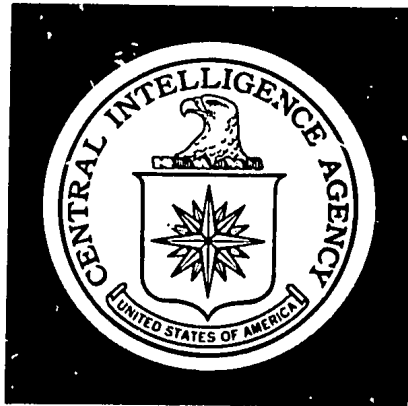


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DIRECTORATE OF
INTELLIGENCE

Intelligence Memorandum

Japan's Economic Activities in Africa

Secret

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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
November 1968

INTELLIGENCE MEMORANDUM

Japan's Economic Activities in Africa

Summary

Japan's economic stake in Africa,* although still relatively small, will almost certainly rise in the next few years as the Japanese attempt to diversify their sources of raw materials. Trade activities are expanding rapidly in those areas of the continent rich in mineral resources. Sharp increases in private investment by Japanese firms will also expand trade greatly in the future. Japan's foreign aid to African countries will remain very small, confined primarily to technical assistance.

Japan is almost completely dependent on overseas sources of industrial raw materials and, in order to assure stable supplies in times of worldwide shortage, it is now seeking long-term supply contracts and direct investments in overseas producers. Japanese firms have already agreed to provide funds for expansion of copper output and exports in Zambia and Congo (Kinshasa) and are investigating similar arrangements for other metals elsewhere on the continent.

Japan's increasing economic activity in Africa currently is confined to those few countries -- South Africa, Zambia, Congo (Kinshasa), Angola,

* Including the entire continent.

Note: This memorandum was produced solely by CIA. It was prepared by the Office of Economic Research and was coordinated with the Office of Current Intelligence.

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and Swaziland -- which are established producers of the kinds of raw materials that the Japanese need. Several others, with proven but largely unexploited reserves of metals and minerals, will become increasingly important in the future. Most of the remaining 40-odd countries in Africa, however, will remain unimportant to Japan economically.

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Growing Japanese Interest in Africa

1. In recent years, Japan has clearly shown an interest in furthering its economic relations with Africa as part of a policy of diversifying its sources of raw materials. The Japanese depend on foreign sources to supply their large industrial complex with nearly all of its raw cotton, wool, crude petroleum, tin, zinc, copper, iron, bauxite, manganese, and nickel. Most of Japan's foreign sources of supplies are owned by US and Western European companies, but the Japanese have begun to invest in overseas sources of raw materials, especially minerals, to insure adequate supplies at acceptable prices. Japan's imports from Africa in 1967 were only 6 percent of its total imports but were more than five times the 1953 level (see Figure 1). The rapid rise in imports reflects increasingly large purchases of African metals and minerals (see Figure 2). Zambia, for example, is a major supplier of copper, while South Africa, Swaziland, and Angola are sources of iron and iron ore.

2. Although Japanese private investment* in Africa in recent years has averaged only about \$3 million annually, or about 4 percent of Japan's total overseas investment, it will grow impressively in the next few years. Investment has been concentrated in Kenya, Nigeria, Ethiopia, and Zambia -- principally in light industry plants producing textiles and processed foods. Now, however, the emphasis has shifted to minerals, and Japanese industrialists plan to spend more than \$100 million in African mining ventures during the next few years.

3. Japanese official aid expenditures in Africa averaged about \$1 million annually until

* Japanese private investment overseas may involve taking a minority position in a joint venture with local or other foreign firms. In countries which restrict the participation of foreign capital, the Japanese often seek to gain influence by extending loans to non-Japanese participants in the joint ventures on a production-sharing basis. The loans are often repaid in raw materials.

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1968 and were used exclusively for technical assistance. In 1966, Japan pledged a total of \$42 million in development loans, all of which were to Nigeria, Kenya, Tanzania, and Uganda. Very little had been disbursed by late 1968.

4. Despite increased Japanese economic activities on the continent, Africa is still less important economically to Japan than most other areas of the world. Japan's major trading partners have always been and probably will remain the United States and, collectively, the countries of Asia. The United States is a main source of foodstuffs, raw materials, and machinery as well as a large market for Japanese consumer goods, while Asia is a principal source of raw materials and a major market for heavy industrial machinery. Africa, on the other hand, seldom has accounted for more than 5 percent of Japan's trade.*

The Importance of White-Ruled Africa

5. White-ruled Africa -- South Africa, Rhodesia, Angola, and Mozambique -- accounts for almost half of Japan's total trade with the continent. Japan's imports include foodstuffs, agricultural raw materials, and minerals, while exports are largely textiles, iron and steel, and machinery (see Table 1).

6. South Africa last year bought about 35 percent of all Japanese exports to Africa, despite Pretoria's stiff tariffs and quota restrictions against those types of consumer goods which Japan exports. This country, with the only developed economy in Africa, offers a ready market for Japanese exports. South Africa also supplied over 40 percent of Japan's imports from the continent. Japan is now a major trading partner for South Africa, last year taking about 15 percent of South Africa's exports. As a result of a persistent trade deficit -- amounting to \$120 million in 1967 -- Tokyo is increasing its pressure on Pretoria to adopt a more liberal import policy for Japanese goods, but with little success to date.

* *Excluding exports and imports of ships under Liberian "flag of convenience" registry.*

Figure 1



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JAPAN: IMPORTS AND EXPORTS BY MAJOR WORLD REGIONS

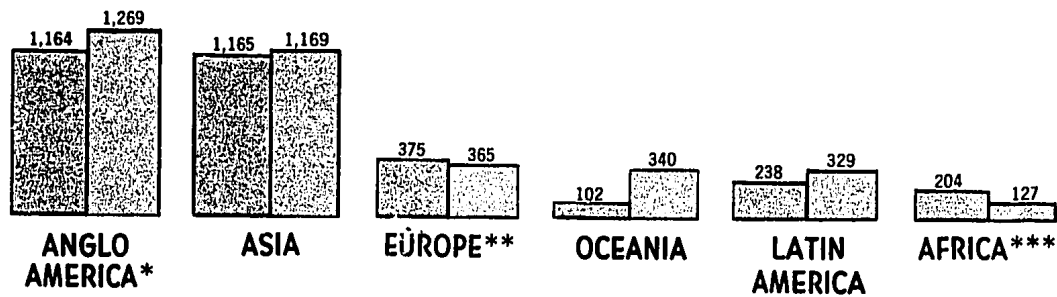
1959 AND 1967

MILLION US \$

Exports
Imports

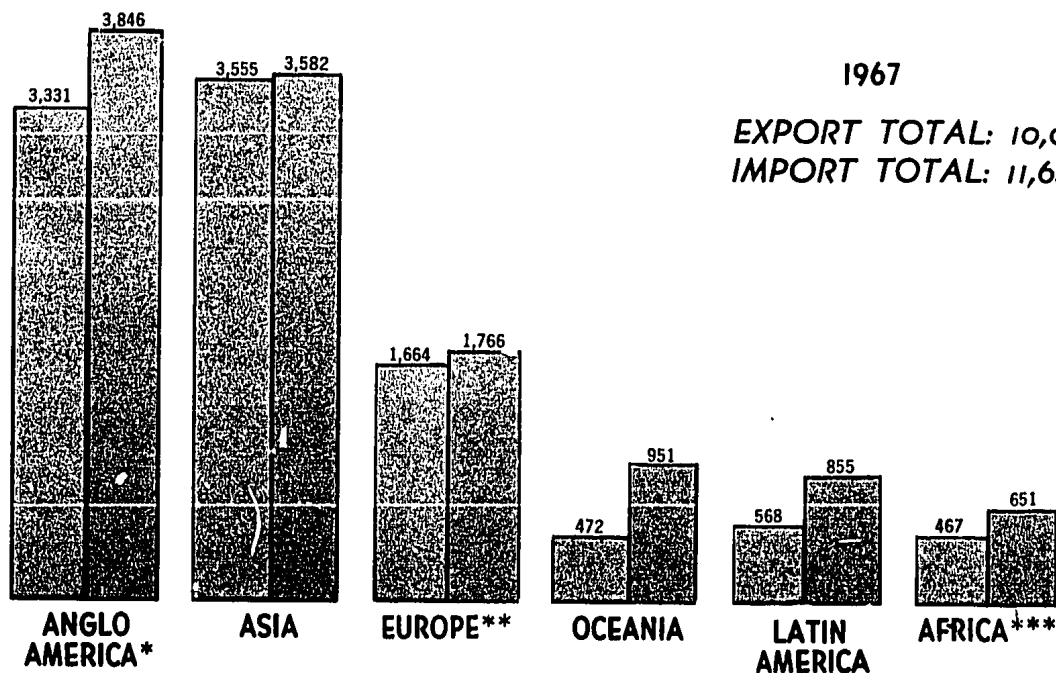
1959

EXPORT TOTAL: 3,248
IMPORT TOTAL: 3,599



1967

EXPORT TOTAL: 10,057
IMPORT TOTAL: 11,651



*Including the United States, Canada, Greenland, Puerto Rico, the Virgin Islands, and the Canal Zone

**Including the USSR

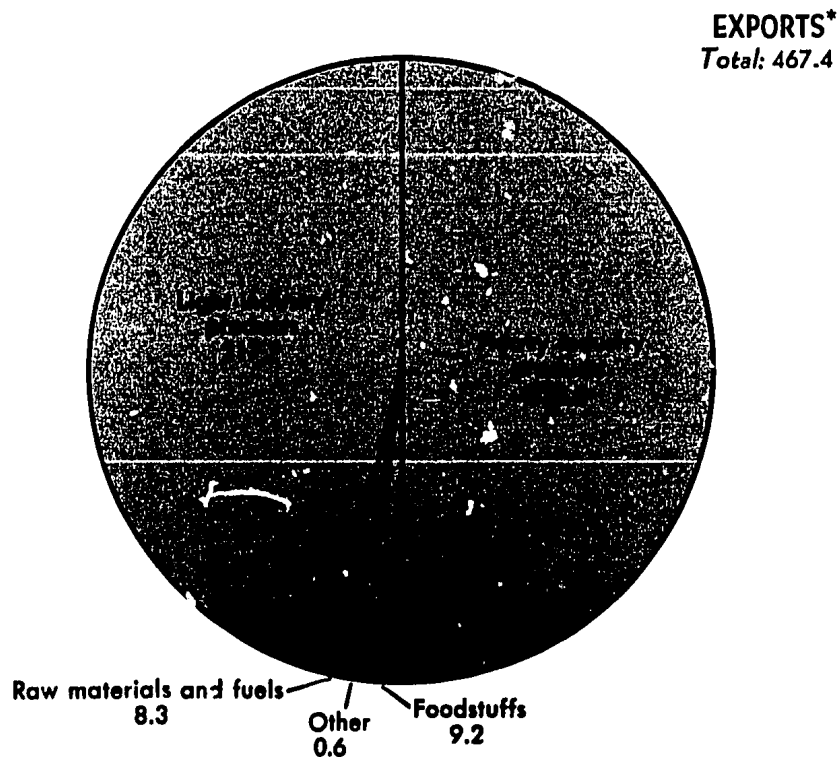
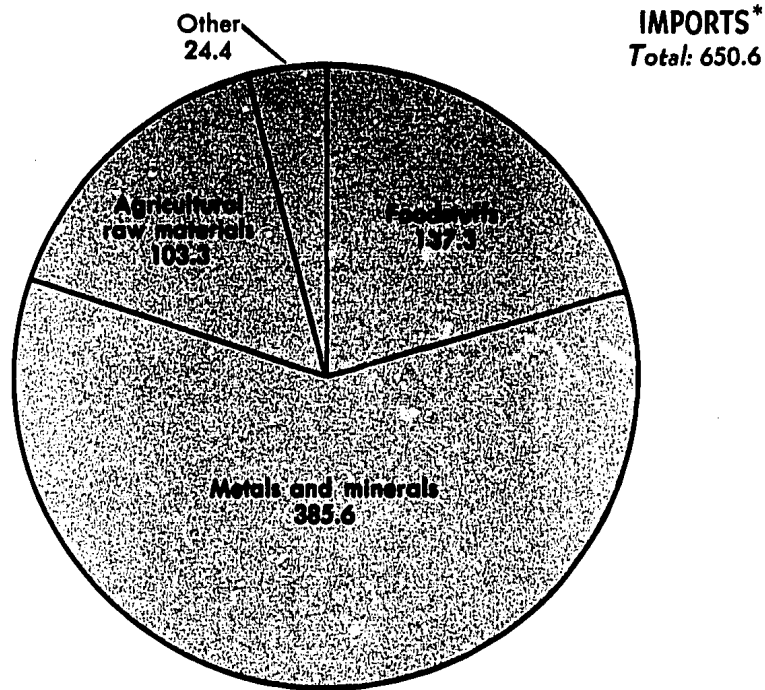
***Excluding exports and imports of ships under Liberian "flag of convenience" registry

Figure 2

JAPAN: TRADE WITH AFRICA. BY COMMODITY

1967

MILLION US \$



75045 11-68 CIA *Excluding exports and imports of ships under Liberian "flag of convenience" registry

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7. Japan's trade with the rest of white-ruled Africa is relatively small and has been reduced further because of Tokyo's official compliance with the UN program of economic sanctions against Rhodesia.

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Zambia, Congo (Kinshasa), and Swaziland

8. Nearly half of Japan's African trade is with black Africa, mostly with countries rich in mineral resources (see Figure 3). Zambia alone provided about 20 percent of Japanese imports from Africa last year and ranks second only to South Africa among Tokyo's leading African suppliers (see Table 2). Copper makes up almost all imports from Zambia: last year that country accounted for nearly half of Japan's total refined copper imports. Over 20 percent of Zambian exports go to Japan, now Zambia's leading customer. Two large Japanese trading firms have agreed to lend the Zambian copper mining industry \$70 million, part of which will be financed on the Eurobond market to avoid an outflow of capital from Japan. This venture, Japan's largest in Africa to date, will assure Tokyo of 100,000 tons of copper over the next 10 years.

9. Copper resources in the Congo (Kinshasa) have also attracted Japan's attention. In 1967, Kinshasa granted Japan concessions to develop two ore bodies

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Japan's major Congolese imports at present are cobalt and industrial diamonds, but Tokyo is also interested in the Congo's iron and tin

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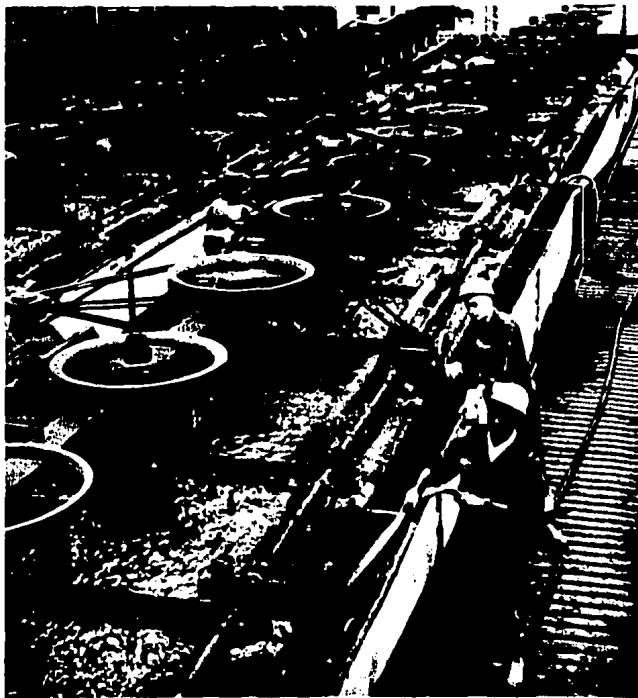
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A General Aerial View of the Nchanga Open Pit Copper Mine in Zambia



The Nchanga Open Pit is Nearly a Mile Long and Over 300 Feet Deep



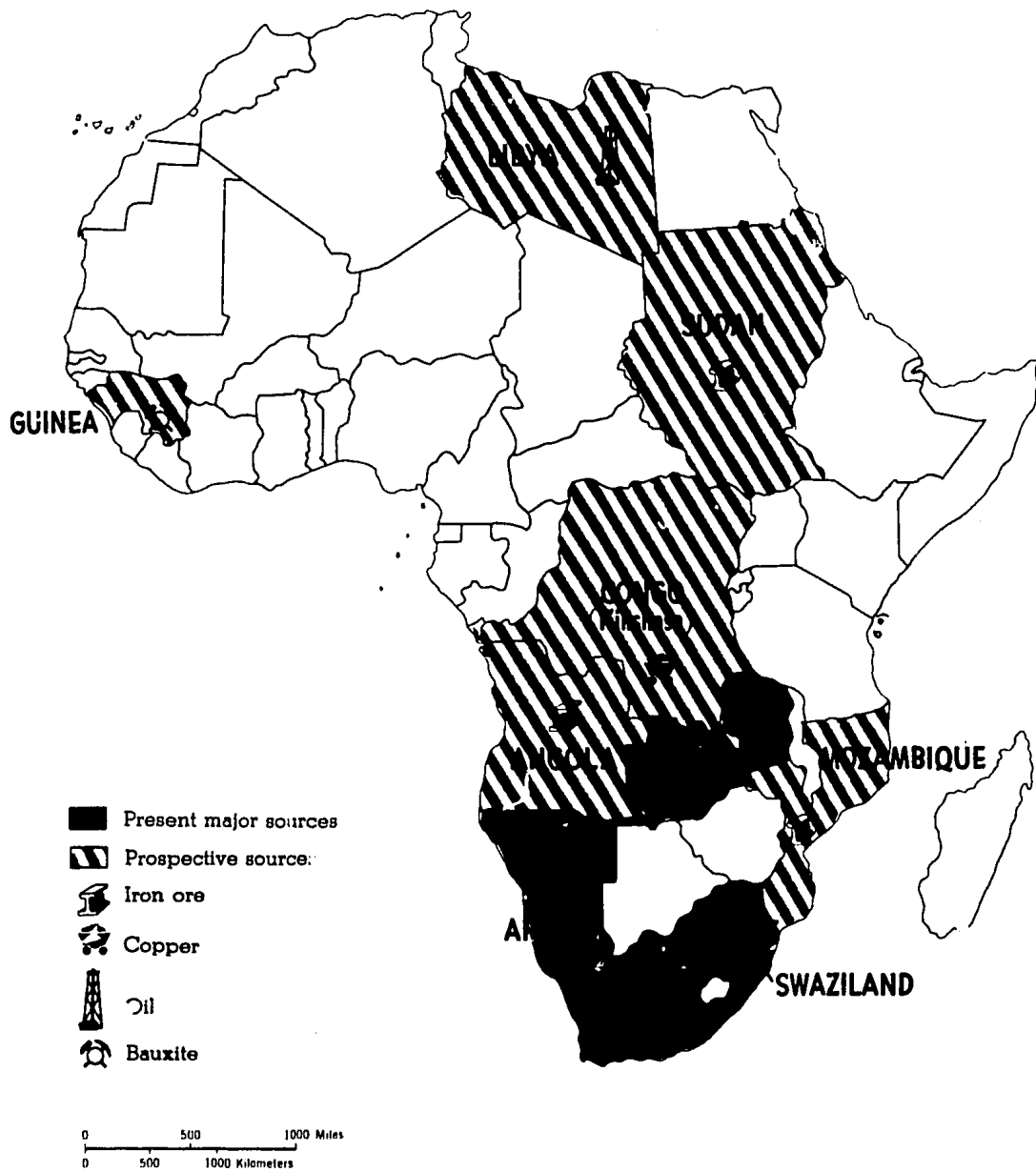
Flotation Cells Where Both Oxide and Sulphide Concentrates are Produced at the Nchanga Mine



The Interior of the Tank House Which Produces Nearly 9,000 Tons of Copper Cathodes Monthly

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Figure 3
JAPAN'S MINERAL INTERESTS IN AFRICA



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10. Swaziland's iron ore reserves are responsible for its sharply increased trade with Japan. A large investment was made by the Yawata Iron and Steel Company and the Fuji Iron and Steel Company during the 1960's to develop Swaziland's iron ore resources. Exports of iron ore to Japan have increased even faster than planned, making Swaziland its third largest African source of imports. Japan has become Swaziland's leading export market, accounting for at least 25 percent of exports in 1967.

The Rest of Africa

11. The remaining 40-odd countries of Africa are relatively unimportant to Japan. They accounted for about 70 percent of Japan's imports from Africa in 1959 but only 30 percent in 1967. Trade is small because of the limited market for Japanese goods and because of the low level of Japanese demand for tropical products such as bananas, coffee, and cocoa, which generally are these countries' chief exports. A few of these countries have mineral resources that Japan is seeking, but these resources are not yet developed.

Prospects

12. The increase in Japan's trade with South Africa, Zambia, the Congo (Kinshasa), and Swaziland over the next few years will be substantial, reflecting Japan's accelerating demand for the kinds of minerals these countries have. Tokyo may seek to purchase larger amounts of South African uranium. Japanese trade and investment activities are also likely to increase substantially in several other countries which have the potential for becoming important sources of metals and minerals. The Japanese have shown interest in exploiting deposits in Sudan, Mozambique, Libya, Guinea, Angola, and Sierra Leone. In Mozambique, for example, they may invest \$50 million in iron ore development for eventual export to Japan if reserves prove large enough. Libya has indicated an interest in granting the Japanese an oil concession which would make the Libyans the first African suppliers of oil to Japan.

Angola and Sierra Leone have recently signed long-term contracts for sizable amounts of iron ore.

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13. Japan's minuscule aid program in Africa is not likely to increase appreciably in the next few years, as Tokyo will continue to focus almost all of its aid on countries in Asia. Whatever additional aid Japan may offer to the continent will probably consist of small technical assistance grants.

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Table 1

Japan: Trade with South Africa
by Selected Commodities
1963 and 1967

	Million US \$	
	<u>1963</u>	<u>1967</u>
<u>Imports</u>		
Corn	38.5	47.8
Sugar	25.1	21.2
Wool	16.7	25.2
Iron ore	9.6	37.7
Copper concentrates	1.0	5.7
Nonmetallic minerals	6.0	18.0
Pig iron	3.8	39.3
Coal	1.8	6.1
Other	28.0	78.0
<i>Total</i>	<i>130.5</i>	<i>279.0</i>
<u>Exports</u>		
Textiles	41.2	51.9
General machinery	4.5	13.8
Electric machinery	5.8	15.8
Transport equipment	12.0	29.5
Iron and steel	2.9	9.2
Chemicals and pharmaceuticals	2.2	5.8
Precision instruments	2.0	4.5
Other	9.2	26.4
<i>Total</i>	<i>79.8</i>	<i>156.9</i>

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Table 2

Japan: Trade with Selected African Countries
Selected Years, 1959-67

	Million US \$									
	1959		1961		1963		1965		1967	
	Ex-ports	Im-ports	Ex-ports	Im-ports	Ex-ports	Im-ports	Ex-ports	Im-ports	Ex-ports	Im-ports
South Africa	51.9	37.2	49.1	82.3	79.8	130.5	137.7	133.9	156.9	279.0
Zambia							8.1	60.9	29.4	138.1
Swaziland								Negl.		25.5
Nigeria	47.5	6.9	73.1	9.5	74.1	6.8	59.0	9.4	38.3	16.2
Ghana	22.5	2.2	26.7	4.4	23.7	11.0	23.6	7.9	15.5	19.3
Mozambique	0.7	3.4	4.3	5.2	6.9	7.8	8.9	10.9	15.5	16.5
Sudan	0.7	6.1	15.2	7.2	16.5	14.3	19.5	9.0	12.8	17.3
Egypt	12.3	16.6	22.1	17.5	24.4	16.8	17.3	27.9	10.7	19.1
Ethiopia	7.8	2.2	13.9	3.8	14.1	5.5	21.5	4.4	17.9	5.9
Kenya	11.5	6.0	22.9	6.5	29.3	4.4	25.7	5.5	17.1	5.6
Uganda	6.5	12.9	5.6	2.0	7.4	4.2	6.4	5.5	5.8	15.0
Tanzania	11.0	8.2	9.3	8.1	10.1	5.8	9.2	4.6	9.1	11.3
Other	31.4	25.0	43.6	42.6	60.3	53.2	116.7	59.2	138.4	81.8
<i>Total</i>	<i>203.8</i>	<i>126.7</i>	<i>285.8</i>	<i>189.1</i>	<i>346.6</i>	<i>260.3</i>	<i>453.6</i>	<i>339.1</i>	<i>467.4</i>	<i>650.6</i>

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