



Japan External Trade Organization

Implications from the Results of JETRO's Survey on Business Conditions of Japanese-Affiliated Firms in Africa

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Survey overview

Objective

- To grasp the status of business operations of Japanese-affiliated firms in Africa and provide the results to the public.

Companies surveyed

- Japanese-affiliated firms operating in 24 countries: Six countries in North Africa, five countries in West Africa, six countries in East Africa and seven countries in Southern Africa

Period

- August 1 - October 31, 2012

Response rate

- 168 valid replies received (a 50.5% response rate) out of 333 companies

Remark

- This was the third survey following those conducted in 1999 and 2007.
- JETRO sent questionnaires written in Japanese, English or French to the target companies by mail, fax or e-mail.

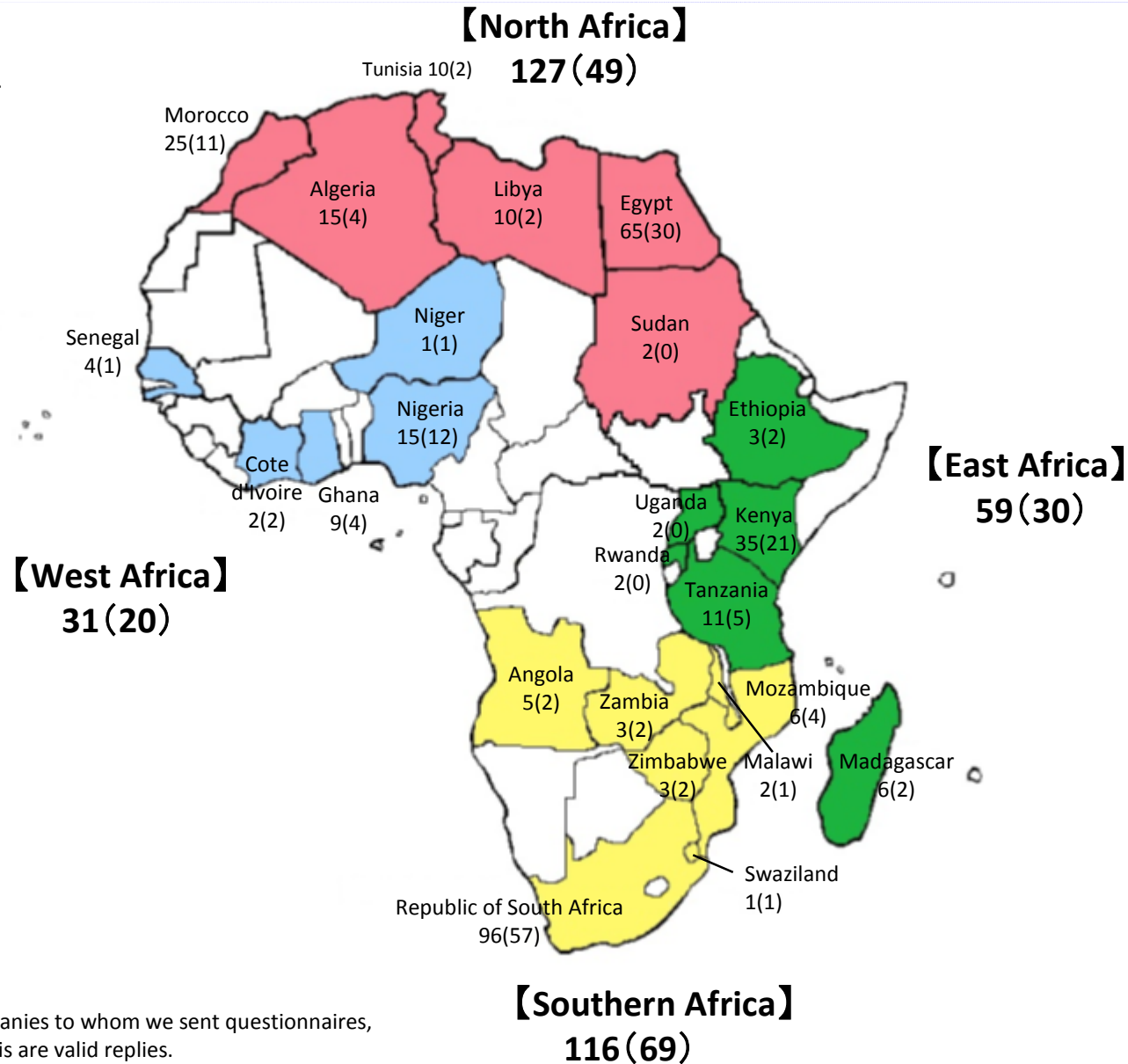
Note

- As the response rate was rounded to one decimal place, there are some total figures that don't amount to 100%.
- "N" stands for the number of valid responses.

	Number of target companies	Respondents		Type of business		Valid response rate (%)
		Valid responses	Proportion of total	Manufacturers	Non-manufacturers	
Total	333	168	100.0	52	116	50.5
North Africa	127	49	29.2	18	31	38.6
Algeria	15	4	2.4	-	4	26.7
Egypt	65	30	17.9	12	18	46.2
Tunisia	10	2	1.2	-	2	20.0
Sudan	2	0	-	-	-	-
Morocco	25	11	6.5	6	5	44.0
Libya	10	2	1.2	-	2	20.0
West Africa	31	20	11.9	5	15	64.5
Ghana	9	4	2.4	-	4	44.4
Cote d'Ivoire	2	2	1.2	2	-	100.0
Senegal	4	1	0.6	-	1	25.0
Nigeria	15	12	7.1	3	9	80.0
Niger	1	1	0.6	-	1	100.0
East Africa	59	30	17.9	3	27	50.8
Uganda	2	0	-	-	-	-
Ethiopia	3	2	1.2	-	2	66.7
Kenya	35	21	12.5	2	19	60.0
Tanzania	11	5	3.0	1	4	45.5
Madagascar	6	2	1.2	-	2	33.3
Rwanda	2	0	-	-	-	-
Southern Africa	116	69	41.1	26	43	59.5
Angola	5	2	1.2	-	2	40.0
Zambia	3	2	1.2	1	1	66.7
Zimbabwe	3	2	1.2	1	1	66.7
Swaziland	1	1	0.6	1	-	100.0
Malawi	2	1	0.6	-	1	50.0
Mozambique	6	4	2.4	1	3	66.7
Republic of South Africa	96	57	33.9	22	35	59.4

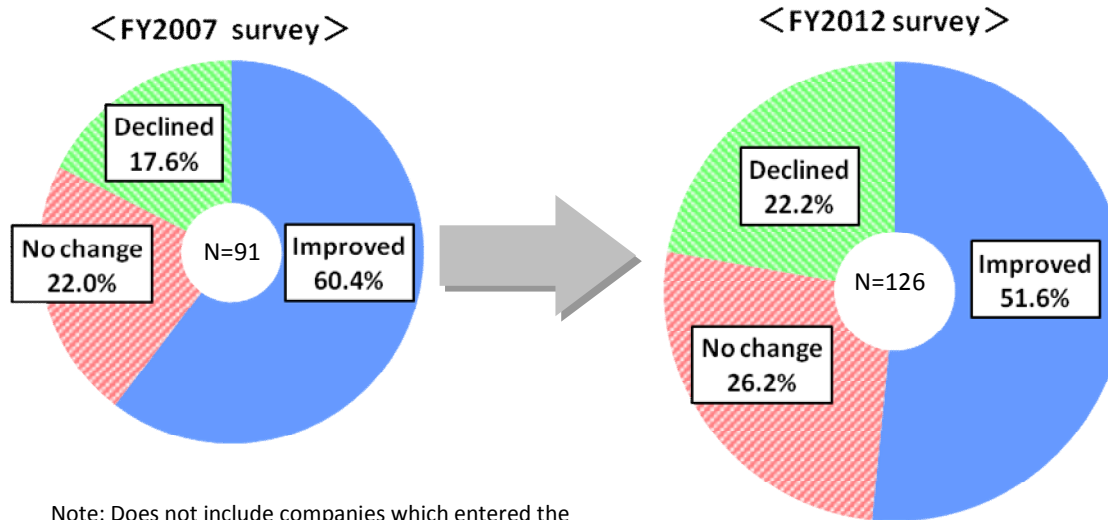
Survey object

JETRO sent questionnaires to 333 companies in 24 countries.



Note: The numbers are companies to whom we sent questionnaires, and those in parenthesis are valid replies.

Figure 1 - Changes to business performance in the past five years



Note: Does not include companies which entered the African market within the past five years

- In West and Southern Africa, more than 60% of firms replied that their business performance had improved.
- However, while 51.6% of respondents throughout Africa still recorded an improvement, this was a decrease from the FY2007 survey. The reasons are political instability caused by the collapse of longtime regimes in North Africa and fiercer competition in obtaining Official Development Assistance (ODA) projects in East Africa.
- More than half of all manufacturers answered performance had improved.

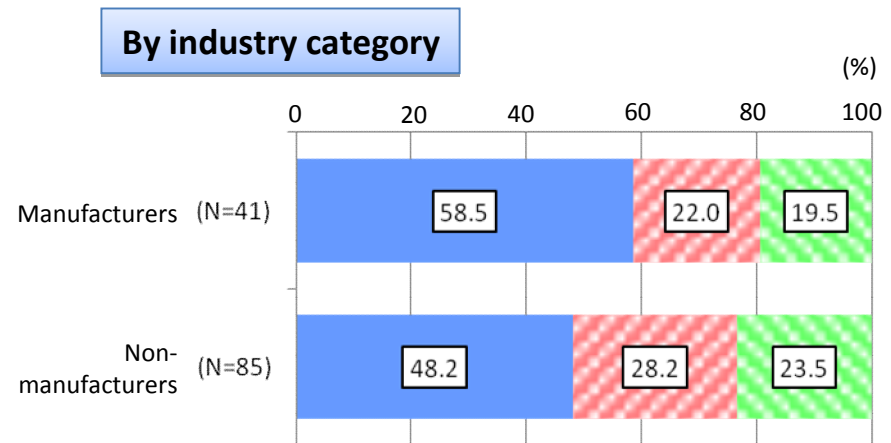
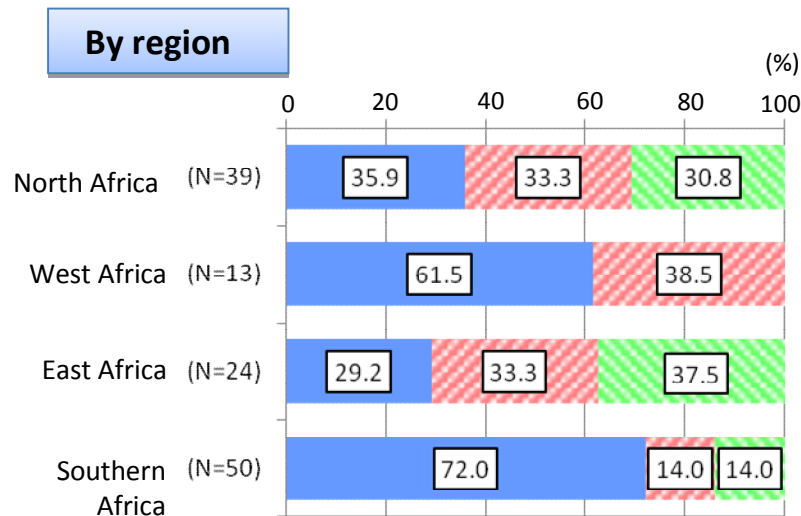
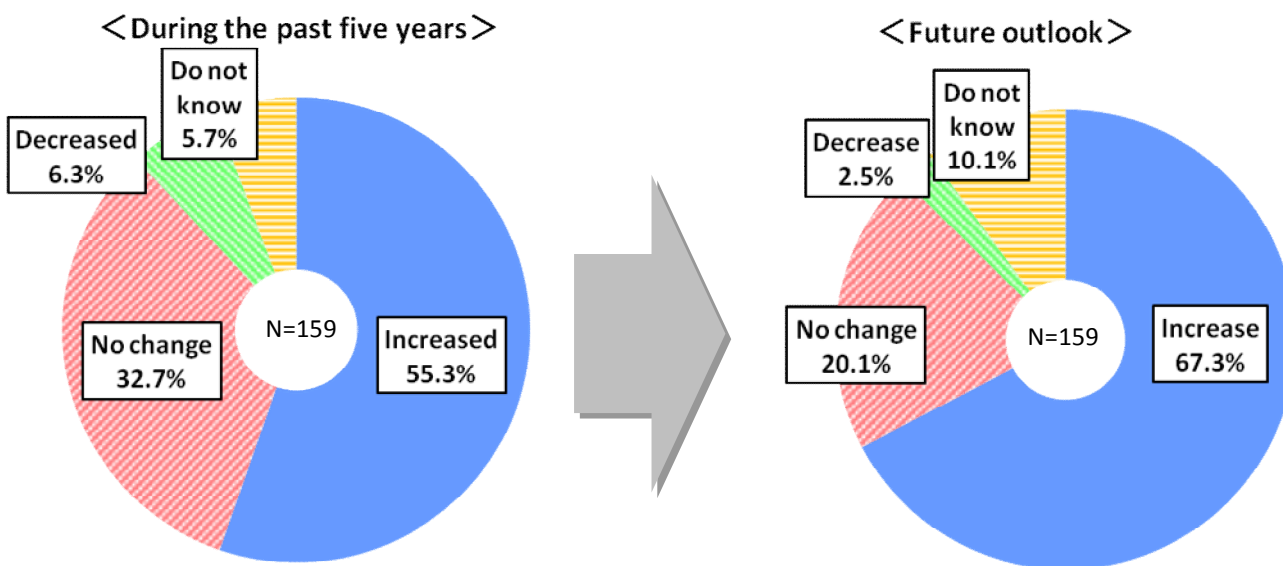


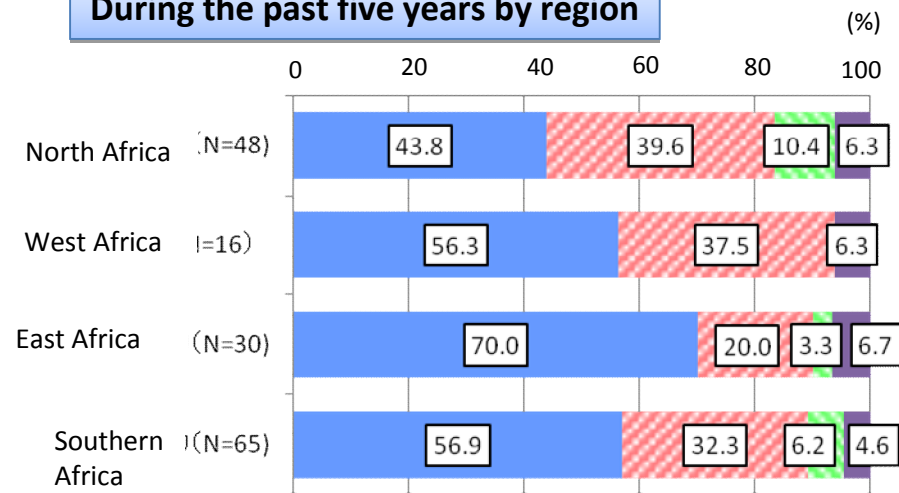
Fig. 2 Importance of business in Africa

The importance of the host country in business

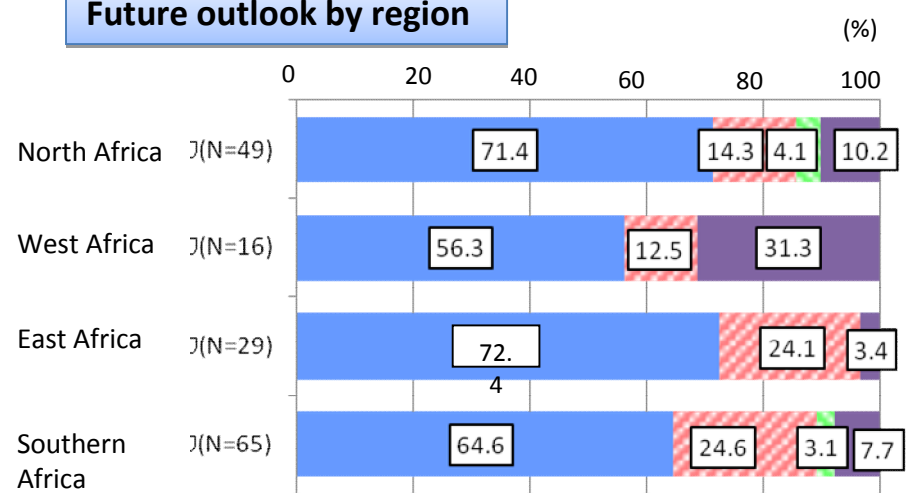


- Throughout Africa, more than half of the firms replied that their host country grew more important for their business over the past five years. The proportion of firms stating the importance of their host country will increase in the future reached 67.3%.
- In North Africa, 43.8% of firms stated their host country had grown in importance over the past five years, while 71.4% stated it would grow in importance in the future. The latter was especially true in Morocco, where 81.1% (11 firms) stated this.
- Comments from firms in East Africa included "We are now focusing on not only resources of the country but also trading of various products," and "Due to a change in Headquarters' business plans, East Africa has become an important strategic region."

During the past five years by region



Future outlook by region



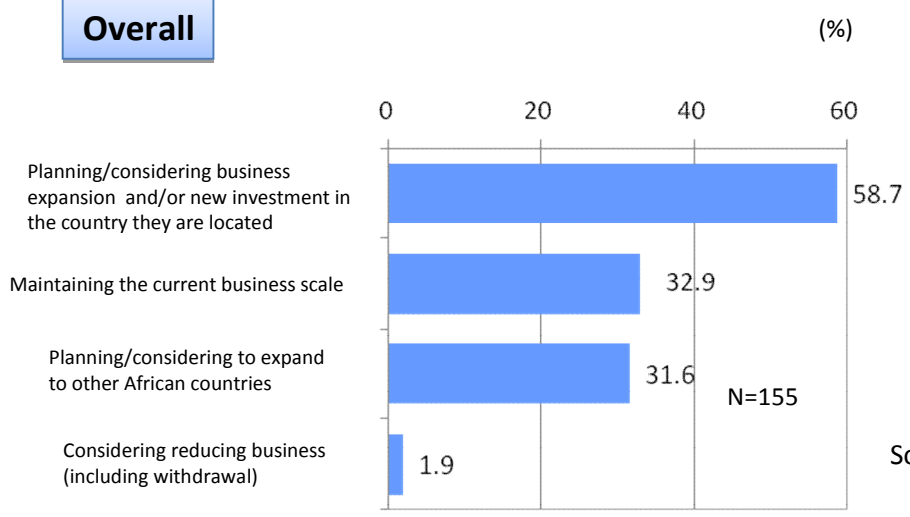
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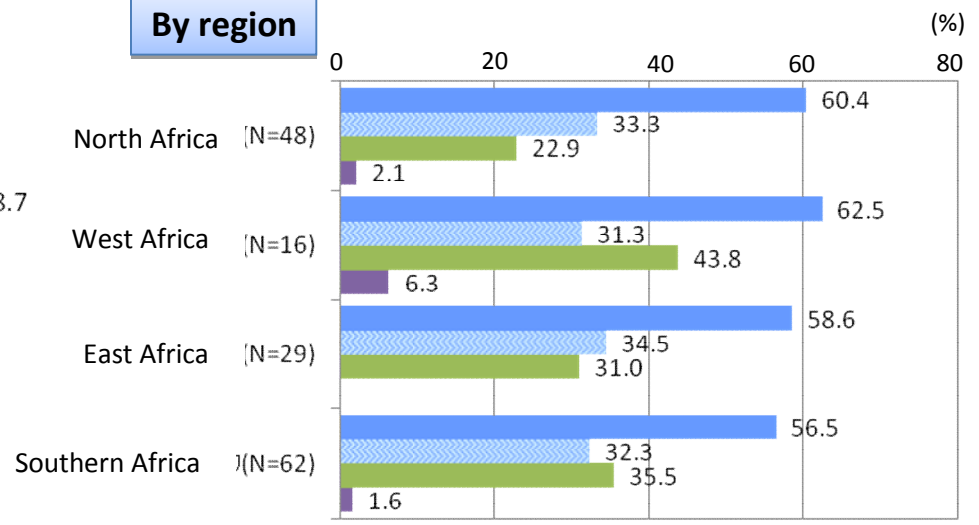
Fig. 3 – Future business plans

(Multiple answers allowed)

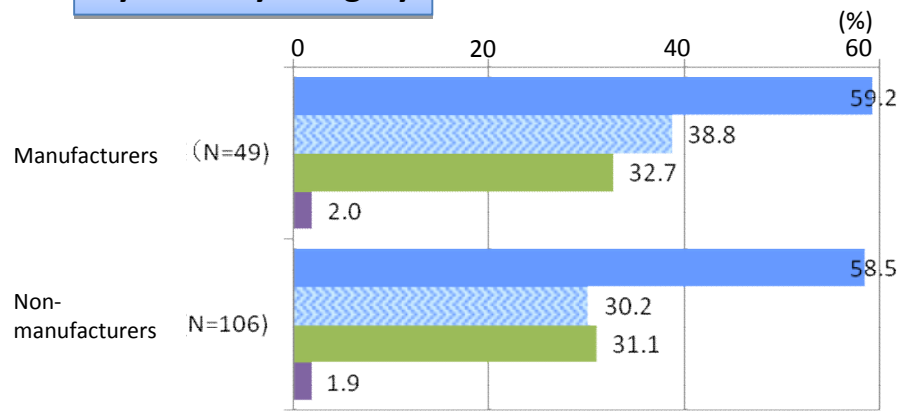
Overall



By region



By industry category



- About 60% of respondents in each region are planning or considering business expansion and/or new investment in the country they are located, while 30% will maintain the current business scale. Many firms in Egypt and Libya in North Africa, Cote d'Ivoire and Senegal in West Africa, Ethiopia and Tanzania in East Africa, and Mozambique and Angola in Southern Africa are planning or considering business expansion and/or new investment in the country they are located.
- Fields in which many companies are considering expansion are the consumer market, agricultural development, telecommunication, medical care and environmental technology.

- Planning/considering business expansion and/or new investment in the country they are located
- Maintaining the current business scale
- Planning/considering to expand to other African countries
- Considering reducing business (including withdrawal)

Countries that attract attention *Multiple answers allowed

Countries drawing attention (N=151)		Number of answers	Points that draw companies' attention (Comments)
No. 1	South Africa	53	Rich resources. Growing consumer markets driven by the emerging middle class. Political stability. Established economic and infrastructure foundation. Function as a business hub in the Sub-Saharan African region. Business hub for car exports to other African countries.
2	Mozambique	50	Economic growth triggered by the discovery of a large natural gas field. Infrastructure development accelerated by promotion of resource development. Increasing demand for goods associated with resource development. Growing demand for construction. Possibility of agricultural development. Advantageous location facing the sea.
3	Angola	46	High economic growth created by full-fledged oil development. Strengthened financial foundation. Expanding infrastructure development. Future possibility of market growth in 15 years. High potential, growing market and limited competition with few entries by companies.
4	Nigeria	44	High economic growth accelerated by oil and gas development. Large population with a high growth rate. Growing demand for energy development. Increasing opportunities created by orders from major oil companies for plant-related equipment.
4	Kenya	44	Business hub in East Africa. Increasing individual consumption associated with economic growth. A certain number of ODA projects. Expanding repair and service markets supported by the large share of Japanese cars (including used cars).
6	Egypt	37	Geographic advantage of the country with a central location between the Middle East, Europe and Africa. Increasing opportunities created by the development of urban infrastructure (public transport). Increasing revenue from tourism. Expanding markets driven by the emerging middle class.
7	Tanzania	34	Future economic growth driven by the development of natural gas. Political stability. Cordial personalities. Growth potential of the durable goods market (automobiles and motorcycles).
8	Morocco	29	Business hub in North Africa as a part of the European business bloc. Stabilized investment environment. Market growth potential. An expanding automobile market supported by increasing individual income levels. A world leading phosphate producer.
9	The Ivory Coast	9	Business hub for French speaking countries in West Africa which draws attention for its rich resources (iron ore, etc.). Demand related to restoration from the end of political instability such as infrastructure development.
9	Zambia	9	High growth rate based on natural and tourism resources. Growing demand for goods associated with resource development. Political stability. Future economic development.
Others		—	Libya (8), Algeria (7), Ghana (7), Uganda (6), Zimbabwe (6), Tunisia (6), Ethiopia (5), Namibia (5), Botswana (5), South Sudan (5). * Excluding countries with 5 answers or fewer.

Fig. 4 - Challenges in business in Africa

Challenges (multiple answers allowed, N=148)		FY2012 (%)	FY2007 (%)	Increase/decrease rate (Points)
1st	Political and social instability	87.8	72.1	15.7
2nd	Legislation and implementation of regulations/laws	77.7	85.6	-7.9
3rd	Problems with employment and labor	72.3	79.3	-7.0
4th	Infrastructure environment	60.8	64.9	-4.1
5th	Local procurement	46.6	62.2	-15.6
6th	Fund procurement	25.0	23.4	1.6
	Others	51.4	32.4	-

- The number of companies that cited political and social stability as a challenge significantly increased from the FY2007 survey, with 87.8% out of 148 companies.
- About 70% of respondent manufacturers consider local procurement as a challenge. Some pointed out that local supporting industries have not yet been developed enough and that represents an issue for manufacturers in expanding business in Africa.
- Although some comments included “There is no considerable improvement in the African business environment,” there were also those such as “Through a long-term business commitment, we can find solutions to our challenges,” and “We adapt our business plans by anticipating issues likely to occur locally.”

By industry category

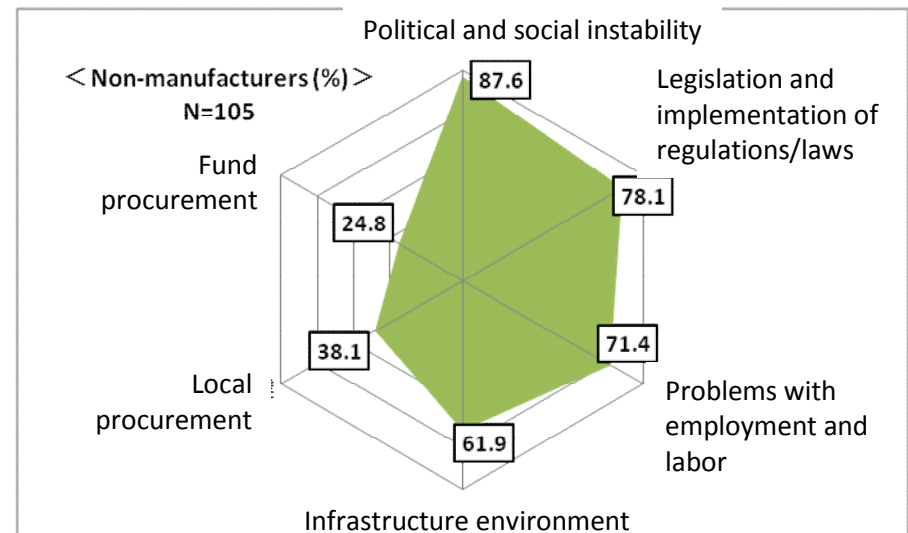
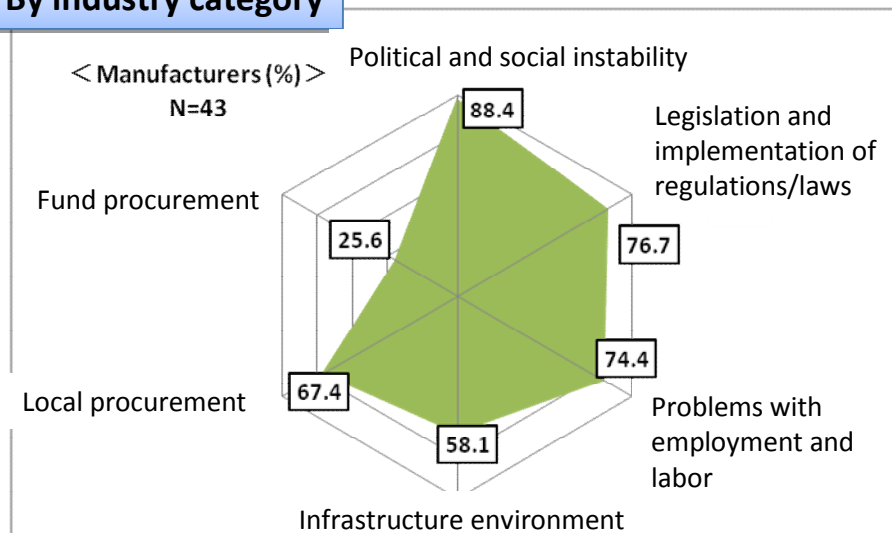
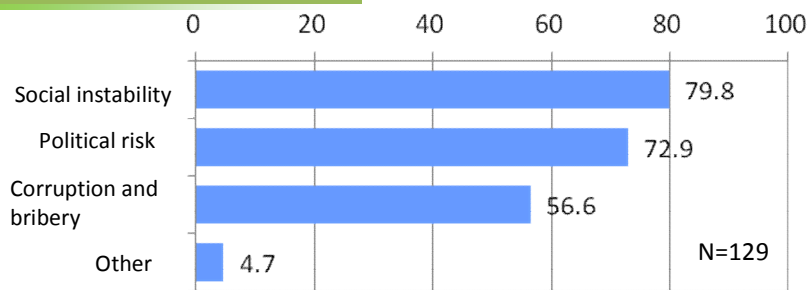


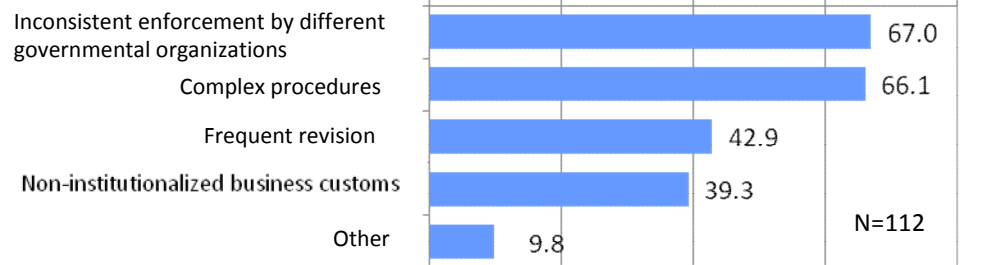
Fig. 5- Challenges in business in Africa (Multiple answers allowed)

Political and social instability (%)



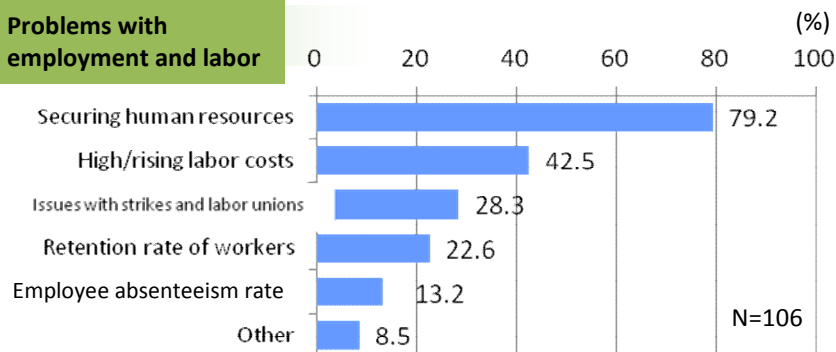
- Many cited social stability and political risk as issues in business.
- In the interviews with Japanese companies, some said it adds cost to prepare safety measures, and others said they cannot make long-term investment plans due to the effects of political change.

Legislation and implementation of regulations/laws (%)



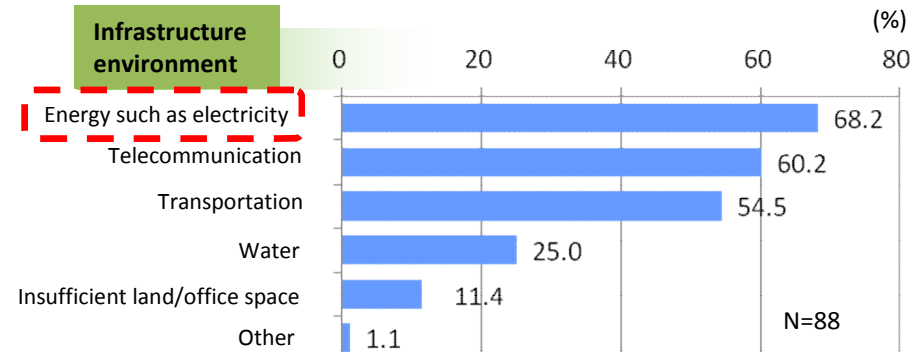
- In interviews with companies, some pointed out that there are sudden changes in settlement procedures and foreign capitalization ratios without prior notice of act amendment. Also, others said that related ministries do not understand their own systems.
- Other issues cited were "arbitrariness of legal interpretation" and "legal complication of customs-house business and VAT refund procedures."

Problems with employment and labor (%)



- About 80% of firms consider securing human resources as a challenge. Some respondents said that even when local employees have higher education, sometimes their business ability is lower than the Japanese of equal educational background.
- The proportion of respondents that consider high/rising labor costs as an issue was 42.5% (86 firms), which increased from 24.4% in the FY2007 survey.

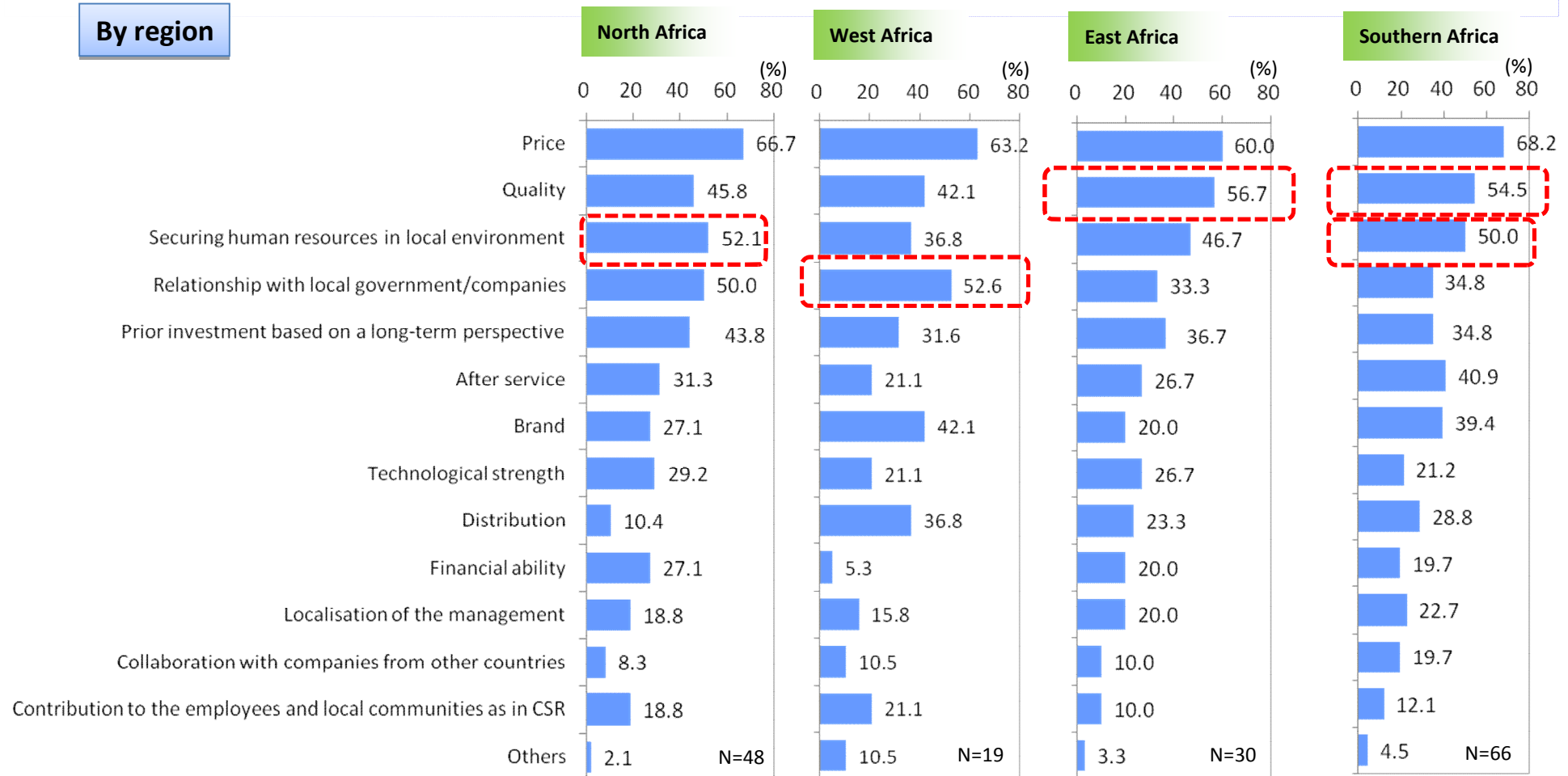
Infrastructure environment (%)



- Energy such as electricity was cited the most with about 70% of the total, and by about 80% of the 24 respondent manufacturers.
- Telecommunication, which was cited the most in the FY2007 survey (N=71, 76.1%) decreased this time. However, energy such as electricity increased from the previous survey (N=71, 59.2%).

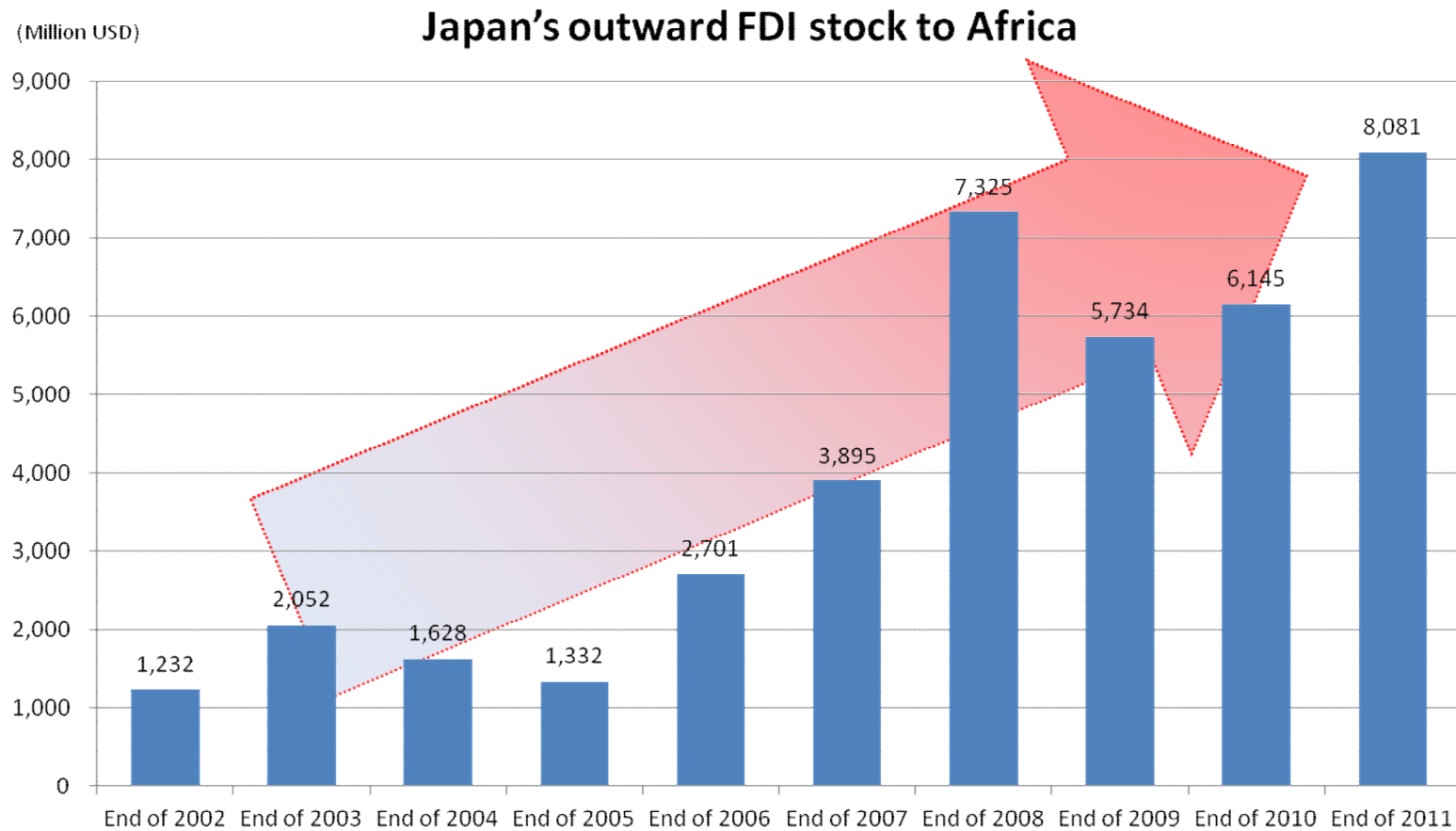
Key to successful business in Africa *Multiple answers allowed

By region



- By region, “price” ranks first with more than 60% of respondents in all regions, followed by “securing human resources in the local environment” (52.1%) in North Africa, “relationship with local government/companies” (52.6%) in West Africa, “quality” (56.7%) in East Africa, and “quality” (54.5%) and “securing human resources in the local environment” (50.0%) in Southern Africa, demonstrating the differences among the regions.
- As for Southern Africa, where the middle class is emerging, there was a comment that “A Japanese brand with high quality doesn’t always become a big seller. Wide spread and deep penetration of low price products and services is the key to successful business.” Other stated keys to success included “collaboration with third countries” (Kenya), “swift business management” (Egypt) and “localization of business management” (Tanzania).

Reference



Source: JETRO made this graph based on the statistics from the Ministry of Finance and the Bank of Japan.