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Southern Africa – Towards Inclusive Economic Development

Building malls or metros?

South Africa's exports of tradable urban services to the rest of Africa

Ivan Turok and Justin Visagie

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SA-TIED is a unique collaboration between local and international research institutes and the government of South Africa. Its primary goal is to improve the interface between research and policy by producing cutting-edge research for inclusive growth and economic transformation in the southern African region. It is hoped that the SA-TIED programme will lead to greater institutional and individual capacities, improve database management and data analysis, and provide research outputs that assist in the formulation of evidence-based economic policy.

The collaboration is between the United Nations University World Institute for Development Economics Research (UNU-WIDER), the National Treasury of South Africa, the International Food Policy Research Institute (IFPRI), the Department of Monitoring, Planning, and Evaluation, the Department of Trade and Industry, South African Revenue Services, Trade and Industrial Policy Strategies, and other universities and institutes. It is funded by the National Treasury of South Africa, the Department of Trade and Industry of South Africa, the Delegation of the European Union to South Africa, IFPRI, and UNU-WIDER through the Institute's contributions from Finland, Sweden, and the United Kingdom to its research programme.

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South Africa's exports of tradable urban services to the rest of Africa

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Abstract: Service industries are increasingly important in international trade and offer additional paths to economic development. There are many opportunities to expand trade in services between South Africa and other African countries. Improvements in urban planning, design, and governance are vital to create more productive and liveable cities. South Africa has many capabilities to support urbanization in Africa. However, South African companies have been relatively unsuccessful at exporting this expertise, and more successful at exporting retail, financial, and telecoms services. One reason is that urban infrastructure projects are discrete, risky, and costly. South African companies have tended to go it alone, with minimal commitment to host nations and little support from governments or other firms. Some have been absorbed into larger multinational corporations. There has been no concerted effort in South Africa to promote tradable urban services as a package of capabilities that could unleash greater economic dynamism within both source and host countries.

Key words: Africa, international trade, South Africa, tradable urban services, urban infrastructure, urbanization

JEL classification: L80, O14, O18, O55

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1 Introduction

Africa suffers from serious infrastructure deficits that impede economic growth and social well-being. Yet less than one per cent of assets under management for infrastructure globally come to the continent (Games 2019). The World Bank (2017) estimates that gross domestic product (GDP) per capita in Africa would increase by 1.7 per cent a year if the continent were to close the infrastructure gap with the rest of the developing world. In addition, trade within Africa is much weaker than is the case in other regions, with intra-African exports amounting to only 16 to 17 per cent of total African exports, compared with the equivalent figure of 59 per cent for Asia (AfDB 2017). One of the obstacles is poor transport and logistics systems. Severe infrastructure shortfalls also plague Africa's economic hubs—its cities. They are increasingly congested, crowded, costly, and informal. This stifles productivity and competitiveness, causes hardship and ill health, and generates social unrest and disorder (Collier and Venables 2017; Mills et al. 2017). Africa's urban population is growing at about four per cent per annum and is expected to treble in size over the next 30 years (UN 2018). This increase is roughly equivalent to the current urban population of Europe and North America combined. This poses immense challenges, but is also a potential game changer if the infrastructure and institutions can be created which will enable urbanization to transform livelihoods and living conditions.

The situation is improving in some respects, with signs of stronger cooperation emerging among governments and global institutions, and new resources becoming available (Brookings Institution 2020; Games 2019). China has rapidly become the largest single funder of infrastructure on the continent, generally adding to rather than replacing existing funders (Deloitte 2018). The African Development Bank (AfDB) recently doubled its available capital to invest in projects, which is deliberately intended to reduce risks and leverage additional funding from private banks, equity funds, pension funds, and development finance institutions. Meanwhile, sizeable discoveries of gas, oil, and other natural resources in countries such as Madagascar, Mozambique, and the United Republic of Tanzania are attracting substantial foreign direct investment (FDI) and should in due course generate very sizeable tax revenues for investment in new economic and social infrastructure. Flows of FDI to Africa rose by 11 per cent in 2018 to US$46 billion, against the general global trend (UNCTAD 2019). This was still only 3.5 per cent of the global total, while Africa's share of the world population is almost 17 per cent. Asia received more than 11 times as much FDI as Africa.

Extra funding will clearly help, but this is not enough to transform the situation. A more supportive legal and operating environment for investment, better-designed projects, and decisive implementation are also needed to help expand productive activity and diversify economies away from basic commodity exports. Coordination on the ground is important to ensure that different investments complement each other, and extravagant and inappropriate schemes are avoided. There are many competing priorities for the resources available, so tough choices require sound knowledge and insights into what is most important and feasible. African countries have much to learn from each other because their experiences and challenges are often similar. Yet historic colonial relationships mean that continental political and economic networks are often weaker than expected, and an ongoing brain drain means a loss of professional skill sets. There are also many barriers to the exchange of know-how and expertise in the form of restrictive regulations, licences, and technical specifications designed to protect established groups from external competition (World Bank 2020). Rules related to travel visas, work permits, and professional accreditation can also frustrate cross-border movements of competent personnel to provide specialized services. Governments often justify these hurdles on the basis of consumer protection and the maintenance of environmental, social, and labour standards.

Against rising protectionist sentiments around the world, continental trade agreements signal the new political commitment to Africa-wide progress (Brookings Institution 2020). Greater openness has the potential to grow cross-border value chains and promote industrialization and development across the continent. It could also improve trade in a range of urban development and infrastructure services, in line with the United Nations' Sustainable Development Goals and the 2063 Agenda of the African Union. The South African Development Community (SADC) Trade in Services Protocol, adopted in 2012, commits SADC countries to trade talks every three years focused on six priority sectors: communication services, construction services, energy-related services, financial services, tourism services, and transport services. Similarly, the Common Market for Eastern and Southern African States, the East African Community, and their integration with the SADC through the Tripartite Free Trade Area in 2015 include explicit commitments to regional services trade integration (Cattaneo 2017).

The recent agreement to form an African Continental Free Trade Area may be the most important. It includes a services protocol that would reduce general tariffs on services trade as well as other barriers such as different regulatory standards and onerous licensing and certification procedures (UNECA 2018). Negotiations are proceeding with a specific schedule of commitments for five priority service sectors—business, communications, financial, tourism, and transport services—which are to be finalized within the next two years (Cattaneo 2017, 2020). In practice, the process is complex, the private sector has barely been consulted, and there is a great deal of work to be done to identify complementary strengths where countries can support each other through regional trade and cooperation. This goes beyond tariff reductions to include other limitations on trade, such as stipulations on foreign equity, differences in standards and rules for licensing, thresholds for local content in state-related contracts, and restrictions on the movement of people. South Africa's (SA) position and approach will come under intense scrutiny, as SA is the region's dominant economy, with a long-standing tendency to look down on the rest of Africa, and even to view it negatively as a threat because of undocumented migration and refugees. SA has an opportunity to take the lead in setting a good example of responsible trade and investment. Trade agreements need to be framed as partnerships of equals and provide benefits all round if they are to win general support.

One of the missing features in most African countries is a positive vision of the possibilities for urbanization to accelerate industrialization and social progress (UNECA 2017). A more deliberate approach to urban development and infrastructure provision is vital to realize the benefits of concentrated populations for jobs, well-being, and structural transformation, and to avoid the pitfalls of haphazard urban growth (Collier and Venables 2017; Turok 2016). Basic urban planning and land management are needed to avoid mushrooming informal settlements that are costly to retrofit with infrastructure or to rebuild into more resilient and liveable neighbourhoods. Unless more efficient use is made of the land, the rate of expansion of the physical footprint of African cities could be half as much again as their population growth (Angel 2016). Careful, compact urban development is also necessary to reduce environmental degradation and natural hazards, and to adapt to the changing climate. The concept of 'integrated urban services' sums up the idea that different government policies, actions, and regulations relating to land, transport, and public utilities should be aligned with investments by firms and households in the built environment to ensure more efficient, connected, and mutually reinforcing spatial outcomes.

As one of the most developed and urbanized countries on the continent, SA has many of the attributes required to function as a hub of expertise in urban development through its diverse capabilities in engineering, planning, property, transport, finance, and other business and professional services (Games 2004). Such networks could in turn support the emergence of home-grown suppliers of materials, plant, equipment, and other inputs used in buildings and infrastructure. The weak performance of SA's economy over the last few decades has provided

local companies with a strong incentive to tap into other African markets. SA could also operate as a regional gateway for leading multinationals to engage with other African countries—adapting their services and products to local markets and providing valuable after-sales support, thereby generating jobs, incomes, and tax revenues. Prior to 1994, few SA companies traded north of the border because of the country's pariah status. Since then, many SA firms have sought to enter these markets, often in an assertive and insensitive manner. They have ignored the trade they displace from existing local businesses, which has created resentment (Games 2004). They have also been criticized for pursuing their own self-interested agendas and ignoring any broader contribution they could make (DTI 2017). The outcome for these companies has been very mixed, with patent success in the financial services, telecoms, and retail sectors offset by some prominent failures in engineering, construction, and property development (Visagie and Turok 2019).

The SA government has expressed concern that the trade balance with other African economies is one-sided, since exports mostly comprise high-value goods and services, whereas imports are largely commodity-based (oil and minerals). It believes that SA companies should show restraint and adopt fairer practices in these engagements. To prevent the gap widening further, it advocates joint ventures and other investments to expand production and provide critical infrastructure in these territories (DTI 2017). In other words, it favours initiatives that share the gains of trade, rather than inequitable and extractive relationships. This is laudable, although it neglects the competitive environment in which SA firms operate and the threats from more powerful multinationals which could easily displace them. The Department of Trade and Industry (DTI) also advocates building strategic transport corridors, but ignores the opportunities to accelerate growth and development presented by urbanization and the potential for SA companies to play a major enabling role by exporting urban services. This stems from a single department with little vision of what the government as a whole might do to strengthen African economic integration.

The purpose of this paper is to better understand the extent and nature of SA trade in services with other African countries. The particular focus is on learning lessons from the experience of companies directly involved in providing tradable urban services. This may help to identify ways in which such services could be strengthened so as to promote regional economic cooperation, industrial diversification, and inclusive development across the continent. The specific research questions addressed are as follows:

i. What is the extent of SA trade in services with other African countries, particularly in relation to integrated urban services such as engineering and real estate?
ii. What experience have SA companies had in providing such services, and who has benefited in the process?
iii. Could the SA government do more to boost tradable services in Africa, and what obstacles need to be overcome to achieve that?

Following this introduction, the second section of the paper presents a simple conceptual framework to suggest how tradable services can promote development rather than divergence in Africa. Section three provides an original analysis of data from the fDi Markets database of investment projects by SA companies in other African countries over the period 2003 to 2019. The fourth section presents a series of propositions and themes that emerged from 15 interviews undertaken with companies based in SA, independent observers, and government officials. The final section concludes and makes recommendations.

2 Conceptual frame

Manufacturing has conventionally been considered the principal driver of economic growth and transformation in developing regions and nations (Kriticos and Henderson 2019; Newfarmer et al. 2019; Rodrik 2018). The strong performance of many Asian economies in recent decades has given credence to this proposition. There are essentially four reasons why manufacturing is widely considered the leading or propulsive sector of the economy (summarized in Table 1, rows 1 to 4). First, manufactured goods are tangible and can be readily exported, which allows local and national economies to grow beyond the confines of domestic demand by tapping into larger external markets and entering regional and global value chains. Second, most industrial processes can be standardized and scaled up to create many low- and medium-skilled jobs accessible to the majority of the labour force. Third, manufactured products and processes generally benefit greatly from technological change, learning, and productivity growth, which raise workforce incomes and boost economic competitiveness. Fourth, manufacturing plants typically generate substantial multiplier effects as their output increases, which benefits the domestic suppliers of goods and services, and magnifies the original stimulus to growth. These four features also interact and reinforce each other to compound manufacturing's catalytic effect across the whole economy. For example, tradable goods are exposed to international competition, which adds to the pressure on firms to increase efficiency and lower costs through economies of scale and innovation, which in turn spurs growth in output and jobs.

Table 1: Relative advantages of manufacturing and tradable services for economic growth and development

	Manufacturing (e.g., processing facilities, assembly plants)	Lower-value tradable services (e.g., tourism, transport, distribution, retail, call centres)	Higher-value tradable services (e.g., business, financial, digital, professional)
1. Products are tradable, allowing countries to tap into wider markets and boost growth	***	**	**
2. Processes are easily standardized and scalable, which creates many low- and medium-skilled jobs	***	**	*
3. Products and processes benefit from technological change, learning, and productivity growth	***	**	***
4. Multiplier effects are sizeable, which benefits local suppliers	***	*	**
5. Firms' presence in export markets helps to strengthen in-country institutions	*	**	***
6. Training and capacity-building occur in host nations	*	**	***
7. Position of the establishment in the local economy and global value chains	May be somewhat isolated and marginal	Routine functions tend to be isolated and marginal	High-order functions are often more central and powerful

Note: *** = strong performance of the sector on this particular criterion; * = weak performance.

Source: authors' compilation.

When manufacturing leads economic growth, the effect is structural transformation from an economy previously dominated by the production of primary commodities. This results in rising household incomes and higher tax revenues. These benefits are enhanced by the growing concentration of population and economic activity in cities (Collier and Venables 2016; Ellis and Roberts 2016; Turok 2016). Urbanization is associated with the transition from agriculture to industry as surplus workers are pushed out of low-productivity farming and pulled into more productive manufacturing. Economic concentration also creates external economies of scale and scope, and generates a common pool of skills and other resources (Collier and Venables 2017). Proximity facilitates communication, learning, and specialization among firms and workers, which amplifies the productivity gains and generates more jobs and higher incomes. Furthermore, agglomeration tends to bring about improvements to transport infrastructure and connections to wider markets and supply chains, which helps to accelerate economic growth. In other words, industrialization and urbanization tend to go together.

Many Asian economies were fortunate in seeking to industrialize during an era when international markets were becoming more open, macroeconomic conditions were relatively stable, and the demand for cheap consumer goods, such as clothing and electronics, was rising fast. Contemporary global conditions are more uncertain and unpredictable, which is tending to dampen investment. Multilateralism is also being undermined and markets are becoming less open because of rising economic nationalism. Meanwhile, the structure of the global economy is gradually shifting towards services, which tend to be less tradable, and cheap labour is becoming less important than it used to be because of technological change. For all these reasons, it is becoming more difficult for latecomer countries in Africa and elsewhere to replicate Asia's success by relying solely on manufacturing as the growth engine (Brookings Institution 2020; Kanbur et al. 2019). It is likely that they will have to identify additional export opportunities and a range of niche markets where they stand some chance of success. By providing various technological and service inputs, they may be able to help their primary and secondary industries to improve their products and become more competitive.

Africa's industrial performance has been poor for decades (UNECA 2017). Rapid urbanization has proceeded without industrialization or formal employment growth, giving rise to 'consumption cities' where most goods and services are small-scale, often informal, and local in scope (Gollin et al. 2016; Lall et al. 2017). This has prompted questions about whether other sectors might contribute to structural transformation and development, and whether external investors could help to shift production from serving purely local markets to wider markets (Dihel and Goswami 2016; Hoekman and te Velde 2017; Newfarmer et al. 2019). Some opportunities have emerged from new digital technologies and reductions in transport costs, both of which broaden the scope of activities that are tradable across national borders. Tradability is important for escaping the constrained demand experienced in a small or slow-growing domestic economy. Services that traditionally relied upon face-to-face contact, including some of the functions performed in banking, real estate, travel agencies, healthcare, entertainment, and education, can now be codified and provided via remote digital communication, which lowers transaction costs and widens market access. Some information-based processes can now be standardized, outsourced, scaled up, and/or replicated to create larger numbers of jobs than before, such as back-office functions, call centres, and data-processing. Moreover, certain kinds of knowledge-intensive service activity, such as research, design, engineering, and software, can trigger improvements in the cost, quality, and functionality of other sectors, including agriculture (horticulture) and manufacturing (Kanbur et al. 2019). Some of these benefits are intensified by agglomeration through the exchange of ideas (mutual learning), positive feedback effects, investor confidence, and palpable momentum.

Many service industries have a smaller catalytic impact than manufacturing because they are less tradable, scalable, and productivity-enhancing. This is partly because many services are intangible

or 'asset light' (UNCTAD 2019) and need to be customized to unique user requirements. Nevertheless, services are an extremely diverse group of activities, and some of them offer other advantages for deepening development that go beyond the immediate contractual benefits for their customers, through improving institutional capabilities, human expertise, and business networks, which may have an enduring impact. There are arguably three characteristics of tradable services that rival manufacturing in certain respects (see rows 5 to 7 of Table 1). They also complement primary and secondary sectors by providing essential inputs and reducing obstacles to industrialization. They may benefit countries on both sides of the trade connection—the source or exporting nations, and the hosts or receiving nations—through reciprocal actions and collaborations, in the form of capacity-building and knowledge transfer, that recognize their interdependence. In view of the diversity of tradable services, Table 1 subdivides them into lower-value, less-skilled activities, such as tourism, transport, and distribution, and more sophisticated, higher-value activities, such as business, financial, and professional services. The former tend to be more easily standardized and scaled up, while the latter are more likely to be bespoke or adapted to particular markets and clients. The threefold rating scale used to assign a value to each cell in Table 1 is clearly a considerable simplification of real-world diversity.

The first feature is that the firms engaged in trade help to strengthen in-country institutions (Table 1, row 5). Manufacturing firms usually maintain arm's-length transactions with customers, but many service providers enter into close and enduring relationships with their users and other stakeholders. This can help to diffuse valuable information, inject fresh thinking, challenge complacency, raise standards, and sustain progressive improvements. Good relations with government clients and other firms build a reputation, generate trust, and attract more custom. Higher-level services are most likely to involve flows of tacit knowledge and specialized expertise, with good ideas and practical advice passed on, and 'learning by doing' encouraged. These interactions may foster better solutions to local problems, spur organizational improvements, and reduce the risks for other investors in these places. For example, professional services may enable investments in urban land, public utilities, and logistics to be adapted to the unique form of each city in a way that enhances its efficiency and reduces costs. A more functional built environment is a precondition for industrialization and broad-based development (Turok 2017). Professional services firms can also advise governments on improving local industrial ecosystems to attract and embed FDI—through appropriate customs procedures, legal frameworks, and specialized services. They can help to devise better building codes and by-laws, and streamline business registration and licensing systems to enable small, informal enterprises to develop into more robust firms.

Second, the firms engaged in trade often help to transfer skills and build technical competence by investing in suitable staff capacity in the host nation (Table 1, row 6). This is unusual in the manufacturing sector, but many suppliers of services are obliged for reasons of credibility and regulatory compliance to establish a physical presence in their destination markets and to provide ongoing assistance to strengthen local technical, managerial, and professional capabilities. Training local staff can also make savings on the sizeable costs of importing foreign expertise and sustaining a cohort of expatriates with all their travel and extra expenses. A simple example is the provision of services to manage, maintain, and repair buildings, plant, and equipment installed in the host country. Creating a local presence often takes the form of joint ventures, strategic partnerships, or other collaborative arrangements with emergent local firms. It requires resources to be committed to enterprise development, staff training, and upskilling in order to establish and maintain a competent cohort of local workers, managers, and professionals on the ground who understand local conditions. The introduction of external know-how and talent can thereby contribute to enhanced learning and local empowerment. In turn, stronger human and business capabilities are vital to underpin self-reliant and sustained prosperity through higher productivity, better-quality goods, and more responsive services.

The third feature concerns the specific task or function performed by the local facility/plant/office and its position within the local economy and wider regional or global value chains: is it relatively central/powerful, or isolated/marginal (Table 1, row 7)? The former reflects its importance as a supplier of goods and services to other sectors of the local economy and the knock-on effects of its improved performance. The latter affects the influence, power, or control the establishment has over its destiny, the commercial pressures faced, and the quality of employment provided. Mining operations, basic assembly plants, franchise retail outlets, and outbound call centres may be at the lower end of the spectrum, while research and development operations, specialized business services, and corporate headquarters may be at the upper end. High-order tradable services tend to be knowledge-intensive and are often oriented towards the crucial tasks of conceptualization, planning, and design, rather than physical execution and implementation. They can make a big contribution to the effectiveness and durability of activity throughout the value chain, including influencing the source location for the various inputs of goods and services. Advanced business services can assist firms and their suppliers to modify and adapt their products, upgrade their technical capabilities, and perform more specialized functions, thereby raising incomes (World Bank 2020). Urban logistics, reliable energy supplies, telecoms, and other infrastructure services play an essential role in affecting the productivity of the entire economy. The rapid rise of digital technologies means that electronic data centres, cloud computing, and associated software services are becoming increasingly important inputs to all economic sectors as well (McKinsey 2019).

The key point, therefore, is that high-order services can support trade and development through enlarging knowledge, strengthening competences, and facilitating networks and linkages across the local economy. However, these benefits are by no means automatic or inevitable. They depend on multiple factors, including the economic power and strategy of the company providing the service. For example, it may be driven above all by a narrow, self-interested approach to extract income and knowledge from the host economy—effectively going it alone. The world's four largest auditing firms—Deloitte, EY, KPMG, and PwC—are often criticized for the extensive influence they have over governments and other private corporations arising from their wide-ranging advisory services, which generate extravagant fees and sometimes implicate them in wrongdoing and irresponsible practices. If governments simply outsource some of their core functions to such firms in order to save staff costs and benefit from their expertise, there may be a loss of strategic capabilities to the country.

Alternatively, companies providing services may take a broader, longer-term perspective and recognize that they can contribute to the host economy and use their employment and procurement powers to build capacity and long-term value, perhaps in partnership with local firms. The outcome also depends on the policy and regulatory environment in the country, including whether the government has effective policies in place to encourage foreign service providers to establish a physical presence, to increase local content, and to form meaningful joint ventures with local enterprises. These policies need to be applied consistently and transparently to ensure they are credible and gain traction. Even simple matters such as the willingness to grant temporary business visas and accreditation to non-resident engineers, project managers, and other specialized professionals could make a difference to countries' ability to attract and retain foreign investment in services. Services have traditionally been more highly regulated than manufacturing, and rules shaped by vested interests or populist politics may undermine the sector's economic dynamism.

3 Evidence from foreign investment in services

3.1 FDi Markets data and methods

Understanding the size and composition of international trade in services is hindered by the lack of reliable statistics. The problems are even more acute for particular subsectors, such as integrated urban services and the built environment. This section of our paper makes use of an alternative source of data compiled by the *Financial Times* and called fDi Markets. It monitors a wide variety of news reports and industry sources to track 'cross-border investment in a new physical project or expansion of an existing investment which creates new jobs and capital investment' (fDi Markets 2019).[1] This is probably the most important of the four mechanisms by which services are traded across international borders, and it is also the one that is not covered by conventional databases on international trade (Bhorat et al. 2019; Hoekman and te Velde 2017).

The fDi Markets database excludes investments related to mergers and acquisitions, and therefore represents 'greenfield FDI', although the two forms of investment show similar patterns. Greenfield FDI is a better indicator of growth in jobs, investment, and markets than are takeovers, which may occur for defensive reasons such as limiting competition. Greenfield FDI is also more likely to be associated with the transfer of new technologies and production processes to the host country than are changes in ownership. An independent assessment of the fDi Markets database found it to be highly correlated with other reliable sources, such as those used in UNCTAD reports (UN-Habitat and IHS-Erasmus University Rotterdam 2018).

The focus here is on fDi Markets data for firms based in SA that invested in the rest of Africa during the period January 2003 to August 2019. Information is included on 492 projects altogether. This is a sizeable number, and more than is captured by other data sources that track FDI flows. However, it does not provide a complete account of all relevant investment. Monitoring of professional industry reports and media sources is bound to be selective and skewed towards bigger projects by major companies. Furthermore, some investments in urban infrastructure and built-environment services are intangible, such as consultancy, knowledge transfer, and capacity-building. They may not be detected unless or until they are linked to physical projects such as new shopping centres, power stations, roads, or bridges. Consequently, the database may under-report projects involving the provision of services. In the following analysis, greater attention is paid to the number of projects recorded in the database than to the value of the investments or the number of jobs directly involved. This is because the employment and investment values for most projects were estimates and heavily dependent on modelling.[2]

The amount of information provided on each project does not allow more than a fairly superficial analysis of patterns and trends. Each project is categorized by 'sector', 'cluster', and 'activity'. We focus first on the clusters, because they are defined by the end-user industry and hence the ultimate application of the investment. This provides a better indication of how investment flows are related to regional value chains. For example, a software development subsidiary for a commercial bank would be categorized in the 'software and information technology services' sector, but in the

[1] fDi Markets data is sourced from numerous channels, including *Financial Times* newswires and internal information sources; thousands of media sources, including all of the world's top business sources; project data received from over 2,000 industry organizations and investment agencies; and data purchased from market research and publication companies. Each project identified is cross-referenced against multiple sources, with a primary focus on direct company sources.

[2] Out of 493 projects, 414 (84 per cent) had estimated or modelled values for the size of capital investment.

'financial services' cluster. Some clusters have been given slightly different names from those used in the database, to better reflect the types of product and service they contain.

In the following analysis, industry clusters are further aggregated into three new, broader categories in order to distinguish clearly between 'commodity-based', 'manufacturing-based', and 'services-based' investments. We do this in order to provide a broad indication of the relative importance of services (in terms of both trade and investment) compared with primary and secondary industries. Investments by SA companies that supply services in other African countries offer a useful insight into trade flows, because FDI is an important mechanism for trade in services. Indeed, there is some evidence that this mode accounts for the majority of services trade (Hoekman and te Velde 2017). The other three modes are the cross-border supply of services (e.g., through digital channels), the temporary movement of service providers (e.g., engineers or project managers) to users/consumers in other countries, and the temporary movement of consumers to service providers elsewhere (e.g., tourists or conference attendees).

Clusters concerned with commodities include projects involved in the production and distribution of energy (such as oil, gas, and coal) as well as minerals, chemicals, and metals. The SA economy has been dominated historically by mining, related heavy industries, and electricity generation—described as the 'minerals-energy complex'—so there are considerable technical capabilities in these sectors (Fine and Rustomjee 1996). The country's largest exports continue to include primary commodities such as platinum, coal, gold, iron ore, and manganese. For several decades SA companies have also used their expertise and capital to mine commodities in other African countries. The recent discovery of major gas fields in Mozambique and the United Republic of Tanzania offers considerable opportunities for SA firms to secure contracts from all the associated economic and social infrastructure and utilities that will be required to extract and export the gas and support the associated workforce (Planting 2019).

Clusters concerned with manufacturing include food and beverages and an all-encompassing category called 'other manufacturing'. This excludes the processing or 'beneficiation' of raw materials, minerals, and other commodities. Manufacturing continues to be the main target of industrial policy in SA, although the sector as a whole has performed poorly since at least the 1990s, when import tariffs were reduced and the economy was opened up to international competition (DTI 2017; National Treasury 2019). Manufacturing in most other African countries has also struggled in the face of global pressures, particularly from China and other emerging Asian economies.

Clusters concerned with service industries include a variety of tradable service sectors such as finance, telecoms/information and communications technology (ICT), construction,[3] media/marketing, tourism, transport/storage, and other business services. Services have been the strongest-performing part of the SA economy since the 1990s in terms of output and employment (Bhorat et al. 2019). Furthermore, most of the growth has come from the 'modern', higher-productivity sectors of business, finance, and communications, rather than the 'traditional' and generally non-tradable sectors of wholesale/retail and government services. Selected service industries have grown in importance as tradable exports (especially tourism and transport/logistics), as well as contributing to the productivity and competitiveness of primary and

[3] Construction is usually classified as a secondary sector in terms of standard industry classification codes. However, the nature of construction trade is similar to services (in that production tends to take place at the same time and location as consumption), and construction services embody many of the activities that comprise integrated urban services, such as engineering, surveying, architecture, design, project management, and property development.

secondary industries through the application of knowledge, expertise, and technology (Visagie and Turok 2019).

3.2 The pattern of investment flows from SA

Table 2 and Figure 1 show the spread of investments by SA companies into the rest of Africa over the last 16 years, broken down into industry clusters. The dominance of services is immediately apparent, accounting for nearly three quarters of all projects. Financial services and telecoms were particularly important, together comprising 45 per cent of all projects. This is quite unexpected, considering that services have traditionally been considered non-tradable and SA's established export strengths and industrial capabilities are in primary commodities (mining and agriculture) and manufacturing (including food and beverages and automotive sectors). Financial services and telecoms do not feature among the industries targeted for support or export promotion by the SA government.

Summing up, projects in the services industries dominated FDI by SA companies over the last 16 years, particularly in terms of their number. Each project tended to be smaller in size and to create fewer jobs than those in primary and secondary industries. Financial services alone accounted for more than one in four FDI projects (28 per cent). The key players were Standard Bank, First National Bank, Rand Merchant Bank, Sanlam, and Stanbic. Telecoms accounted for one in six projects (17 per cent) and were dominated by MTN. Construction projects were the largest in terms of jobs, although many were probably temporary. The sheer scale of services FDI is striking.

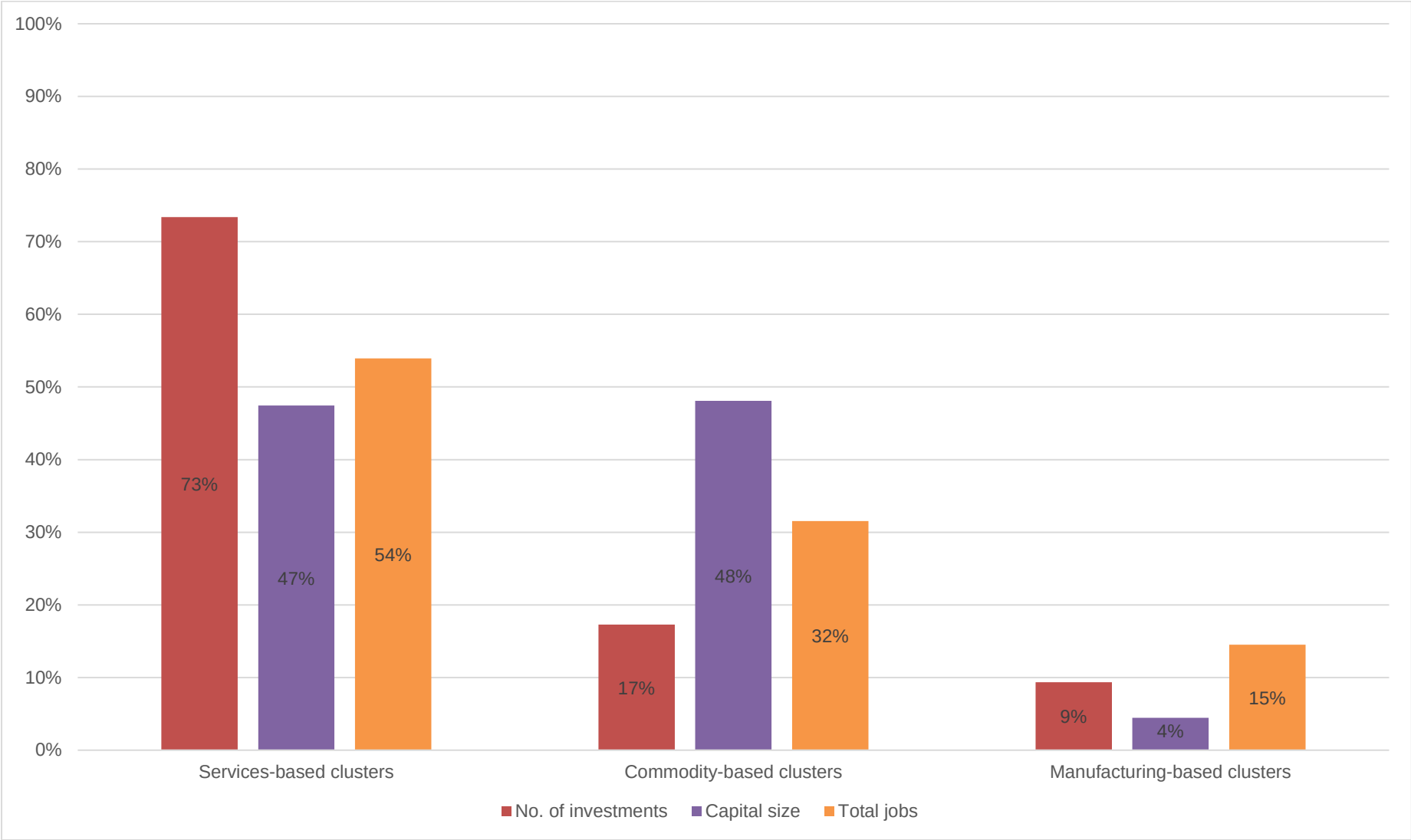
Table 2: FDI from SA into Africa, January 2003 to August 2019

Industry cluster	No. of investment projects	Percentage of FDI projects (%)	Size of capital investment (US$ millions)	Percentage of capital (%)	No. of jobs*	Percentage of jobs (%)
Financial services	139	28.3%	1,503	3.9%	4,014	6.8%
Telecoms and ICT	82	16.7%	6,377	16.7%	6,482	10.9%
Minerals, chemicals, and metals	54	11.0%	4,839	12.7%	14,453	24.4%
Construction	38	7.7%	7,695	20.2%	16,072	27.1%
Media and marketing industries	37	7.5%	426	1.1%	1,213	2.0%
Other business services	33	6.7%	566	1.5%	931	1.6%
Food and beverages	31	6.3%	1,381	3.6%	7,512	12.7%
Energy	31	6.3%	13,496	35.4%	4,240	7.2%
Tourism	22	4.5%	1,119	2.9%	2,385	4.0%
Other manufacturing	15	3.0%	321	0.8%	1,105	1.9%
Transport and storage	10	2.0%	404	1.1%	875	1.5%
Grand total	**492**	**100%**	**38,128**	**100%**	**59,282**	**100%**

Note: actual capital and jobs estimates are forecasted for most projects in the fDi Markets database and therefore only indicative.

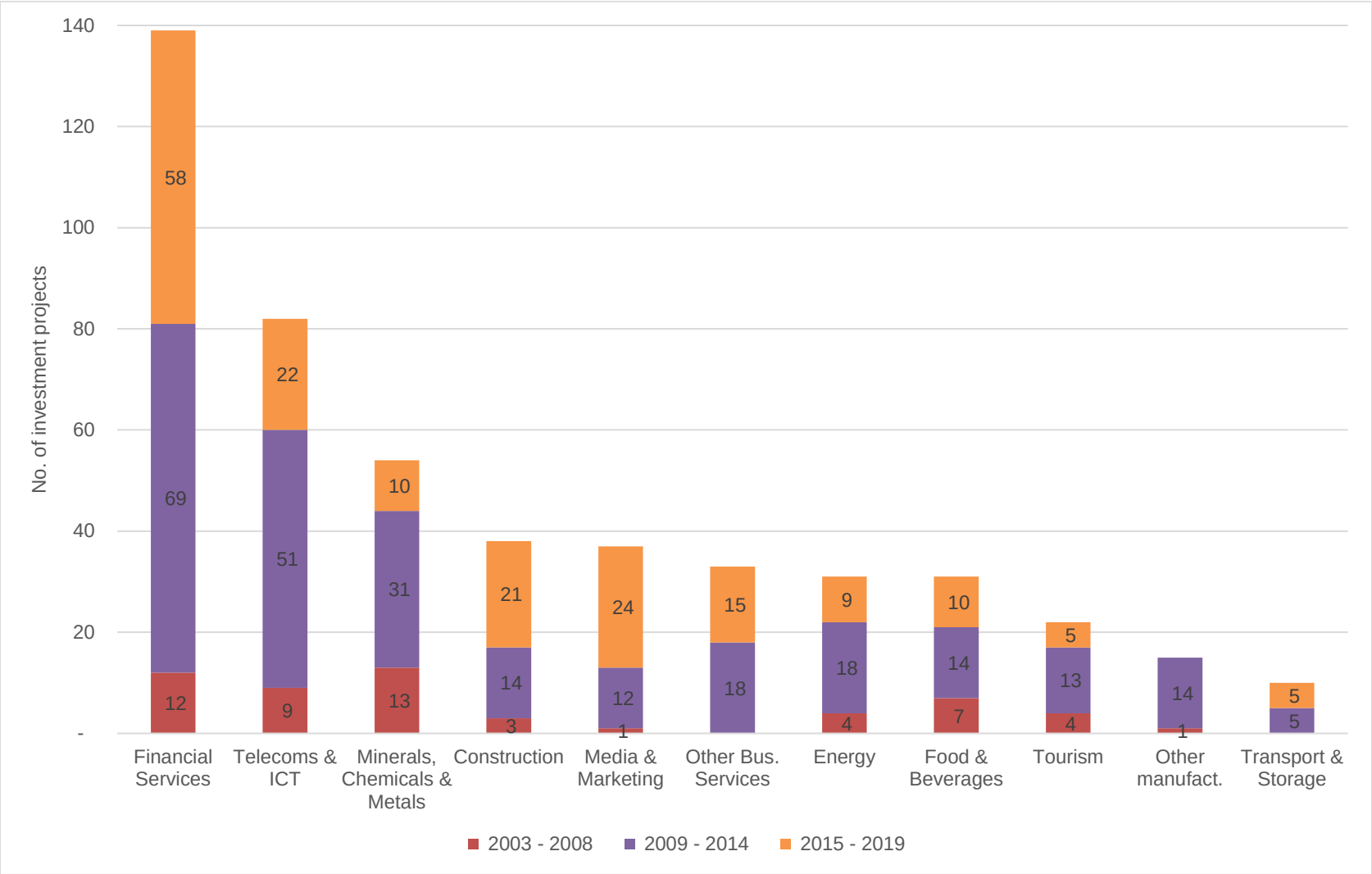
Source: authors' compilation based on data from fDi Markets.

Figure 1: Share of investment, capital, and jobs among cluster types



Source: authors' illustration based on data from fDi Markets.

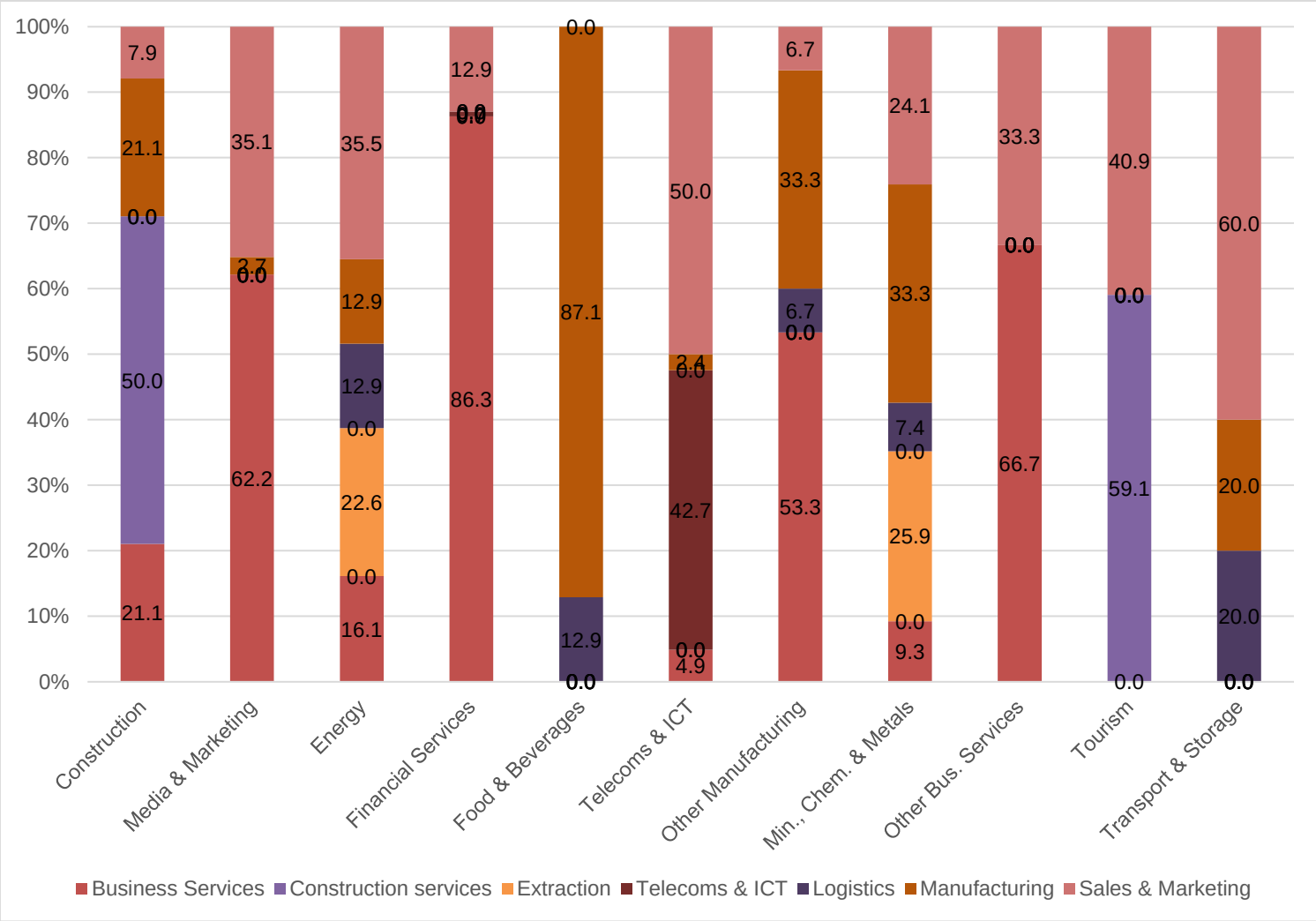
Figure 2: FDI by industry cluster over time



Note: FDI measured as the number of new reported projects between January 2003 and August 2019.

Source: authors' illustration based on data from fDi Markets.

Figure 3: Type of FDI activity within industry clusters, January 2003 to August 2019



Note: FDI measured as the number of new reported projects between January 2003 and August 2019.

Source: authors' illustration based on data from fDi Markets.

The composition of FDI can be further unpacked according to the specific purpose or type of investment, beyond the broad industry cluster or sector. For example, a beverage manufacturer may invest in a warehouse for storage and distribution (essentially providing a service), rather than a new processing and bottling plant (which is geared to production). Both activities still fall within the food and beverages cluster.

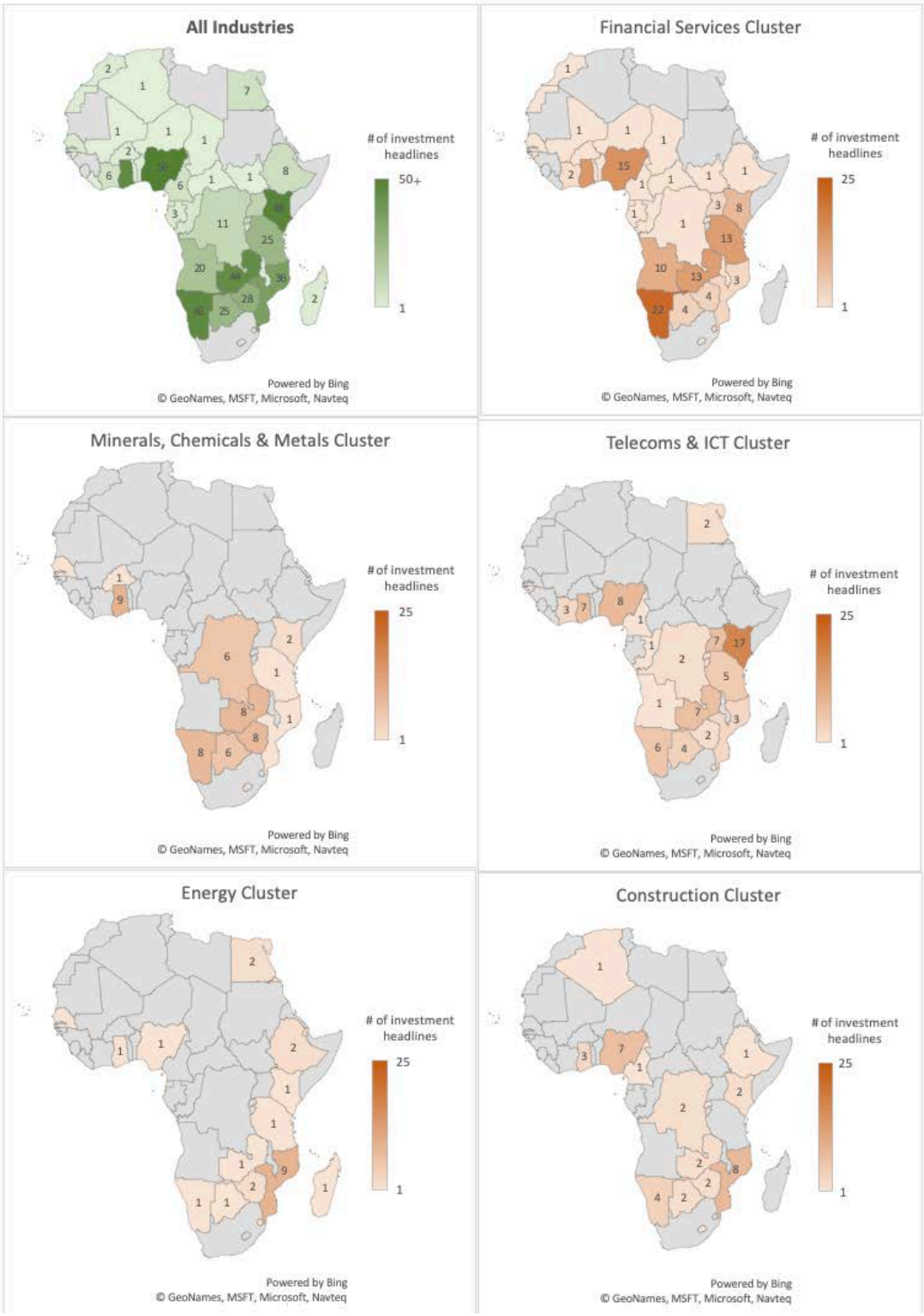
Figure 3 identifies the different types of activity within each cluster. The diversity is striking, indicating the importance of disaggregation beyond broad categories. For instance, some manufacturing projects did not involve new factories but rather investments in business services, logistics, or sales/marketing/support. Some construction and energy projects included investments in processing activities or productive capacity to supply critical inputs. Many tourism projects involved building hotels. Sales/marketing/support activities feature prominently in most industry clusters. Firms entering new markets clearly needed to promote themselves to attract consumers. This activity category also includes after-sales support, which is becoming vital in many industries to ensure correct installation and use of a product, to maintain equipment or software, to provide technical assistance and training, to ensure customer satisfaction, and to generate further orders. Logistics services appeared to be another cross-cutting activity, since it featured in five clusters.

Overall, the clear implication of Figure 3 is that projects involving the provision of services greatly outweigh primary (mining/extraction) and secondary (manufacturing) activities. The conclusion would be similar if the analysis were to be repeated using investment values or job numbers instead of the number of projects.

The strength of FDI flows to other countries appears to be closely related to (i) their physical proximity to SA and (ii) their market size. Figure 4 shows the destinations of all 492 projects. The majority took place in the neighbouring countries of Botswana, Mozambique, Namibia, Zambia, and Zimbabwe. Ease of access and knowledge of local market conditions, regulations, and business practices are bound to have been important. The other group of host countries was the relatively large economies of Ghana, Kenya, and Nigeria, where market size is bound to have been the attraction. Projects related to financial services and telecoms were the most widespread of all clusters, reaching into most countries in Southern Africa. In contrast, projects in energy and minerals/chemicals/metals were restricted to a handful of countries. The energy projects in Mozambique were concerned with the extraction of gas and coal. There were very few projects in North Africa, apart from seven in Egypt.

To summarize, the fDi Markets data shows that SA companies invested extensively in other African countries over the last 16 years. Projects involving the provision of services were far more numerous than those involving manufacturing and the mining of commodities. They were also more dispersed geographically and appear to have provided more jobs overall. Projects involving commodities and manufacturing were fewer in number but larger in size on average. Financial services and telecoms projects were the most numerous and most widespread. Construction projects provided the most jobs, although many of these were undoubtedly temporary.

Figure 4: Spread of investment flows from SA into Africa



Note: number of new projects between January 2003 and August 2019.

Source: authors' illustration based on data from fDi Markets. Maps developed with Microsoft Office Excel, with assistance of Bing. © GeoNames, MSFT, Microsoft, Navteq.

3.3 Integrated urban services

Projects within the construction cluster correspond most closely to our interest in integrated urban services and the built environment. Projects within telecoms/ICT, financial services, other business services, transport/storage, and energy clusters could also be relevant to the planning, financing, delivery, and maintenance of urban infrastructure, utilities, and buildings. Referring back to the activities involved in the construction cluster shown in Figure 3, construction services dominated, along with some manufacturing (producing cement and other building materials) and other business services (engineering, surveying, and management consultancy). As much as half of telecoms/ICT projects could relate to the installation of related infrastructure (such as mobile phone towers and fibre networks).

Table 3 provides a complete list of projects from the construction cluster as recorded in the database. The number of projects increased over time, with a noticeable step change after 2012. Evidence from company interviews (discussed below) suggests that SA contractors were focused inwards in the run-up to the 2010 Fifa World Cup, when there was a boom in domestic spending on transport infrastructure, football stadia, and hotels. Economic conditions deteriorated thereafter, causing building contractors and professional service providers to look north of the border for new customers and markets.

Closer inspection reveals many different companies offering a wide range of goods and services. Projects include the manufacture and distribution of construction materials (including the cement producer PPC in the Democratic Republic of the Congo (DRC), Ethiopia, Rwanda, and Zimbabwe), commercial property development (shopping malls by Atterbury and Novare Equity Partners in Namibia, Nigeria, Mauritius, and Mozambique) and infrastructure delivery (heavy/civil engineering by Aveng and Murray & Roberts in the DRC, Ghana, Mozambique, and Zambia). Many firms established a commercial presence in the host country (e.g., sales and marketing by Murray & Roberts). Some offered related business services (such as engineering consulting by Aveng, or project management by Profica). Others undertook to manufacture materials (such as cement production by AfriSam and PPC), as well as doing construction work itself.

Table 3 also draws attention to certain limitations of the database in only capturing 38 projects in the construction cluster over the whole period. This understates the full extent of FDI activities by SA firms, presumably because some projects were not reported in the media or in professional sources. For example, several company interviews suggested that the number of shopping malls or office blocks constructed exceeded the figures reported in the database. Nevertheless, the database provides useful insights into the scale, scope, and character of FDI by SA companies, including concrete examples of many different kinds of project. It shows that firms have been actively investing in other African countries across a wide range of industrial and commercial enterprises and support functions. Services constitute a major part of these activities, rather than a subordinate contribution.

Table 3: Construction cluster: FDI from SA into Africa, January 2003 to August 2019

Date	Investing company	Country	City	Industry sector	Subsector	Industry activity	Capital	Jobs
Sep 2003	Johnnic	Nigeria	Unspecified	Real estate	Commercial building construction	Construction	122*	875*
May 2004	Gensec Property Services	Namibia	Oshakati	Real estate	Real-estate services	Business services	36*	20*
May 2004	Gensec Property Services	Namibia	Windhoek	Real estate	Real-estate services	Business services	36*	20*
Oct 2008	Redefine Income Fund	Namibia	Windhoek	Real estate	Real-estate services	Construction	198	1412*
Oct 2008	Liberty Group Properties	Zambia	Lusaka	Real estate	Real-estate services	Construction	200	1430*
Jul 2009	PPC	Botswana	Gaborone	Building materials	Cement and concrete products	Manufacturing	160*	342*
Dec 2009	New Paint Manu. Co.	Ghana	Unspecified	Chemicals	Paints, coatings, additives, and adhesives	Manufacturing	162*	149*
Jun 2011	Atterbury Prop. Dev.	Mauritius	Unspecified	Real estate	Commercial building construction	Construction	865*	875*
Jan 2012	Centurion Systems	Nigeria	Lagos	Building materials	Building materials	Sales, marketing, and support	1*	8*
Aug 2012	Resilient Africa	Nigeria	Owerri	Real estate	Commercial building construction	Construction	44	259*
Aug 2012	Murray & Roberts	Zambia	Kitwe	Business services	Heavy and civil engineering	Business services	23*	33*
Aug 2012	Murray & Roberts	Ghana	Accra	Business services	Heavy and civil engineering	Business services	23*	33*
Feb 2013	Delico Prop. Dev.	Ghana	Accra	Real estate	Commercial building construction	Construction	668*	733*
Mar 2013	Atterbury Prop. Dev.	Namibia	Windhoek	Real estate	Commercial building construction	Construction	91	535*
May 2013	PPC	DRC	Unspecified	Building materials	Cement and concrete products	Manufacturing	200	397*
May 2013	Aveng Group	Mozambique	Maputo	Business services	Heavy and civil engineering	Business services	23*	33*
Oct 2013	Murray & Roberts	Mozambique	Unspecified	Business services	Heavy and civil engineering	Business services	23*	33*
Feb 2014	Hodna Cement Company	Algeria	Sétif	Building materials	Cement and concrete products	Manufacturing	350	695*
Apr 2014	Atterbury Prop. Dev.	Mozambique	Beira	Real estate	Other (real estate)	Construction	668*	733*
Apr 2014	Atterbury Prop. Dev.	Mozambique	Nacala	Real estate	Other (real estate)	Construction	668*	733*
Apr 2014	Atterbury Prop. Dev.	Mozambique	Pemba	Real estate	Other (real estate)	Construction	668*	733*
May 2014	PPC	Zimbabwe	Harare	Building materials	Cement and concrete products	Manufacturing	80	159*
Sep 2014	PPC	Ethiopia	Unspecified	Building materials	Cement and concrete products	Manufacturing	175	348*
Sep 2014	PPC	Rwanda	Unspecified	Building materials	Cement and concrete products	Manufacturing	170	338*
Jul 2015	Chryso	Kenya	Nairobi	Chemicals	Paints, coatings, additives, and adhesives	Sales, marketing, and Support	13*	51*
Aug 2015	Terrace Africa	Mozambique	Tete	Real estate	Commercial building construction	Construction	668*	733*
Feb 2016	Murray & Roberts	DRC	Unspecified	Business services	Heavy and civil engineering	Sales, marketing, and support	8*	16*
Mar 2016	Stanlib	Kenya	Athi River	Real estate	Commercial building construction	Construction	12	70*

Jul 2016	Shoprite	Mozambique	Unspecified	Real estate	Commercial building construction	Construction	668*	733*
Jun 2017	Afrisam	Lesotho	Unspecified	Building materials	Cement and concrete products	Manufacturing	151*	404*
Nov 2017	Novare Equity Partners	Nigeria	Abuja	Real estate	Commercial building construction	Construction	115*	733*
Dec 2017	Novare Equity Partners	Mozambique	Maputo	Real estate	Commercial building construction	Construction	47	276*
Jan 2018	Raubex Renovo	Cameroon	Douala	Real estate	Commercial building construction	Construction	53	311*
Jul 2018	Novare Equity Partners	Nigeria	Abuja	Real estate	Commercial building construction	Construction	54	317*
Jul 2018	Novare Equity Partners	Nigeria	Unspecified	Real estate	Commercial building construction	Construction	115*	733*
Jul 2018	Novare Equity Partners	Nigeria	Abuja	Real estate	Commercial building construction	Construction	115*	733*
Mar 2019	Speedspace	Botswana	Francistown	Real estate	Real-estate services	Business services	1*	3
May 2019	Profica	Zimbabwe	Unspecified	Business services	Real-estate services	Business services	23*	33*

Note: *estimated data. Capital values in US$ millions.

Source: authors' compilation based on data from fDi Markets.

4 The experience of individual companies

The discussion in this section is organized around a series of propositions emerging from interviews with companies and related evidence.

4.1 There is growing demand for tradable urban services in Africa

International organizations such as the United Nations and World Bank have done much to raise awareness of the need to boost investment in urban infrastructure and to transform the management of fast-growing African cities to make them more productive and liveable. The opportunities for global corporations to access burgeoning middle-class urban consumers have been highlighted by various management consultancies (Ernst and Young 2011; McKinsey 2010; Monitor 2009; Turok 2013). The prospects for Africa to benefit from technological change, regional integration, and natural resource discoveries have also been emphasized (Brookings Institution 2020). The International Energy Agency (2019) predicts that Africa will be the world's biggest new energy market because of the burgeoning urban population, creating major opportunities for the supply of renewable energy as well as fossil fuels. Organizations such as the AfDB have recently gone further by organizing investment forums to bring together bankers, lenders, investors, project developers, and governments across the continent to network, discuss opportunities, and sign deals. Before that, the establishment of the New Partnership for Africa's Development in 2001 and the African Union in 2002 were important in creating a new policy context for trade between African countries.

As a relatively developed economy with advanced industrial capabilities, SA appears well placed to function as a springboard for the provision of all kinds of goods and services. Many SA firms have been aware of the opportunities[4] and taken active steps to enter these markets (Games 2004). Many others still appear to regard the rest of Africa as a high-risk frontier market and something of an unknown quantity for investment. Their senior executives do not seem to have travelled much to other African countries and do not understand the risks, or the disproportionate rewards that accompany higher risks (Buker and Hewson 2020; Games 2019). Many SA companies prefer to seek safer and more predictable returns at home or in Australia, Europe, or North America. There has been no concerted drive by the SA government in recent years to partner with the private sector in promoting fresh thinking and new initiatives to strengthen trade and investment with other African countries.

SA financial services companies appear to have been relatively active elsewhere in Africa, recognizing gaps in the provision of services such as commercial and retail banking (Standard Bank and Absa), insurance, and pensions (Sanlam and Liberty). Standard Bank claims to be Africa's largest lender and generates about a third of its headline earnings outside SA (Standard Bank 2018). Its African expansion began in 1992 when it acquired Grindlays, which had operations in seven countries. Standard Bank's most significant recent initiative is to finance several major liquefied natural gas (LNG) projects in Mozambique. It is the largest commercial lender on these projects, with loans of several billion dollars, underwritten by export credit guarantees from the SA government (Creamer 2019; Planting 2019). Meanwhile, insurance group Sanlam has major

[4] For example, the property investor and developer Novare (2020) states on its website: 'There are 52 African cities with a population of more than a million, equalling Europe, and surpassing India which has 48. Modern retail facilities in urban areas are few and far between in sub-Saharan Africa. In the US in 2010 there were 2.5 m^2 per capita of modern retail space. The corresponding figure for Europe was 1.5. For Zambia it was 0.0029 and for Nigeria, with its massive potential market, 0.0005. The continent's rising middle class is increasingly demanding improved retail experiences.'

operations in 11 countries across sub-Saharan Africa (Sanlam 2019). In 2018 it expanded this to 22 other African countries by acquiring Saham Finances, headquartered in Morocco. It now has a network of 700 branches, giving it the largest footprint of insurance companies across the continent. A recent newspaper article sponsored by Sanlam showed explicit recognition of the opportunity afforded by rapid urbanization:

> The story of Africa's growth potential is brought to life by 1.2bn inhabitants and an urban population estimated to increase by 24m people annually. With listed SA assets no longer offering attractive returns, and with a better understanding of how best to implement strategies on the broader continent, there's a case for retirement funds to reallocate a portion of their traditional SA growth assets to pan-African mandates. (Micklethwaite 2019)

An urbanizing population also implies changing consumption patterns and increasing demand for food, especially in the form of processed and packaged food. Across Southern Africa, urbanization has been linked to the desire for convenience shopping, reflected in the growth of supermarkets and the emergence of powerful SA retail brands including Fruit & Veg City (Food Lover's Market), Pick n Pay, Shoprite, Spar, and Woolworths (das Nair 2018). Shoprite has opened more supermarkets in other African countries since the 1990s than any other company, and currently has more than 2,700 stores in 15 African countries. According to the CEO, in the 1990s 'you just knew that Africa is a sleeping giant. It's going to wake up at some stage' (quoted in England 2015). SA retailers are probably the most visible form of foreign investment because of their wide exposure to the local population. They also contrast with the traditional open markets, informal street traders, and rows of small shops along narrow streets (Games 2004). This has had positive and negative consequences (discussed below). Their market power gives them considerable influence over their suppliers and the performance of agriculture and agro-processing industries. In practice, their expansion has been accompanied by more imports than local production of food and other groceries (Roberts 2019). Major SA retailers have integrated their operations across the subcontinent into efficient and profitable businesses, but they are widely perceived to have done the bare minimum to support local suppliers in their host countries, tending to blame their inferior capabilities and higher costs.

SA retailers have maintained stronger linkages to SA suppliers, with whom they have tried-and-tested relationships. Besides the obvious grocery suppliers and food manufacturers, SA real-estate and construction companies have participated in building new shopping malls elsewhere in Africa (see below). Many other SA retail brands and fast-food chains have rented units in these centres, including Debonairs Pizza, Edgars, Ellerines, Foschini, Game, Makro, Mr Price, Mugg & Bean, Nando's, Pep, Steers, and Truworths. They share an interest in meeting the growing consumer demand in Africa and diversifying from the sluggish domestic market. Sales in the rest of Africa have generally been increasing much faster than at home. SA retail companies have an advantage of proximity over competitors from other continents, particularly in Southern Africa, where stores can be reached by trucks in a day or two from distribution depots in Gauteng. Lengthier supply chains are expensive and precarious, so firms have fewer stores as distance increases from Gauteng. Their professional experts in technology, property management, and supply chains are also just a two- or three-hour flight away.

The main form of infrastructure provided by SA companies has been telecoms, especially mobile telephony. This was made possible by the opening up of domestic markets to international suppliers during the 1990s and early 2000s. The SA companies MTN and Vodacom have enjoyed particular success in other African countries, and they now have extensive footprints (MTN 2019; Vodacom 2019). Their activities have contributed to local job creation (particularly through local agents selling prepaid cards) and to the construction of masts and the supply of equipment. They

are also facilitating the growth of tech start-ups, the expansion of digital services, and other signs of incipient economic transformation.

Efficient logistics systems are vital for African cities to be connected to each other and to the wider world at the lowest possible cost. Imperial Logistics is a leading global logistics company with headquarters in SA that operates in many African countries, as well as in Europe and Latin America. It recognizes Africa's long-term growth potential and is actively expanding its physical footprint through its 'Africa-focused growth strategy' (Imperial 2020b). Its vision is to become the 'gateway to Africa' for multinational companies by offering integrated logistics and market access: 'our unique African Regions network and capabilities make us an attractive strategic partner to multinational clients' (Imperial 2020a). This goes well beyond standard transport and warehousing functions to include freight management consultancy, scheduling, and customs clearance. This represents a shift from relatively routine activities to more sophisticated services reliant on advanced knowledge and technology. Its primary market is delivering healthcare products (such as pharmaceuticals), cigarettes, bottled drinks, and assembled cars to wholesale and retail outlets. Note that the emphasis is on facilitating the import and distribution of goods for consumption, rather than enabling the export of basic commodities or manufactured goods. Furthermore, the company's commitment to customized logistics solutions to client needs and its partnerships with local firms in each territory mean that the number of jobs created in SA itself is modest considering the scale of its operations.

Another source of potential demand for urban services is the increasing investment associated with commodity extraction. The recent discovery of massive gas reserves in Mozambique has prompted global interest in the opportunities to provide the infrastructure required to extract and process the gas, and to construct the new city that will be required to accommodate the tens of thousands of workers onshore. Mozambique is projected to become the world's fourth-largest producer of LNG, and its GDP is expected grow at up to 10 per cent a year for the next 30 years (Planting 2019). This will require the building and expansion of seaports, airports, roads, power stations, water and sanitation networks, housing, schools, and hospitals on a large scale. SA appears well placed to benefit from these opportunities because of its proximity and proven technical proficiency in many of these fields. The export credit guarantees underwriting Standard Bank's loans are intended to secure market access for SA companies worth about US$500 million (Creamer 2019). SA could conceivably become a world leader in gas exploration and extraction techniques, as well as a leading supplier of engineering, construction, and project management capabilities to Mozambique, with many spin-offs for the domestic producers of plant, equipment, building materials, and other inputs.

4.2 The challenging conditions in African markets require a long-term perspective

The scope for SA companies to respond to these opportunities has been constrained by the challenging operating conditions that prevail in many of these countries. These differ in detail from sector to sector and from country to country, but the basic position appears to be that the 'Africa rising' narrative that prevailed a few years ago has run out of steam (Mills et al. 2017). Investors appear to be wary of heightened risks and potential losses arising from economic instability and political uncertainty, resulting in many countries being unable to repay loans or pay for imports (Buker and Hewson 2020). At the risk of overgeneralization, there appear to be essentially five obstacles to stronger SA trade in services with the rest of Africa.

First, the economies of most African countries remain relatively weak, with low average incomes, low levels of investment, and low public spending on infrastructure and services. This translates into low effective demand, weak private sector capabilities, and a large informal sector. Low disposable incomes mean that some SA retailers and financial institutions have found it difficult

to generate the returns they expected. The burgeoning middle-class consumer has proved elusive in many countries, and competition from global corporations with sophisticated supply chains has intensified in several sectors, causing many SA companies to retreat and close local branches. For example, the insurance company Liberty decided to scale back its operations in 24 countries in 2018 to 2019 and refocus on SA. Liberty overreached itself and incurred serious losses as it struggled to adapt to the low-income African markets, whereas it was performing better in SA's more affluent market (Buthelezi 2019). In contrast, Sanlam has managed to adjust to conditions elsewhere and continues its ambitious expansion plans in many African countries, despite not earning very large returns. This is partly because 'it is in it for the long haul' (company interview). One of Sanlam's methods of coping with weak economic conditions is to make exclusive arrangements with multinational companies operating across the continent and offer their staff a variety of health, life, property, and casualty insurance services (Bloomberg 2019). According to the Sanlam CEO, 'we need to be strongest in the big, important countries and obviously have the unique footprint that we have to make sure that we insure the corporates no matter where they operate' (quoted in Henderson 2019).

Shoprite has deliberately built its business model on the promise of lower prices, based on an efficient distribution system and constant pressure on its suppliers to cut costs, so it has performed better than most SA retailers (das Nair 2018). However, this has not been straightforward, and the company has had to close stores in countries such as Uganda, the United Republic of Tanzania, and Zimbabwe because of operational difficulties, competition, and financial losses. Its uncompromising focus on the bottom line is bound to have restricted its scope to engage in broader capacity-building and supplier development activities. Other SA retailers have also experienced problems in recent years and are facing new challenges from low-cost European and Turkish retail chains. According to one interviewee, 'there is clearly a need for formal retail outlets in Africa, but translating that into a viable property development proposition is very difficult because of the lack of formal retail chains and suppliers' (independent adviser A). Such difficulties have caused some SA property developers, such as RMB Westport, to withdraw from these countries and sell their investments. Their buildings were more expensive than their competitors', and their costs were too high. The director of RMB Westport has referred to the 'extreme challenges' of commercial property development in many African markets, including 'uncertainties related to land ownership, slow legal systems, inadequate infrastructure, and high building costs' (quoted in Maritz 2017). According to an interviewee, 'property was very big at some point in the past. Everyone was out there. It was one of the leading sectors. But there hasn't been the kind of bonanza that they were hoping for' (independent adviser A).

Second, the economic risks of doing business in many African countries are high. An immediate reason for this is their continuing dependence on primary commodities, the prices of which are notoriously volatile and unpredictable. The knock-on effects include wide currency fluctuations, which create difficulties for SA companies doing business there to price their products accurately and to repatriate profits. The decline in the global oil price has posed particular problems for Angola, Ghana, and Nigeria in recent years, leading to generalized slowdowns. Zambia has suffered from the falling price of copper. Almost all SA companies in retailing, financial services, and telecoms have been affected by the economic uncertainty in one way or another, resulting in the scaling back of expansion plans and closure of loss-making branches in some cases. Of course they are not the only ones—many other new African retail brands, including Choppies, Deacons, Ebrahim, Nakumatt, Uchumi, and Ukwala, have also suffered in the difficult trading environment, with suggestions of oversupply of malls in some countries (White and Rees 2019).

Third, there are many political risks facing investors in African countries. These range from weak leadership and unreliable governance to mismanagement and corruption. A common concern is the inability of political leaders to implement reforms to improve the business environment,

including delivering essential infrastructure and ensuring that the regulatory framework is fit for purpose. A senior executive complained about confusing procedures that were designed to obscure ulterior purposes: 'there is a high level of bureaucracy, and it takes a long time to get decisions. Officials can sometimes raise queries indefinitely as a tactic to delay payment or to disguise when you weren't a favourite appointment' (executive from engineering company A).

The extension of democracy to more and more countries in recent years is widely applauded, yet this has added to the risks of disruptive leaders changing policies in irregular and arbitrary ways contrary to the national interest (Buker and Hewson 2020). Electoral cycles are often accompanied by sudden policy shifts and procedural changes as new political leaders seek to make their mark. Many governments do not seem to appreciate the value of policy certainty and predictability to attract and sustain long-term investment. Companies complain that they cannot anticipate the future operating environment if governments keep interfering with established rules and frameworks. They say that it is becoming more common for governments to amend regulations, penalize businesses, and even nationalize selected companies and confiscate resources to solve a financial shortfall or to promote populist agendas. One respondent cited the example of the Kenyan government, which recently insisted that all freight being transported between Mombasa and Nairobi should be shifted from road to rail because of the need to recover the inflated cost of building the railway. Meanwhile, the consequences for attracting additional investment and growing the economy are often ignored. Negative sentiments towards SA following xenophobic unrest have created problems for well-known SA brands in shopping centres, including arson attacks against particular supermarkets and other tenants, leading to closures and a loss of rental income to the property owners.

A major retail developer tells the story of how they followed all the correct procedures over a period of several years to plan and construct a shopping centre in a suburb of Maputo, Mozambique, including identifying and acquiring a suitable site and obtaining all the requisite regulatory approvals. Not long after the mall was built, the government granted permission to a Chinese company to develop a much larger commercial complex next door. This contradicted the formal plan and zoning scheme for the area, and undermined the viability of the first mall. The developer felt badly let down by the untrustworthy governance arrangements and believed that the Chinese company had struck a secret deal directly with the government because of its political clout.

Another property developer explained some of the other implications of these political risks. Building shopping malls and office blocks can easily take five years or more of planning, preparatory work, and on-site construction. This is a period of considerable vulnerability to disruption, with serious financial consequences. One of the risks this developer has faced in Cameroon, Côte d'Ivoire, and Mozambique is that a change of political party or leadership during this period creates doubts about how the developer gained permission for the project in the first place. Lack of trust in state institutions means that suspicions are raised that the developer secured a political favour, perhaps through corrupt means. The new leaders then try to obstruct progress, criticizing the project as illegitimate, perhaps with ulterior motives in mind. External investors have to be alert and highly adaptable to such eventualities. These kinds of political risk also tend to discourage investment in new greenfield projects in favour of existing assets and activities, including takeovers and mergers.

Fourth, African cities tend to be high-cost environments in which to invest. The political and economic risks tend to translate into a higher cost of capital. The infrastructure shortfalls require investors to purchase their own generators and other facilities. The lack of formal suppliers of building materials and equipment means that developers have to import almost everything. Moreover, the shortage of skilled personnel to manage projects means that expatriates need to be

brought in while locals are being trained. They charge higher fees to cover the risks of not being paid, and their travel and subsistence expenses have to be factored in as well. One developer said it could cost between two and four times more to build a shopping mall elsewhere in Africa compared with SA. Developers and investors are sometimes tempted to recruit their professional staff from countries where wages are lower, such as South Asia.

Fifth, there is growing competition to invest in Africa from other countries and continents. Some foreign companies appear to have taken a more strategic view and been better organized than SA companies. Some of them have had more supportive governments to reinforce their efforts, including China, Japan, the Russian Federation, Turkey, and several European countries. For example, the Russian Federation is looking to capitalize on the rising demand for energy in Africa through nuclear power deals that bolster Russian technology, jobs, and geopolitical influence. China is undoubtedly the dominant force at present, and may be responsible for financing one in five infrastructure projects on the continent and constructing one in three (Deloitte 2018). Two examples are the Addis Ababa to Djibouti railway (US$4.5 billon) and the Nairobi to Mombasa railway (US$3.2 billion). The Chinese government has been courting African governments for some years and appears to be changing the rules of the game. Its determined approach means that deals involving Chinese contractors are often sealed at a high level, thereby bypassing conventional bidding procedures and other regulations governing local content. Chinese contractors' ability to offer cheap finance and speedy project delivery (partly through using their own labour) are two major inducements, offering genuine advantages to fiscally constrained governments desperate for development. However, there have been periodic concerns raised about the quality of the work on some projects, the quantities of local jobs created and know-how transferred, the limited transparency of the deals, the level of debt-financing, and diversion of the surplus out of Africa (Olander and van Staden 2016). Imported Chinese models of urban design and development are inappropriate for domestic conditions without local adaptation, yet Chinese companies are currently building several new cities in different African countries. The Chinese have also been criticized for negotiating financial guarantees to use natural resources as collateral for infrastructure investments, as in Angola.

> The Chinese come in and have lots of finance. However, the locals get little to no benefit from Chinese projects… they are only involved for their own purposes to gain access to cheap mineral resources. China has produced many high-quality infrastructure projects within China, but the quality of delivery in Africa is very low. They provide the least-quality price to make the most profit. (Executive from engineering company A)

Some other governments provide subtler forms of assistance for major infrastructure schemes, such as conditions attached regarding the source of content to favour their own contractors ('tied aid'). They also fund project feasibility studies geared to supporting their consulting engineering firms. Having this detailed knowledge in advance then puts them in an advantageous position to compete for the full project when it goes out to tender. This has been important for many energy, infrastructure, and mining projects in Africa (interview with DTI official). The best chance SA companies have to compete for such projects is as subcontractors for particular elements of the work. In recognition of the significance of feasibility studies, the DTI subsequently set up a fund for this purpose to sponsor projects both within and outside SA. One of the conditions is that 50 per cent of the work must go to SA companies. However, the fund is relatively small, with under 10 million ZAR in disbursements in the year 2017 to 2018. It is also not available for firms in the services sector (DTI 2018).

Another challenge has been that foreign multinationals coordinating megaprojects in mining and minerals have tended to favour service providers and suppliers from their own countries, with

whom they have long-established relationships. SA service providers have often ended up with crumbs from the table. This appears to have happened so far with the massive LNG projects in Mozambique, which have been awarded to companies from Australia, Canada, and the United States (Creamer 2019) while SA companies only get 'a drop in the ocean' (interview with DTI official). There are various reasons for this, one of which seems to be that 'South Africans are failing to grasp the scale of the opportunity', according to Africa House director Duncan Bonnett (quoted in Creamer 2019). This is despite Standard Bank being a major lender to these projects. Another interviewee made a more general point: 'we haven't taken advantage of our proximity and access to such opportunities [in Southern Africa] because companies have been too passive and the government too timid. Other countries are eating our lunch' (independent adviser A).

It appears that competing for work to provide infrastructure services is more complicated than competing in established markets for basic retail or financial services. This may help to explain why SA engineering companies seem to have been less successful abroad than SA retailers, banks, and insurance companies. Opening branches of supermarkets or banks is more straightforward than designing and implementing unique infrastructure schemes or logistics systems. There are also fewer direct, visible economic benefits to the original country from exporting expertise in engineering, design, project management, etc. than from exporting many other services and goods. Knowledge-intensive services tend to complement other activities and enable them to function more smoothly. Consequently, governments (including SA) may find it difficult to justify support for them in the face of many competing claims on public resources.

4.3 There are marked tensions between globalization and localization

There are two important but contradictory tendencies at work among the companies we interviewed. On the one hand, they are exposed to wider competitive pressures and opportunities that were not apparent a few decades ago— 'globalization' for short. More open markets, increased global trade, capital flows, and the spread of technology are accompanied by corporate mergers, consolidated ownership, and the creation of global value chains. Firms that become part of multinational corporations can more easily access external markets, finance their expansion, compete for megaprojects, and tap a global talent pool. They have stronger brands and bigger marketing and technology budgets, and they tend to be considered more stable and secure service providers by their customers. They are also more likely to have the range of expertise and capacity in-house to bundle services together and take over from governments the entire responsibility for turnkey projects, from design and procurement through to execution and completion.

These benefits are often offset by drawbacks of standardization and loss of local management control, as the enlarged corporations endeavour to minimize reputational risks and other uncertainties by introducing uniform procedures and cultures across the whole organization. Providing a consistent, predictable service across different territories also makes it more difficult for the local offices to understand and respond to diverse market conditions and social traditions, because they lack the necessary discretion and expertise. Meanwhile, the most specialized tasks and most valuable functions within multinationals and global value chains tend to concentrate in a few strategic locations—typically the global centres of finance, knowledge, and technology. This may deprive more peripheral locations of important skill sets and competences. Consolidation may mean a loss of other jobs too, partly as a result of higher overheads and wages across the global corporation.

Consequently, globalization trends are frequently met by countervailing tendencies in favour of localization. This means strengthening local capacity, nurturing closer relationships with governments, and building localized supply chain linkages. The purpose is to increase responsiveness to the situation on the ground, to strengthen local control, and perhaps to promote

local ownership and assets through home-grown businesses. Localization tends to imply creating more local jobs and high-order skills, as technical expertise and capabilities remain within each country, and surplus income is circulated internally rather than transferred elsewhere. Local decision-making can make space for creativity and innovation without the pressure to conform to wider norms and standards, and can therefore help to increase productivity and reduce costs.

Governments are increasingly adopting local content laws and regulations that require foreign companies and contractors to use a certain quantity of local labour, materials, and services in their processes (Deloitte 2018). They recognize the power of procurement to achieve broader developmental objectives. Compliance with these rules can reduce political risks and enhance the credibility of firms among governments and communities. There can also be drawbacks if the degree of localization is excessive, especially if the local operation becomes isolated from global activities. It may not realize its potential if it cannot tap into external markets or benefit from wider advances in knowledge and technology. Independent national companies may struggle to meet the upfront costs involved in bidding for large infrastructure projects. Stringent and uncompromising local content rules imposed by governments can discourage foreign investment by adding substantial costs and making projects unviable. For example, the target for local procurement of services in the SA mining charter is that a minimum of 70 per cent is spent on SA-based companies after the first year and 80 per cent after the second year. This is much more demanding than the equivalent target for manufactured goods: 10 per cent after the first year, 20 per cent after the second year, 35 per cent after the third year, 50 per cent after the fourth year, and 70 per cent after the fifth year (Department of Mineral Resources 2018). The government clearly believes that it is much easier to source services locally than goods. Another respondent cited an example of a new and unrealistic localization requirement in Nigeria: within five years, 60 per cent of pharmaceuticals sold in the country must be made locally.

Consolidation among SA companies engaged in selected urban services has been a pervasive feature over the last two decades, resulting in the disappearance of many independent firms. For example, consulting engineering is a crucial function at the front end of infrastructure project origination. Such companies tend to be well connected and knowledgeable about prospective developments around the world. Countries with strong capabilities tend to secure a disproportionate share of the value chain in infrastructure and mining investments. SA had considerable expertise in consulting engineering some 15 to 20 years ago because of its strong mining and industrial history. Then a series of external acquisitions took place, ostensibly to leverage SA as a springboard for accelerated activity into the rest of Africa (Greve 2013). However, this seems to have resulted in less activity in SA. Leading foreign multinationals in engineering, construction, and related fields were far-sighted in merging or taking over SA companies to position themselves to secure major contracts. For example, Africon and Ninham Shand became part of Aurecon (an Australian company); PDNA was taken over by Mott MacDonald (British owned); WorleyParsons (Australian owned) acquired three SA companies (Kwezi V3, Pangaea, and TWP Holdings); Aecom (a United States company) took over BKS; Hatch (Canadian owned) acquired Goba; and Royal HaskoningDHV (a Dutch company) acquired SSI Engineers and Environmental Consultants.

Several of these companies explained why they were keen to merge with larger corporations. Access to a global resource pool was particularly attractive for ambitious firms keen to diversify into new territories. The chief executive of a prominent engineering company recalled that acquisition by a multinational was ‘groundbreaking’ at the time. It enabled them to become the first consulting practice in the country to offer services accredited by the International Organization for Standardization. Five out of the seven engineering firms interviewed were taken over at some point:

> We felt it would be better to become a global generalist because of domestic market risk. At the time there were a lot of projects happening in the rest of Africa, and joining a multinational brings a strong track record. (Executive from engineering company A)

> Consolidation of the industry is occurring at an international level, primarily through increased merger and acquisition activity, and is, in my view, a normal reaction to the demand of the market as projects become larger and more complex. (Graham Pirie, CEO of Consulting Engineers South Africa, quoted in Greve 2013)

Another company illustrates the potential benefits of combining local knowledge with access to international resources. It is a hands-on investor in energy, infrastructure, and real-estate projects. The SA office coordinates its investment projects in Southern Africa. Most of the funds originate from pension funds in the United States and Europe. The company depends on local professionals to identify and assess investment opportunities, negotiate deals with stakeholders, obtain regulatory approvals, and execute projects. This is typically done in partnership with local firms that have the necessary specialized expertise. The company sometimes acquires a stake in its partners or establishes formal joint ventures to ensure meaningful collaboration and resource-sharing:

> Actis is resolutely local. Our competitive intelligence and access to opportunities derive from nurturing close relationships on the ground. We match this local insight with a global sector approach […]. Our competitive advantage derives from professionals working together, combining the benefits of local insight and deep-rooted relationships within a broader global perspective. (Actis 2020)

One drawback to SA of the firm being a multinational is that its back-office functions are outsourced to India.

Many of the foreign takeovers of engineering firms mentioned earlier seem to have ultimately weakened domestic capabilities. A senior official in the DTI explained that there were three main reasons for this: (i) SA engineers started working more on projects abroad (including Asia, Australia, and Europe), and over time many left the country—being employed by a global company made it easier to leave; (ii) SA engineers had to report to head offices elsewhere, which restricted their freedom of manoeuvre and ability to secure work independently; (iii) the multinationals were less interested in promoting SA expertise and skill sets, because of their global reach and ambit.

SA companies experienced another problem with the method they used to export their services. Several respondents explained that they had tried, or knew of other firms that had tried, to market their knowledge and expertise with minimal investment in the host country. Various phrases were used to characterize this approach, including 'helicopter', 'briefcase', and 'plug-and-play'. In other words, they would get all the business licences and approvals they required to operate, and then try to manage the project from afar, without the cost of establishing a physical presence. In effect, their professionals would fly in and out of these countries for short visits. In some cases, they would even use tourist visas to avoid taxes, professional registration procedures, and other costs of doing business. One respondent described this mindset as 'old-school': 'they try to use a standard approach without adapting it to the local context, they try to bully locals into accepting their formula, hence they don't add much value and are more expensive (perhaps 20 to 25 per cent higher)' (executive from investment finance company B). He reckoned that most SA building contractors followed this way of doing business. This is alarming if it is true, since it is a highly

extractive model. Against this, many governments are becoming alert to these practices and introducing rules to make them more difficult.

Of course, establishing a local office and investing in staff on the ground is no guarantee of success either. An executive in one of the above-mentioned consulting engineering firms explained that many of its African branches struggled to make money because of the stiff competition it faced from other companies, both local and multinational: 'you need the right contacts and to understand the local market to make money' (executive from engineering company A). As a result of these difficulties, the company reduced its footprint on the continent to focus on fewer, larger countries in East Africa, plus Ghana and Nigeria.

Another response to such challenges was for several SA companies to revert to local ownership. For example, the SA engineering firm Hill Capital Scott was acquired by the United Kingdom-based Gibb, later sold on to the United States-based Jacobs Engineering Group in 2001, and a few years later went back to full local ownership. The most prominent recent example involves Aurecon separating from its Africa business at the start of 2020. The CEO, William Cox, explained the rationale for a more localized approach:

> In recent years, conditions in Africa have changed. Global models are no longer considered an advantage with clients in Africa focusing instead on supporting and working with smaller local firms. The overwhelming vote in favour of the separation reflects the collective belief of Aurecon's owners that the separation of the Africa business from the overall group is in the best interests of both businesses. (Quoted in Arnoldi 2019)

Aurecon envisaged that the separation would position each part of the company to better focus on performance and growth, to reduce the complexity of its operations, and to provide greater financial security for both businesses. According to the managing director of the Africa business, Dr Gustav Rohde, 'the demerger allows the Africa business to re-engineer how we partner with our clients and capitalize on market opportunities available across our continent while remaining agile, digitally focused and an African employer of choice' (quoted in Aurecon 2019).

The political pressures for localization clearly pose serious dilemmas for firms providing knowledge-intensive tradable services. Merging with global enterprises provides access to superior resources and expertise of various kinds, but at the expense of credibility with government clients and a strong local presence to manage relationships and comply with local content and ownership requirements. SA-owned companies face similar difficulties when accessing markets in other African countries: do they retain their tried-and-tested relationships with existing SA suppliers, or do they support the development of local enterprises? One of the factors affecting their response is the complexity of the input being considered.

The skill sets required to design and construct a modern shopping centre do not readily exist in many African cities. SA retailers such as Shoprite have collaborated with particular SA property investors and developers to build and manage malls elsewhere, including Actis, Novare, Raubex Renovo, and Stanlib. Their tasks have been to identify strategically located sites for development, to obtain all the regulatory approvals, to design and construct the centres, to identify additional tenants, and then to manage and maintain the centres. Shoprite has generally been the lead partner as the anchor tenant in the centres, thereby guaranteeing a certain rental income. According to Novare's website, 'our strategy is to leverage off the expansion of successful SA and international companies in Africa' (Novare 2020). A senior executive from Novare explained to us in an interview: 'they decide where and when to invest. We follow them. […] Our relationship with them is critical. We work very closely with them as a team. Have a good understanding.' Being based in

Cape Town helps because it is not far from Shoprite's headquarters, and they have regular face-to-face meetings to discuss project plans and progress. Novare also meets regularly with other SA retailers based in Cape Town which are tenants in their centres, and with their professional service providers—consulting engineers, architects, surveyors, financiers, etc. These relationships minimize the hazards inherent in such projects: 'we deal with premier financial institutions, high-end project and property management as well as construction companies to mitigate construction and development risks' (Novare 2020). Shoprite has been unable to find such partners to work in some African cities, so it has been forced to develop and manage the real estate itself, which has added to its costs.

Conditions on the ground change from year to year, and such initiatives can prompt other suppliers to get involved or new service providers to emerge. Several interviewees maintained that the situation is dynamic, and that considerable potential exists for local firms in host markets to become significant suppliers as they improve their capabilities over time, and as their networks and relationships deepen. For example, SA retailers initially import the bulk of their merchandise from other SA suppliers in order to fill their shelves, but over time they may substitute these imports with local goods as domestic companies emerge that are capable of meeting their requirements. SA companies face pressures from the media and politicians to embed their operations more deeply within the local economy and society. It is unclear how committed they are to building the capabilities of local suppliers. Several interviewees said that SA companies appear to face higher expectations than firms from other continents because of historical experience. This may simply reflect their negative attitudes towards localization and reluctance to get involved.

Several companies recognize the positive reasons for localization and seek to partner with local firms in their destination markets from the outset. They believe that close cooperation offers deeper insights into local operating conditions and improves credibility with clients and local communities. If combined with investment in transferring skills and know-how, this seems to be a more responsible and developmental approach that contributes to strengthening local capabilities. This could perhaps be supported more explicitly by the SA government and industry associations:

> We often pair a SA or global company with a local company in the relevant country to get the best of both worlds—expertise from SA with local help in contacts and implementation. It has worked reasonably well, although they often fight over the share of the pie. Over time the quality of the local partners has been improving. It is often helped by the return of skilled professionals in the diaspora who trained abroad, got experience, and returned home. Nairobi is a good example of a city with improving local contractors. (Executive from investment finance company B)

> The approach to entering new markets is largely partnership-based, with a focus on upskilling and investing in local talent and enterprises. We have a win-win business model. We grow and so do our in-country partners. Our philosophy is not to come into a country and take over; it's to work with relevant and trusted partners on the ground, and let local managers and boards run their businesses with our support. This way we create jobs, upskill individuals, and invest in the countries we enter in—and Africa as a whole. (Executive from financial services company A)

To summarize, there are contradictory tendencies at work in the market for tradable urban services in Africa. The economic pressures and arguments for opening up opportunities to international

suppliers are offset by opposing forces encouraging localized service provision. SA companies generally appear to have lost out from the globalization process, although they could benefit from growing support for, and allegiance to, an agenda of pan-African trade and integration. Chinese companies often seem able to avoid the norms and procedures that govern many other firms. A more enlightened approach by SA companies committed to joint ventures with local partners might be attractive to many African governments.

4.4 Government policies and practices leave room for improvement

It is clear that governments are crucial stakeholders in relation to urban services and have the power to shape outcomes quite profoundly through their roles as (i) the principal investors in urban infrastructure or purchasers of infrastructure services, (ii) land use planners and policy makers that seek to steer and guide urban development, and (iii) regulators that endeavour to influence and manage private investment in the built environment. These are complex functions that have the potential to create a conducive environment for investment and growth if the balance between them is appropriate and they are aligned and executed effectively. Alternatively, they could cause uncertainty and bring about dysfunctional conditions that would deter investors through incoherence and poor implementation.

Many of the policy and institutional challenges that arise in African countries have already been discussed. Many boil down to concerns about unpredictability, risks of arbitrary decisions, and lack of trust in political authorities. In addition, the capacity of governments to steer urban outcomes constructively has rarely been used to its full potential. Many interviewees maintained that governments are not using rules of compliance related to infrastructure investment to boost local content and jobs in an effective or sustainable manner. They identified four main concerns about these policies. First, they are not sufficiently well informed to support a developmental agenda involving progressive improvement over time, but are often applied indiscriminately as a reactive, mechanical box-ticking exercise. Second, they sometimes lead to extractive or rent-seeking behaviour by front-line officials, rather than capacitation and constructive engagement. Third, they are often not applied consistently: some companies feel that the requirements on SA firms are too onerous, which deters investment, while other foreign companies are somehow treated more leniently. Fourth, they are open to manipulation by multinationals with astute legal advisers. For example, the degree of company ownership can be obscured and misrepresented to inflate local control by creating subsidiaries. Our review of the websites of leading multinationals in the built environment revealed complex and often opaque arrangements in which the status of local branches and subsidiaries was unclear. This makes it very difficult to judge whether genuine attempts are being made to foster local autonomy and ownership, as against circumventing the rules through 'fronting'.

There are additional organizations besides African governments that can exert a big influence on urban outcomes, namely multilateral bodies such as the AfDB and World Bank. Their funding of infrastructure projects is clearly important. They can also determine which contractors secure projects, both directly and indirectly through support for feasibility studies. Their involvement has not been particularly helpful as far as SA contractors are concerned, according to several interviewees, who harbour suspicions that established multinationals from the Global North are favoured. The oversight and participation of these multilateral organizations can also be important indirectly through offering reassurance to other funders that the risks to the project have been identified, evaluated, and mitigated. Their involvement may signal that projects have been through due diligence, have solid financial backing, and will be subjected to regular monitoring, scrutiny, and hand-holding. A recent AfDB investment forum attracted investors from more than 100 countries who collectively signed off 56 deals valued at almost US$68 billion (Games 2019). The AfDB has established a solid track record of investments on the continent with a AAA rating from

the top rating agencies. They include renewable energy, telecoms, transport (rail and road), and municipal services. In October 2019 the AfDB's shareholders gave a strong vote of confidence by more than doubling its capital base from $93 billion to $208 billion.

The SA government has not done as much as it could have to support SA companies to export urban services. It does not have a coherent or coordinated approach to trade in services, partly because of its relatively narrow approach to industrial policy. With a few exceptions, there has been little acknowledgement from the DTI that some service sectors have a strategic role to play in creating jobs, that knowledge-intensive services can complement manufacturing, and that engineering and related services are pivotal enablers of infrastructure-type projects. The lack of state support was a common theme emerging from interviewees:

> The government doesn't recognize the opportunities for trade in Africa from our kinds of activities. (Executive from investment finance company C)

> SA development finance institutions are not as good in partnering with SA firms compared to other multinationals. They bring along far more powerful DFIs [development finance institutions] from their host countries which add a lot more value. (Executive from engineering company B)

Another interviewee identified two additional drawbacks. First, the government is short-sighted, overcautious, and lacks vision for the possible role of SA companies in Africa's development. Second, relationships with the private sector are generally poor, so communication and cooperation are limited. The private sector tends to be suspicious of any government involvement, while the government is critical of the lack of transformation in big business and harbours suspicions of excessive profiteering. According to one of the companies interviewed:

> The government tends to see the private sector as a threat and is hostile to capitalism. It assumes it is purely profit-oriented, but the private sector creates many jobs, drives efficiency, lowers costs, and improves competitiveness, etc. The government could use the private sector to drive efficiencies in creating a virtuous cycle of job creation and investment. (Executive of logistics company A)

The government also believes that business should be restrained in expanding into Africa. Consequently, it is not inclined to reduce the risks facing SA companies, because this would encourage more assertive practices. Recent xenophobic tensions and attacks have complicated the position of SA companies. The issues could perhaps have been addressed head-on by the government through effective communication to allay fears and defuse a volatile situation. Yet various respondents also recognized positive support from the Reserve Bank in offering concessionary foreign exchange to exporters.

One exception to the government's reticence was the Maputo Development Corridor (MDC). This was a pioneering scheme and could have been a forerunner of other cross-border transport infrastructure projects in Africa, such as Addis Ababa to Djibouti. The MDC was an integrated spatial development initiative launched in 1995, partly as a demonstration project for SA to promote such initiatives elsewhere in Africa through investment in infrastructure. The impact on SA tradable services would have been considerable. Under the MDC, SA state entities invested heavily in redeveloping the Maputo port, and in upgrading rail and road links to Gauteng with a view to spurring industrial development and jobs along the corridor. Eskom and Transnet were closely involved in extending electricity supply in Mozambique and improving the railway network. Many SA consulting engineers and other professional service providers were heavily invested in these projects. Some US$6,000 million worth of private investment and 65,000 temporary and

permanent jobs were realized over the period from 1996 to 2001 (Todes and Turok 2018). Another outcome was a big growth in trade passing through the Maputo port. The movement of people and goods between SA and Mozambique increased by 27 per cent per annum, imports rose by 58 per cent, and exports rose by 55 per cent over the same period. Efforts were also made to support clusters of small and medium-sized enterprises along the route.

The SA government tried to promote this experience elsewhere in Africa. However, this effort was not sustained or followed through with support for particular projects in specific countries. As a result, the country failed to capitalize on and replicate the MDC experience elsewhere. There was a real opportunity to contribute to, and benefit from, a wave of infrastructure and industrialization across Africa. But perhaps it was too soon. One of the obstacles was the lack of 'bankable' or 'shovel-ready' projects ready to be implemented. A great deal of costly feasibility analysis was required before contractors could be appointed to commence work. It was unclear who would pay for and oversee these studies in the absence of capacitated governments. In addition, other countries were suspicious of the SA government's motives. They were unconvinced of the mutual benefits of transport improvements, fearing that the effects would be one-sided in favour of SA. A DTI official also believes that outside interests deliberately fuelled the tension between African countries so as to hinder the prospects of SA firms. Meanwhile, several SA companies did not help the country's cause by reinforcing the impression that they were only interested in short-term profit extraction and would not consider how they might make a bigger contribution to the development of the host country.

Loan finance is one of the most potent levers to open up opportunities for SA firms across the infrastructure value chain. However, organizations such as the Development Bank of Southern Africa and the Industrial Development Corporation (IDC) do not appear to work in a coordinated manner. The IDC is also restricted by its narrow mandate of industrial financing, as governed by the DTI. Apparently, it withdrew support for the construction sector in the year 2009 to 2010. The IDC will fund infrastructure projects if they are related to industrial purposes, but it generally ignores service sectors. The IDC is also somewhat risk-averse in its attitude towards development financing, as acknowledged by one of its officials:

> Economic feasibility is our number one. We are not a grant institute. We give money where we believe there will be a return. […] The IDC has been self-funding since 1960, whereas other agencies rely on IMF [International Monetary Fund]. However, this also means we don't take sufficient risk—we could have funded a lot more.

The SA government also imposes limits on the amount that SA pension funds can invest elsewhere in Africa, which is up to 10 per cent of funds under their management. Yet they seldom even reach that target, because of a lack of depth in African capital markets and a lack of relevant knowledge by the consultants who advise them on investment opportunities (Games 2019). This appears to be symptomatic of the general neglect by SA companies of opportunities elsewhere in Africa. One could envisage a more determined and concerted effort across the SA government and private sector to invest in African infrastructure and institutional capacity—partly out of self-interest, of course, but also to help strengthen the continental economy to the benefit of all.

There is one other scheme worth mentioning. The Built Environment Professions Export Council (BEPEC) sounds highly relevant from its name alone. It was set up to assist SA engineering, architecture, and quantity surveying firms and building contractors to export their services into new African markets, thereby helping to diversify SA exports. BEPEC recognizes that 'SA is one country that has the built environment skills the continent needs to close its infrastructure gap' (BEPEC 2020). It has a particular interest in helping smaller and black-owned businesses to

become export ready. It can also connect firms to funding sources and help them to form consortia to bid for major projects. In practice, BEPEC was seldom highly regarded by any of the companies or other stakeholders we interviewed.

5 Conclusion

There is a growing debate about the role of tradable services in economic development, and their potential to replace or complement primary and secondary industries. Much of the discussion is pitched at a high level of generality. This limits its usefulness because of the reality that service industries are very diverse. This study focuses on tradable urban services in order to develop deeper insights into the commercial opportunities and challenges for SA to play a larger role in improving how urbanization is taking place elsewhere in Africa. The possibilities for SA companies to supply services related to the development of land, infrastructure, and the built environment appear to be large and growing. There is increasing national and international investment and awareness of the need to strengthen urban planning and land use management in order to harness the potentially fast-growing cities and to reduce the hazards. However, there are also many challenges to be navigated in realizing these opportunities and minimizing the risks.

An important conclusion from the research is that the experience of SA companies in other African countries has been very mixed. The existence of both positive and negative outcomes makes it difficult to generalize. One simple reason for this is that tradable urban services are very diverse themselves. Some are not easily standardized, scaled, or replicated because they relate to discrete activities, such as infrastructure projects. They have to be tailored to the specific circumstances of the place, and adapted to solve the particular problems of individual clients. This requires considerable investment and effort to understand these unique requirements and to build relationships with clients and collaborators. Many SA companies seem to have lacked the capacity, credibility, or determination to follow through consistently and to make the necessary upfront investments in anticipation of long-term results.

Other services are more amenable to a degree of standardization and careful packaging, perhaps in the form of regular and predictable processes that are followed. This tends to be more prevalent when the users are more numerous, such as household consumers using retail, financial, or telecoms services. SA companies appear to have performed better in these sectors. In other words, they have been more successful at building shopping malls than at helping to design and develop functional metropolitan areas—hence the title of this paper. This may be because many of the products and procedures of the retailers, banks, etc. were designed and systematized before they embarked on expansion elsewhere in Africa. The tasks to be carried out in the destination country also tended to be more straightforward and easily managed from a distance, with less risk of disruption or dislocation.

Another reason for the diverse outcomes is that corporate strategies are different. Even within the same sector, there are striking contrasts between the performance of different SA firms. Some companies pursue simple, minimalist mechanisms for expanding north of the border, such as flying in and out, or importing all their inputs. This makes them vulnerable to the criticism that their role is essentially opportunistic and extractive, leaving little behind. Others establish a local presence and make more effort to engage in staff capacity-building, local procurement, and supplier development. This generates greater credibility, but is still no guarantee of success. Investing time and effort in building relationships with clients and partnerships with local firms and other stakeholders also appears to be important to gain traction and understanding. Nevertheless, the same companies still experience contrasting outcomes in different countries, with success in some

cases and failure in others. National differences clearly matter. Further research is required to explain these diverse experiences.

A common theme to emerge is the shortcomings of government support. The dominance of China in infrastructure provision reflects a 'whole-of-government' approach, including different forms of assistance from various parts of government, extending to state-owned companies and private sector partners. China's Belt and Road Initiative provides a positive narrative with fresh ideas to frame wide-ranging investments and other bold actions across the continent. In contrast, support from the SA government is patchy and tentative, and relationships with the private sector are not strong. Negative views of other African countries are regularly expressed by senior politicians and allowed to dominate the media. There is no vision for the role of tradable services in Africa's development. The potential for urbanization on the continent to transform economic and social outcomes is not recognized, let alone the opportunities this presents for SA companies to contribute to the process by providing technical advice, construction, logistics, and other support services. Companies go it alone, resulting in hit-and-miss outcomes.

One of the recommendations that follows is that the SA government should take tradable services more seriously. There are various human and institutional capabilities in the country that could contribute more to development elsewhere on the continent. This would have spin-offs for other firms and industries that provide materials, equipment, information, labour, and other inputs to tradable services. The potential is particularly clear in the sphere of urban land, infrastructure, and the built environment. African urbanization presents an enormous opportunity to improve livelihoods and living conditions, but also a serious threat of harm and disorder if it is neglected and produces poorly serviced, haphazard settlements. More international attention and investment are being committed to urban infrastructure, which creates possibilities for SA to launch a new conversation with other African countries around urban transformation and upgrading, and a renewed effort to forge practical partnerships. Such partnerships should be extended to other stakeholders with practical experience of urban development, including local authorities, non-governmental organizations, and other civil society organizations. Other important organizations should also be brought into the process, including development finance institutions and international bodies such as the Cities Alliance, UN-Habitat, and World Bank.

One of the benefits of partnership arrangements in each country is to provide greater oversight of particular projects and transactions. Increased transparency and scrutiny could help to reduce risks and prevent wrongdoing. Such initiatives could usefully go beyond discrete projects to promote ongoing programmes of work that create greater continuity and sustained transfer of knowledge, experience, and technical skills. National coordination could ensure that particular projects and initiatives do not duplicate each other and are complementary rather than competitive. As part of this endeavour, efforts could also be made to improve the legal and financial frameworks and operating environment of cities to maximize the impact and effectiveness of urban investment.

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