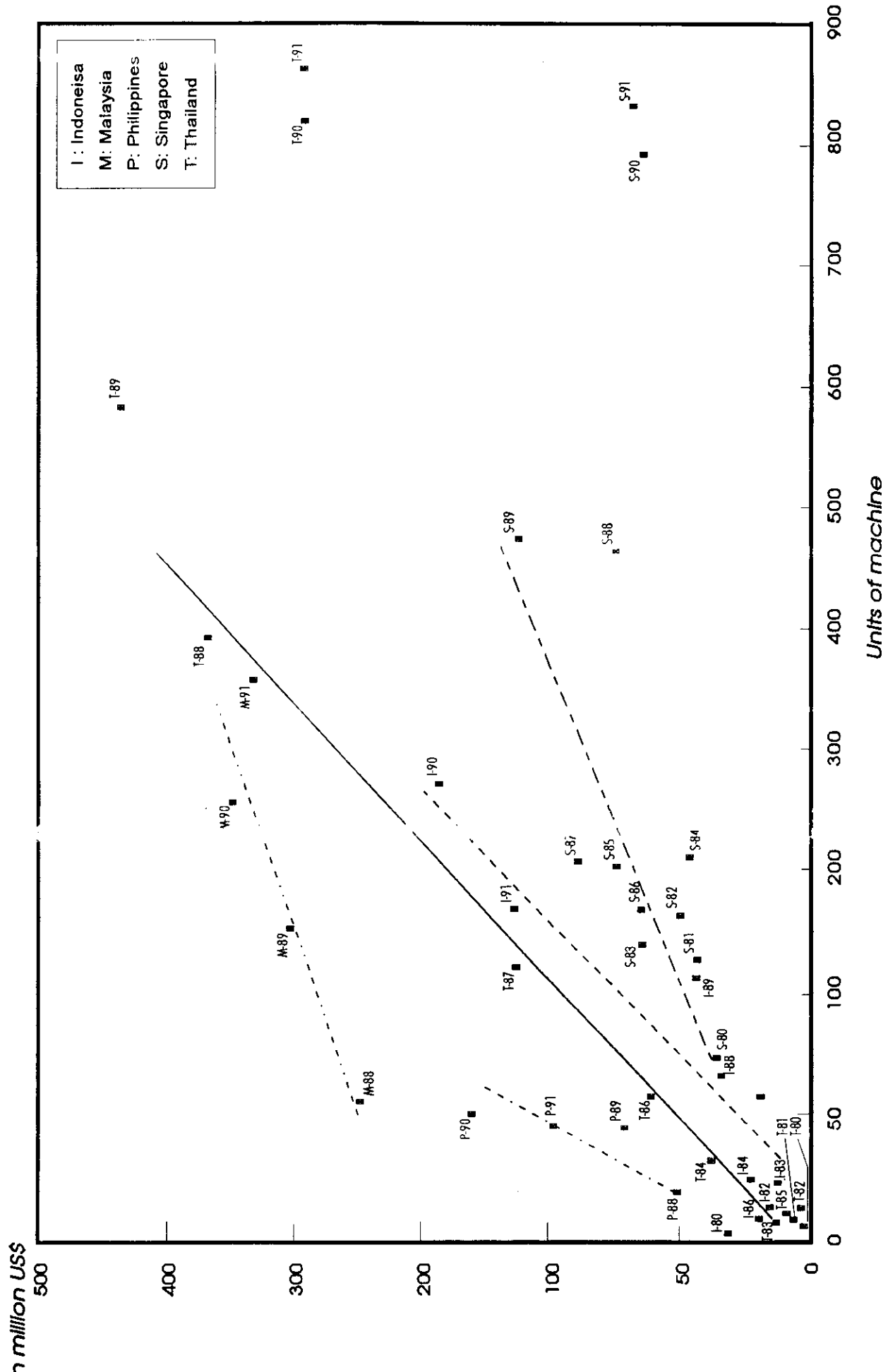
with elements of item (2) although Japanese trading companies are known to be active in searching suitable production technologies for manufacturing partners (cf. Kojima and Ozawa, 1984). The case of FDI in the primary sector may be considered to lie somewhere inbetween. Therefore, a discussion on technology transfer through FDI is usually focused on manufacturing industries, and especially metal engineering industries (i.e. electrical and electronic machinery, general machinery and transportation equipment manufacturing industries). In these industries, relatively more sophisticated production technologies are used and quality control is stricter, and therefore, work organisation and workers greater attention than in light consumer goods (e.g. textiles) industries.

1. Transfer of hardware and related technology

8. FDI's implication for the technological progress may be illustrated most clearly with reference to the diffusion of (computer) numerically-controlled machine tools (NCMTs) in the Third World. The annexed table summarises statistics on NCMT exports by region and country of destination published by the world's three largest suppliers countries. Although imports by Hong Kong and Singapore are partially redistributed to nearby countries, it is clear that the use of NCMTs has been concentrated in a limited number of countries: the Asian NIEs, the ASEAN-4 and Mexico. They are followed by Brazil, China and India. This geographical distribution pattern broadly corresponds to that of FDI in metal engineering industries.

9. Growth of NCMT applications in Asia, especially in the ASEAN-4 is closely related to the phenomenal expansion of Japanese FDI after the mid-1980s, which was motivated by the appreciation of the yen, the import barriers Western nations set up against Japanese products and the rapidly growing labour shortage in Japan. The average amount of Japan's investment in metal engineering industries of Asia quintupled from (US\$204 million per year in 1981-85 to US\$ 1.083 billion per year in 1986-90). These investments were directed almost exclusively to the NIEs, the ASEAN-4 and China. The share of the rest of Asia has been negligible. Korea, Taiwan and China also produce NCMTs, and indigenous users account for significant shares of the domestic NCMT consumption (cf. Watanabe, 1993, ch.7). This is not the case in Thailand, Malaysia and Indonesia. These countries still rely on imports for the supply of such machinery, and the imported machines are used by foreign firms' subsidiaries and, to some extent, also by their local subcontractors. The use of NCMTs in these countries grew rapidly after the mid-1980s, when their industrial structure began to shift from textile and other light consumer goods industries to metal engineering industries as a result of massive inflow of Japanese investment (diagram 1). On(1993), therefore,

Diagram 1: Relationships between FDI and NCMT exports from Japan to the ASEAN countries, 1980-1991



concludes his study on microelectronic innovation in Malaysia and Singapore as follows: "the strong presence of large multinationals has been a main impetus to the diffusion of FA (microelectronics-based factory automation) machinery among local firms".

10. The situation has been much the same in Mexico, where US car and electronics machinery manufacturers started investing heavily in maquiladoras (bonded export processing industries), in view of the prospect of the North American Free Trade Agreement (NAFTA) and taking advantage of a more than centesimal depreciation of the Mexican peso against the US dollar during the 1980s (Dominguez, 1993).

11. Needless to say, adoption of any new hardware technology necessitates training of related personnel. Multinationals usually train key technical staff at their home factories, and ordinary workers on the job at local plants by instructors/supervisors sent from home. The first type of training is naturally more common at initial stages of local operations and at the time of introducing a new production method. According to what I learned from interviews at head offices of Japanese companies operating in Africa in summer 1993, the second type of technical support has been dominant in recent years, for two main reasons. For one thing, the appreciation of the yen has augmented the cost of the first type of training programme enormously. Besides, there has not been any significant investment project nor technological innovation at their African plants -- a topic to be dealt with below.

2. Managerial knowhow

12. FDI's technological impact need not be confined to the production floor level. MNEs' managerial practices may create significant positive repercussions among other firms, either foreign or indigenous, operating in the country. This has been particularly true with Japanese MNEs.

13. Japanese industries survived the two oil crises and came out of the subsequent world-wide recession with reinforced vigour. At first, Western observers attributed this to a greater use of microelectronic production technologies such as NCMTs and robots. They soon realised, however, that the same advanced equipment in Western industries produced only a portion of the effect gained in Japan. They now believe that the secret of Japanese success lay in organisational efficiency emanating from the "lean (or low-waste) production system", and they are now experimenting upon elements of the system, closely studying what Japanese firms do at their local plants (cf. Womack et al., 1990). They appear to be particularly interested in the following practices: the "total quality control

(TQC)", the "just-in-time (JIT)" system, team work based on a loose job classification and a flexible task-sharing, training of multiple-skilled workers, peaceful industrial relations based on

close communication and consultation, stable and reliable supplier-client (subcontracting) relationships, and the "QC (quality control) circle" for constant small improvements in all domains of business activities and product and process improvements in particular.

14. From the UK Oliver and Wilkinson (1988) reports that the presence of Japanese MNEs has made their practices "more highly visible, and existing companies in the UK are frequently pointing to these companies as models to be emulated" and that "there is strong evidence of the Japanization process at the level of individual companies" (pp. 134 and 159). They cite Lucas and Rolls-Royce (Air-craft) as particularly successful emulators, while Ford is considered to be the most successful among the US companies (Womack et al., 1990).

15. In Third World industries where competition is milder, interest in the "lean production system" seems to be more limited. Still, Fleury (1993) found a Japanese automobile manufacturer in Brazil creating a significant impact on other firms operating in the country, and Dominguez (1993) also reports cases of applications of QC (quality control) circle and other Japanese practices in Mexican industries, under a strong influence of US MNEs such as Ford. In Asia, of course, the large presence of Japanese firms and closer cultural relationships make permeation of Japanese practices easier, although there are naturally some difference in the ease with which individual host nations accept and absorb them, depending, among other things, on their degree of Westernisation.

3. Fostering of local suppliers

16. One of the areas in which Japanese MNEs are specially reputed is related to the assistance for their local subcontractors. As their operations at home are critically dependent on an efficient and extensive subcontracting system, this is indeed something to be expected.

17. If they find a local firm willing to collaborate with them and if the cost and/or quality of its product are not up to their standard, Japanese firms try to improve it through technical assistance. For example, if an automobile assembler feels the cost of a component too high, he asks its producer to submit his cost

table, carries out a value analysis, finds out causes of the problem and shows him how to reduce the cost. If the parts-maker's efforts satisfy the Japanese firm, a long-term contracts is offered. From the United Kingdom, Duning (1986) reports:

"Japanese firms are more prepared to give advice on product design, equipment and production methods and work organisation than their earlier (or indeed their current) United States counterparts,... In particular, there was widespread agreement -- even among the very large United Kingdom suppliers -- that their Japanese customers had helped upgrade their quality control, inspection and testing procedures and, in some cases, had forced them to reappraise their production philosophy. Certainly, as compared with their dealings with their United Kingdom customers, domestic suppliers found the relationship with their Japanese counterparts less distant and more co-operative and stable" (p.14). Oliver and Wilkinson (1988) argue similarly with reference to Komatsu (UK) and cite a local supplier saying that "The Japanese tend to camp out on your door step. We've got English firms that we seen once or twice a year... it's nothing for the Japanese to turn up two, three or four times a day" (p. 131).

18. Inadequacy of local supplies in the Third World are well known (cf. Watanabe, 1983, chs. 5 and 7). One basic problem is the small size of local market, which discourages both investment by producers of parts and components and end-product manufacturers' efforts at fostering local suppliers. Where appropriate conditions exist, Japanese firms "network" their affiliates in nearby countries to overcome this constraint. In the ASEAN region, governments encourage such arrangements with their Industrial Complementation Programme, whereby reduced import tariffs are applied to parts and components produced within the region. Export of automobiles built under such arrangements started from Thailand and Malaysia to industrialised countries.

19. How this sub-regional integration programme came into operation should be of some interest to Africans. The idea existed in this part of the world since the mid-1970s (cf. Watanabe, 1980), but its implementation had been impeded by conflicts of interest among the member States. More than ten years later it began to be put into practice as intra-firm group arrangements of individual Japanese MNEs spearheaded by Mitsubishi Motors Corporation.

20. If a country succeeds in attracting a sufficiently large number of foreign investors in closely related industries, it may encourage spontaneous development of indigenous parts and component producers by enabling the latter to secure sufficiently large

aggregate demand from multiple clients. Pimsf-Pulogadung Co. in Indonesia and Thai Engineering Products Co. in Thailand are outstanding examples. Making good use of CNC machine tools, they cater to most multinational automobile, motorcycle and agricultural machinery companies operating in their countries. Flexibility and quality-assuring capacities of CNC machine tools has been instrumental to the development of these companies and also of many small indigenous metal working firms including die-makers (Watanabe, 1993, ch. 7). In these and other countries (e.g. Mexico), there are fair numbers of former employees of MNEs who have started their own small businesses as MNEs' subcontractors.

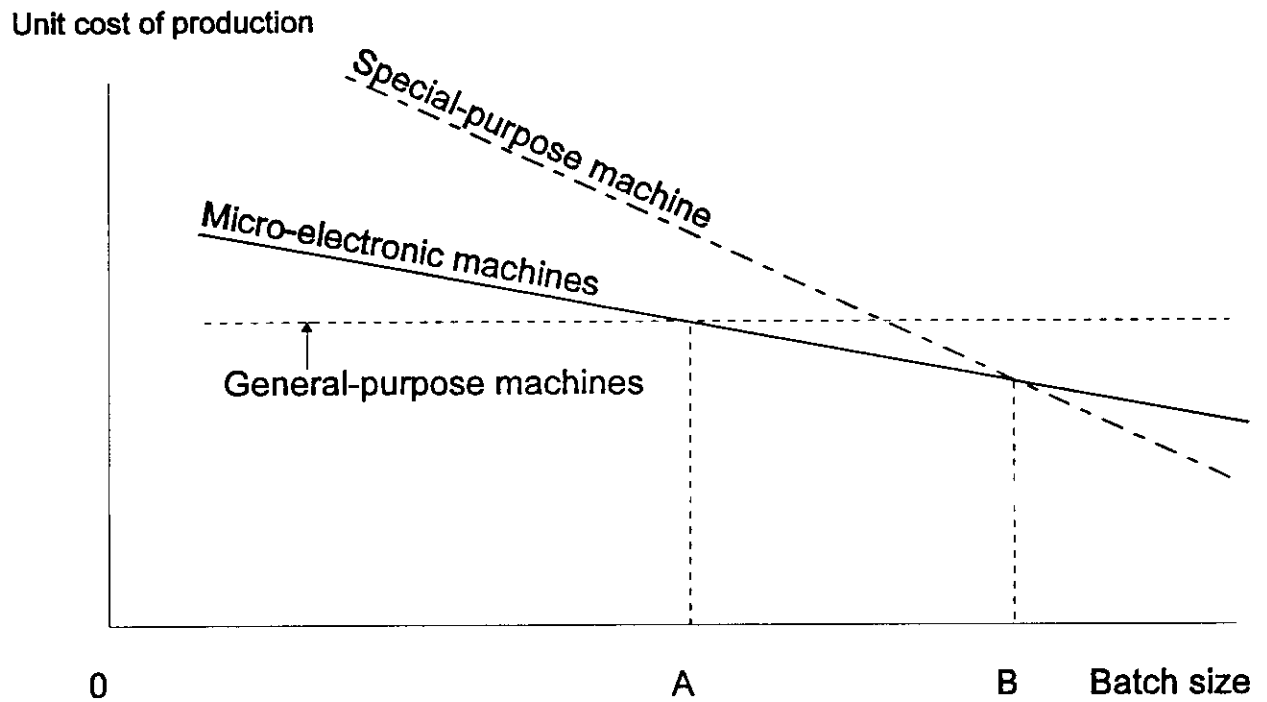
21. In sharing such indigenous suppliers, Japanese firms usually collaborate with each other and endeavour to upgrade their common suppliers' technical standards by different means, ranging from daily guidance to training of workers at their home plants. At a medium-sized local firm I visited in Bangkok, engineers from a Japanese automobile manufacturer frequented a line producing their car parts for the purpose of transferring quality control techniques. The firm had been encouraged to apply what was learned there to lines working for other Japanese clients.

4. Determinants of FDI's technological impacts

22. Technological (and therefore employment and production) impact of FDI are a function of multiple factors: (1) the choice of industry, (2) the choice of target market or product specifications within a given industry, (3) the target scale of production and (4) the quality of supplies of inputs (e.g. labour, raw materials, and electricity).

23. The technological implication of the choice of industry and product should be obvious. For example, the type of technology a foreign investor can be expected to bring in will differ vastly depending on whether he is a textile manufacturer or an automobile producer. Within the same industry, say, textile, his choice of technique will vary depending on whether he wants to cater to the low income local market or high-income export markets: in the first case he may avoid the use of expensive modern machinery and rely on more labour-intensive "appropriate" or "intermediate" technology, while in the second case he may be obliged to apply a more capital-intensive and skill-saving production method for the sake of stricter quality control. In their desperate efforts at employment creation third world governments sometimes forbid export-oriented investors to use quality-assuring automation technology and insist on the use of labour intensive technology. In doing so, they either discourage potential investors or damage profitability of established FDI projects.

Diagram 2: Unit production cost using different types of machine



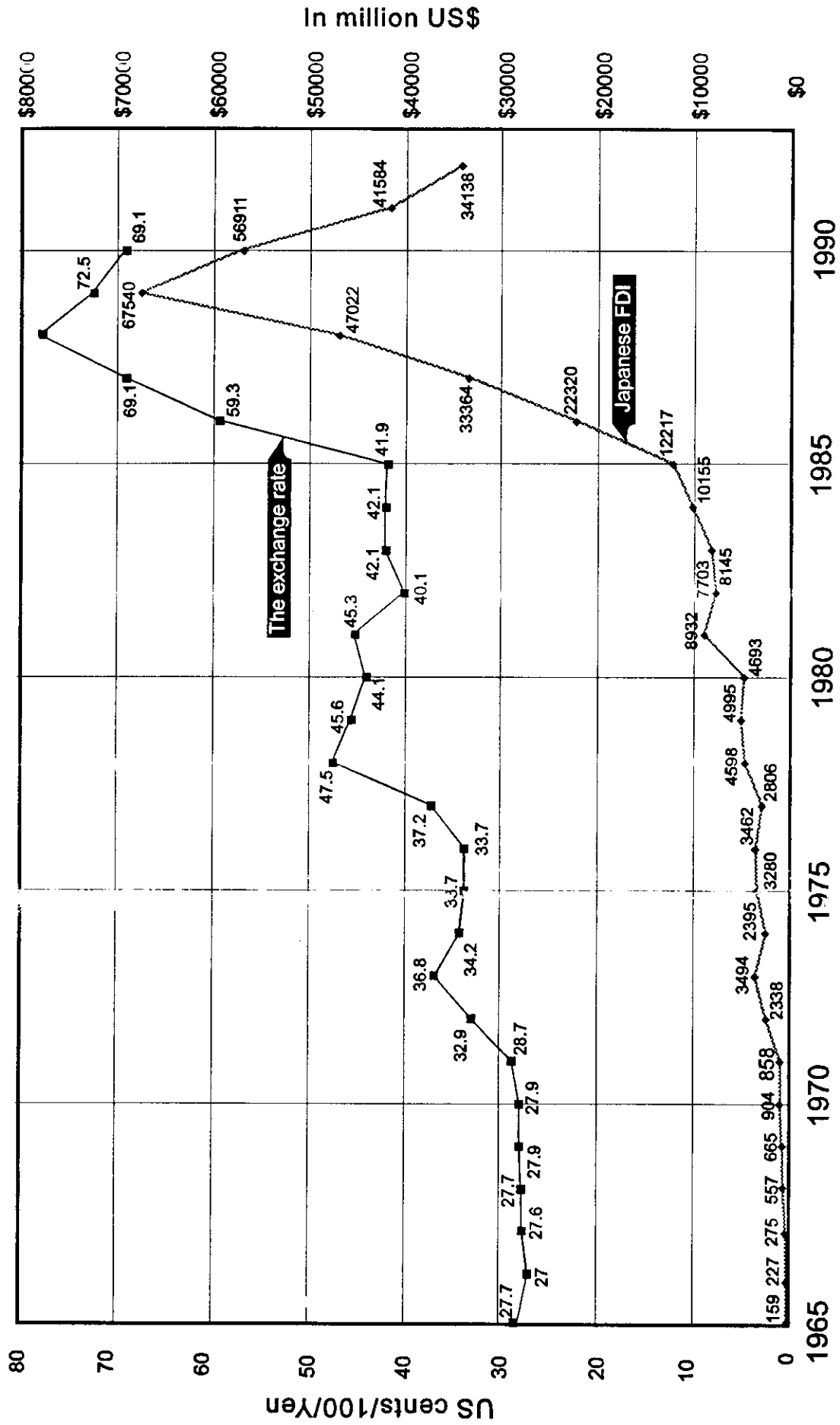
24. The relevance of the scale of production may be illustrated with reference to the automobile industry. The scope for factory automation is very meagre at a car factory with an annual capacity of 200,000 units. Adoption of a highly automated frontier technology at a very small plant would augment the cost of production to a forbidding level. This was the reason why none of the Japanese automobile manufacturers in the ASEAN region used any robot until quite recently.

25. More generally, in metal-cutting processes, firms choose one of three different types of machinery, depending on the batch size. General-purpose manual or semi-manual machines are used for once-over production of a single piece or a small lot, and conventional special-purpose automatic machines for mass production of a product or products of a few similar specifications. For recurrent production of small to medium-scale batches of similar products, NC machine tools are selected, as they can handle that type of work most economically. This may be illustrated as in diagram 2. The economically viable range of NC machine tool applications lies between A and B, and the actual positions of these points vary according to the degree of difficulty of the work to be done. NC machine tools may be used for the processing of a single piece if the work is too sophisticated for a conventional general-purpose machine. MNEs operating in the Third World are, however, quite likely to do this kind of special work in their home countries and confine their use of NC machine tools to cases where they can secure sufficiently large aggregate amounts of work -- a condition rarely met outside the NIEs and some ASEAN countries.

26. MNEs' choice of production technology can also be constrained by the quality of input supplies. For example, the use of sophisticated machinery such as robots and NC machine tools would be avoided where the quality of steel sheets is uneven or where the supply of electricity is unreliable. A host governments' demand for the use of such high-technology would be incompatible with its trade policy restricting import of high-quality materials.

27. From the above, it should be clear that in order to make good use of FDI for developmental purposes the host government needs to define policy goals clearly beforehand, fix the order of priority regarding different policy objectives and screen incoming investment projects accordingly. Once it has approved a project, the government will have to ensure that its operation will not be arbitrary interpretation and application of announced regulations. This may sound all so easy, but fulfilment of these conditions require considerable technical expertise and administrative capabilities, as well as honest civil service. This is one of the reasons why so few countries have ever succeeded in making good use of FDI.

Diagram3: The Annual rate of Japanese FDI and annual average Yen / Dollar exchange rate, 1965-1992



Source: Ministry of Finance and Japan Machine Tool Builders' Association

III. JAPANESE DIRECT INVESTMENT IN AFRICA

28. In the previous section I discussed a variety of factors which determine the scale and sort of contributions the host nation can expect from FDI. It is, however, the inflow of FDI that is the first prerequisite. Yet, this is very meagre in Africa (cf. OECD, 1992, p. 81). This is particularly true with respect to the flow from Japan, which become the world largest investor during the second half of the 1980s.

29. Japan resumed her postwar FDI in 1951. The annual rate increased enormously during the "bubble economy" period starting in 1986 and reached the all-time high of nearly 70 billion US dollars in 1989, after which it fell equally dramatically back to the pre-bubble level by 1992 (diagram 2). Over the 42 year period, Japan invested a cumulative total of US\$ 386.5 billion. The United States received 42 per cent of this total, Europe (mostly Western Europe) 19.6 percent, Asia 15.5 per cent, Latin America 12 per cent, Oceania 6.2 per cent, Africa, 1.8 per cent and the Middle East 1.1 per cent.

30. Until the early 1980s the aggregate total of Japanese FDI was more or less equally divided between developed and developing regions, and in the primary and secondary sectors the former region's share was no more than one-third of the total. The situation changed rapidly thereafter, especially during the second half of the decade. Between 1986 and 1990, 75 per cent of the aggregate total and 77 per cent of the investment in the primary and manufacturing sectors went to the developed regions. The share of Africa, which had never been large, became negligible. The phenomenal expansion of Japanese FDI during the 1980s was confined to the developed regions and to developing countries in the east of Malaysia.

31. Within each region Japanese FDI has ben heavily concentrated in a few countries and areas: the United States in North America: the United Kingdom, the Netherlands and Luxembourg in Europe: and the NIES, the ASEAN-4 and China in asia. The bulk of FDI in this region has been largely confined to Brazil and Mexico. In Africa, the tax haven of Liberia alone received 85 per cent of the cumulative total (US\$ 5,773 million). The rest of Africa hosted a combined total of US\$ 456 million over the 42 year period. Most of the investment in the primary and secondary sectors took place before 1985, especially during the 1970s, while Japanese invested massively in Liberia during the 1980s. Over the entire period, only US\$234 million was invested in manufacturing industries of Africa (table 1).

32. The data base which provides the information given in table 1 does not take account of possibilities of scaling down or non-implementation of approved or reported project nor of withdrawals of invested capital. It is also possible for a project to be implemented in a number of instalments. Therefore, the table may overstate the reality. On the other hand, it does not tell anything about reinvestment of profits by already established affiliates nor about the investments below the legally specified cutoff points for reporting (cf. the note to table 1).

Table 1: Japanese overseas direct investment in Africa, FY1951-92*
(US\$ million)

Sector/Industry	1951-70	1971-80	1981-85	1986-90	1991-92	1951-92
I. Primary sector	59 (63.4)	469 (34.7)	135 (7.0)	27 (1.1)	28 (2.8)	718 (10.5)
Agriculture & fishery	1	57	28	23	28	137
Mining	58	412	10	3	--	483
II. Manufacturing sector	25 (26.9)	71 (5.2)	119 (6.2)	17 (0.7)	2 (0.2)	234 (3.4)
Food	3	5	--	00	00	8
Textiles	17	21	--	--	2	40
Chemicals	1	12	5	5	--	23
Metals	3	17	101	7	--	128
Electrical machinery	1	3	3	1	--	8
Transport. equipment	--	6	8	2	--	16
Other	1	5	1	--	--	7
III. Tertiary sector	8 (8.6)	812 (60.1)	1,668 (86.8)	2,413 (98.2)	956 (97.0)	5,857 (86.0)
Construction	--	19	1	4	--	24
Commerce (e.g. sales offices)	--	2	4	7	1	15
Financing & insurance	--	2	1	35	42	80
Services (e.g. hotels)	--	20	614	89	19	743
Transport (shipping)	--	--	1,023	2,209	894	4,126
Real assets	--	--	--	69	--	69
trade	--	--	--	69	--	69
Other	6	769	25	--	--	800

Table 1: Japanese overseas direct investment in Africa, FY1951-92 (cont'd)
(US\$ million)

Sector/Industry	1951-70	1971-80	1981-85	1986-90	1991-92	1951-92
Total	93 (100)	1,352 (100)	1,924 (100)	2,457 (100)	986 (100)	6,812 (100)
Average total						
per year	5	135	385	491	493	162
Growth index						
relative to the						
previous period	--	2700	285	128	100	--
Africa's share in						
Japan's						
total FDI	2.6	4.1	4.1	1.2	1.3	1.8

Notes: The figures in parentheses are percentages. --, data missing. Japanese fiscal year starts on 1 April.

On the official approval basis until December 1980 and on the investor's advance report basis thereafter. The Japanese equity share 25 per cent or above before November 1980 and 10 per cent or more thereafter. Investments below 3 million yen between December 1980 and March 1984, below 10 million yen between April 1984 and June 1989, and below 30 million yen after July 1989 are not covered by the data in this table, as they were (are) not required to be reported.

Source: Based on the annual statistics published by the Ministry of Finance.

33. While certain portions of the reported investment in different years must have been intended for expansion of already existing affiliates, Table 2 provides some information on new investments that took place during different sub-periods. Liberia accounted for more than 50 per cent of the total cases (78), followed by Nigeria (23) which, however, received no investment after 1985 as compared with 50 cases in Liberia.

34. The same source provides some information on the survival ratio: only about one-third of the projects existing in 1975 remained active in 1990. The ratio was just over 40 per cent in manufacturing, and 100 per cent in automobile and electrical appliances industries. However, these figures may be somewhat too optimistic. During my field survey in summer 1993, I discovered that some of the projects on the Toyo Keizai list had become "dormant" or virtually abandoned because of difficulties caused by IMF-World Bank adjustment programmes. Some projects had been handed over to local partners, for similar reasons. (I will come back to this subject below.)

Table 2: New Japanese direct investment cases in Africa

	Before 1980	1981-85	(No. of cases)		Total
			1986-90	1991-92	
All industries	64	18	47	8	142
Primary sector	4	--	--	--	4
Secondary sector	26	6	2	--	34
Textile	7	--	--	--	7
Iron and steel	7	--	--	--	7
Electrical appliances	6	5	1	--	6
Transport equipment	1	3	2	--	6
Tertiary sector	34	12	45	8	104
(Shipping)	(20)	(5)	(37)	(7)	(70)

Source: Shukan Toyo Keizai. 26 March 1993. p. 60.

35. According to MITI's 4th Basic Survey of Japanese overseas investment, nearly 90 per cent of the manufacturing investors in Africa were attracted by the local market. They were partly encouraged by other factors such as the availability of low-cost labour, investment incentives and protection from import competition by the host government (table 3). For our later discussion, it is relevant to compare this situation with that in Asia. In this region (mostly the NIEs and the ASEAN-4) abundant supplies of low-cost labour were the most important motive, and about 40 per cent of the manufacturing companies were engaged in export production. It should also be noted that Japanese investors may be local-market-oriented in Asia for a reason quite different from that in Africa: Japanese invested in Africa, more often than not, because of import barriers although they would prefer to export from their home or offshore plants in Asia, whereas by now sufficiently grown local markets in Asian countries make their FDI more advantageous than export from their home country.

Table 3: Motives of Japanese FDI in Asia and Africa

(No. of replying companies)

Investment motive	<u>Asia</u>		<u>Africa</u>	
	Manufacturing	All Sectors	Manufacturing	All sectors
Local materials	154 (12.1)	219 (10.3)	1 (6.3)	10 (11.0)
Labour supply/labour				
cost saving	817 (64.3)	961 (45.3)	8 (50.0)	23 (25.3)
Invest. Incentives/				
trade protection	416 (32.8)	467 (22.0)	8 (50.0)	17 (18.7)
Local market	777 (61.2)	1,366 (64.3)	14 (87.5)	24 (26.4)
Third markets	21 (25.3)	603 (28.4)	2 (12.5)	8 (8.8)
Japanese market	231 (18.2)	331 (15.6)	- (-)	- (-)
Information collection	95 (7.5)			10 (11.0)
Dividends	125 (9.8)	237 (11.2)	3 (18.8)	7 (7.7)
Other	199 (15.6)	392 (18.5)	3 (18.8)	43 (47.2)*
Total	1,270 (100.0)	2,124 (100.0)	16 (100.0)	91 (100.0)

Note: *Mostly related to investment in liberia

Source: MITI: The 4th Basic Survey

36. "Investment incentives" often involves provision of an industrial site, e.g. in an export processing zone. In East and Southeast Asia this is particularly alluring to Japanese investors, because maritime transportation between countries in this region and Japan often costs less than long-distance land transportation within Japan and because land is of course very difficult and expensive to acquire at home. Governments in the region have been endeavouring to improve their port facilities and the access to the ports from inland for the purpose of reducing foreign investors' costs of transportation still further.

IV. IMPEDIMENTS TO JAPANESE DIRECT INVESTMENT IN AFRICA

37. In the highly "globalised" world economy today, it is much easier than in earlier periods for developing countries to collaborate with industrialized countries. Still, the fact remains that the latter tend to be attracted to favourable business environments: large and promising markets, economic and political stability, efficient and friendly government, reasonably well-

developed infrastructure, adequate supplies of manpower, investment incentives and protection from import competition, geographical location (e.g. the distance from the home country and from export markets, accessibility by means of maritime transportation), a favourable climate, etc. The Asian NIEs and the ASEAN-4 now satisfy most of these conditions, except the politically-troubled Philippines. Political uncertainty and unpredictable policy changes somewhat discourage Japanese from investing in China. Still, her enormous market potentials and unlimited labour supplies have been attracting Japanese investors, partly encouraged by the Chinese government's more liberal economic policy in recent years.

38. In contrast, few of the above conditions exist in Africa. The depressed macroeconomic situation and the far from stabilising political climate since the 1970 have made the situation even worse, although large market potentials of Nigeria could attract some investors if socio-political conditions improve.

39. Japanese are not exceptional in avoiding Africa. Lancaster (1991) notes that new private investment has not been forthcoming in Africa "even from Africans who are believed to hold considerable amounts of capital outside their countries". She attributes this to "poor-governance" which takes root in "historical, cultural, social, and political factors": (1) suspicion and hostility towards foreign capital and non-African entrepreneurs that prevail among African leaders and bureaucrats: (2) extensive, expensive and time-consuming red tape: (3) arbitrary and capricious implementation of laws and regulations, the lack of due process and in some places a complete absence of the rule of law, in addition to petty corruptions an insecurity of property rights: and (4) political changes and uncertainty (pp. 15-17).

40. While there is no systematic information on reasons for not investing in Africa, MITI's 4th Basic Survey Report contain some data on major problems Japanese firms' subsidiaries encounter in operating in different parts of the world. In Africa, 73 per cent of the respondents mentioned political instability. Inflation, shortage of qualified manpower and restrictions on the employment of non-locals were pointed out by about 45 per cent each. It is significant that in Asia political instability was a negligible item, the most frequently mentioned problems being the difficulty in securing sufficient labour, severe inter-firm competition, inflation an underdeveloped subcontractors. The increasing labour shortage in the NIEs and in the ASEAN-4 is one of the main reasons why Japanese are now stepping up their investment in China.

41. The paramount importance of political stability for foreign investors has been demonstrated most eloquently in the Philippines. This country used to be more advanced than Indonesia, Malaysia and

Thailand and to attract much more manufacturing FDI than the latter countries until the end of the 1970s. As soon as political stability was lost towards the end of the Marcos regime, however, FDI stopped to flow into this country and its economy has remained stagnant ever since.

42. In my enterprise survey in summer 1993, a number of other problems were mentioned by people involved in business operations in Africa: rapid and repeated devaluations of local currencies and consequent losses in capital value of investments, difficulty in securing Japanese managers and technical personnel willing to work in Africa (which was caused by the fear of crimes and AIDs, by low yen values of local salaries and by unattractive living conditions), competition with cheap smuggled products mostly from Asia, non-implementation of policy measures promised by host governments, arbitrary interpretation of government regulations by local officials, corruptions,...

43. The IMF and the World Bank expect the devaluation of local currencies of help improve the economic condition of African countries by encouraging exports. In reality this seldom works in the desired way. In part this is because there are many constraints on the expansion of production such as the lack or inadequate supply of complementary inputs, the underdevelopment of infrastructure inadequate supply of complementary inputs, the underdevelopment of infrastructure and the existence of socio-cultural barriers (cf. Singer, 1990 and Hyden, 1986). In part, however, it is also due to export producers' dependence on imported inputs whose costs will increase as a result of devaluation. In the previous section it has been mentioned that 90 per cent of Japanese firms in Africa are local market-oriented. When they export, their markets are nearby African countries who are also devaluating. Devaluation, therefore, does not help Japanese firms operating in Africa but jeopardises their business by augmenting not only the costs of imported materials but also the cost of managerial and technical personnel from Japan.

44. Judging from my findings in the field survey, however, the most devastating effect of devaluations accrues from the reduction of the yen value of dividends to a fraction of the annual salary of a Japanese manager. This has caused some companies to "put local operations asleep" or to abandon their investment project.

45. IMF-World Bank adjustment programmes aggravate the situation in other ways too. Cuts in public expenditure reduce the size of local markets, while liberalisation removes protection from imports. Tighter foreign exchange control suffocates plants by cutting supplies of imported parts and materials. Transfer of profits to home countries becomes more difficult. Local conditions

are thus extremely discouraging, while foreign investors are seeing more promising investment opportunities in China and Eastern Europe.

V. CONCLUSION

46. FDI can be a powerful driving force of economic development of a poor country. In the case of African countries, however, the question is not what to expect from it nor how to make good use of it, but whether and how they can attract FDI.

47. MNEs invest, only where certain conditions exist. Few countries in Africa can meet such conditions, especially with respect to Japanese investors who are geographically far away and who are surrounded by extremely attractive--as input (i.e. labour) and product markets--countries. The very basic disadvantages of African economies in competing with these Asian hosts are (1) political instability and poor governance--"privatisation of the state" according to an African participant at a recent conference in Tokyo--and (2) the small local market size. The seriousness of the problem of geographical distance will diminish as these two problems decrease.

48. Apart from sporadic investments in mines and plantations, Japanese FDI will remain to be oriented primarily towards local markets. This is so, because Japanese firms have already set up supply bases within Europe and also because surplus labour will persist for many decades in various parts of Asia--China, Indo China, eastern member States of the former USSR, and finally the Indian sub-continent. Japanese need not come to Africa for export processing. In order to stimulate their investment in Africa, therefore, good local market potentials are essential.

49. Such potentials exist in Nigeria, but they are nullified by political instability and reputations of extremely poor governance. The rest of Africa consists of too small markets. In theory, this weakness can be overcome by subregional market integrations. Here, Africans should be able to learn a great deal from the ASEAN experience mentioned above. In reality, however, workable sub-regional economic integrations presuppose political stability and improved governance in individual countries.

50. The root of these political problems is deep, as Samatar (1992) most succinctly explains with reference to Somalia. Colonial administrations neglected traditional economic activities such as pastoralism and subsistence agriculture and created no vibrant new productive enterprises. Post-independence regimes inherited an economy with a deepening budgetary deficit, a multi-party political system, a growing urban population largely unhinged

from productive employment, and intensifying competition among the dominant social groups for resources. In order to create employment in the context of a nearly stagnant economy, investment resources have to be sought from outside in the form of international loans and grants, which are tied to particular development projects. In the absence of any other revenue sources, the elite compete for these resources and use part of them to keep their supporters, usually their own ethnic groups. The situation is far from unique to Somalia. In a more general African context, Whitaker (1986, pp. 7-8) argues that the state has often been reduced to "a private fiefdom whose resources belong to a few powerful individuals". The above-cited participant in the Tokyo conference endorses this judgement in referring to "the privatisation of the state". The saddest part of the story is that competition over the state resources perpetuates political instability, one coup being followed by another.

51. It is obvious that there will be a long time before African countries can settle the problems of political instability and poor governance. Given the unappetising size of their market, it would also be difficult for African governments to force MNEs to invest in local production facilities by means of import barriers. The problem is compounded by the lack of a modern entrepreneurial class, who could encourage the inflow of foreign capital as active partners: "... Africa lacks an enabling environment for indigenous entrepreneurs, who are also hampered by undeveloped capital market" (Mills, 1989, p. 15).

52. If African governments really want to attract FDI under the circumstances, they would have to offer extremely generous incentives and concessions. What is more, they would have to be able to convince potential investors of security of their investment over sufficiently long periods. In the absence of any meaningful private entrepreneurial class, governments may have to fill the gap and become active investment partners, contrary to the strategy recommended by the IMF and the World Bank. In such cases, the government would need to refrain from disturbing investors' operations with too many interventions. If they need to rely on them as major development partners, they should certainly be trusted. The experience of Korea and Taiwan show that shorter-term dependence could be a sound tactics for attaining self-reliance and independence in the longer run.

53. Even with such efforts, however, it is unlikely for African countries to be able to attract large amounts of FDI in the near future, especially because of the emergence of promising investment frontiers in China and in eastern Europe. Probably, the most promising development strategy for them is to go back to Arthur Lewis' 1953 advice to the Gold Coast (now Ghana) government: "a

concentrated attack on the system of growing food... to provide the market, the capital and the labour for industrialisation" and to strengthen the infrastructure (cf. Pickett, 1990, p. 247). In the meantime, efforts at industrialisation could continue albeit slowly but steadily, inevitably under the state leadership despite the contrary advice from the IMF and the World Bank.

54. No nation in the world history has ever managed to attain a substantially "compressed development" without a strong state leadership. The problem in Africa is not the large presence of the government as such, but the poor quality of leadership and management. This accrues partly from the "privatisation of the state" and partly from the shortage of well-qualified personnel. What is needed is not elimination of state interventions, but improvement of the quality of interventions. Negation of the role of the state in the absence of a competent private entrepreneurial class will result in the industrialisation as some authors have suggested (e.g. Stein, 1992) or domination by external powers.

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Appendix: Exports of NC metal cutting machines from three major supplying countries to the Third World, 1980-91

(No. of machines)

	1980-88 exports from			1989-91 exports from		
	Fed. Rep. Japan	Germany	United States	Total	Japan	United States
Asia	10,486	2,676	801	13,963	12,848	n.a.
East and S.E. Asia	10,379	1,916	n.a.	n.a.	12,758	n.a.
Korea, Rep. of						
Taiwan (China)	2,299	106	141	2,546	2,416	102
Singapore	1,722	167	162	2,051	2,087	82
India	771	576	162	2,051	2,087	52
China	708	441	119	1,268	207	265
Hong Kong	755	30	27	812	8956	n.a.
Thailand	680	69	n.a.	749	2,251	43
Indonesia	241	93	2	336	554	11
Malaysia	183	27	n.a.	210	766	13
Pakistan	26	120	4	150	n.a.	n.a.
Philippines	78	27	26	131	130	n.a.
Other	75	11	(95)	n.a.	37	n.a.
Middle East	107	760	n.a.	n.a.	91	n.a.
Iran	20	459	n.a.	479	47	n.a.
Iraq	59	200	n.a.	259	26	n.a.
Saudi Arabia	19	76	19	95	15	n.a.
Syria	n.a.	15	n.a.	15	n.a.	n.a.
Other	19	9	(95)	n.a.	3	n.a.
Americas	747	917	1,225	2,889	597	n.a.
Mexico	333	308	748	1,389	409	587
Brazil	187	362	212	761	184	128
Argentina	12	140	5	317	n.a.	n.a.
Venezuela	43	40	89	172	30	43
Colombia	4	34	43	81	n.a.	n.a.
Other	58	43	75	176	74	n.a.
Africa	26	338	34	398	20	n.a.
Egypt	1	157	19	177	1	n.a.
Algeria	n.a.	45	n.a.	45	n.a.	n.a.
Libya	10	33	n.a.	43	n.a.	n.a.
Nigeria	n.a.	32	n.a.	32	n.a.	n.a.
Other	15	71	15	101	19	n.a.
Oceania/other	6	n.a.	9	15	0	n.a.
Total	11,265	3,931	2,094	17,290	13,466	n.a.

- Notes:
1. Israel and the Republic of South Africa are excluded from the "Third World".
 2. Listed countries may be included in "other" in some years due to their negligible imports.
 3. The U.S. data do not separate the Middle East from the rest of Asia.

Source: Watanabe (1993), p. 138, based on data from the national associations of machine tool builders.
Japanese and US data for 1991 were superimposed on the original table.