

Building malls or metros?

South Africa's exports of tradable urban services to the rest of Africa
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Context: TiS and urbanisation

- Service industries of growing NB in international trade
- Huge opportunities for infrastructure related services in Africa
 - Africa's urban population is expected to treble in size over the next 30 years (UN 2018)
 - African countries need to **spend between \$130-170 billion p.a.** to meet basic infrastructure needs (AfDB, 2018)
 - African Continental Free Trade Area: services protocol
- South Africa has strong capabilities to support urbanization in Africa
 - Positive urban vision: address congestion, crowding, pollution, costly.
 - Dominance of SA threat to integration: build up local capabilities vs pure displacement
- **What evidence of SA firms from 'tradable urban services' to support urbanisation in Africa?**



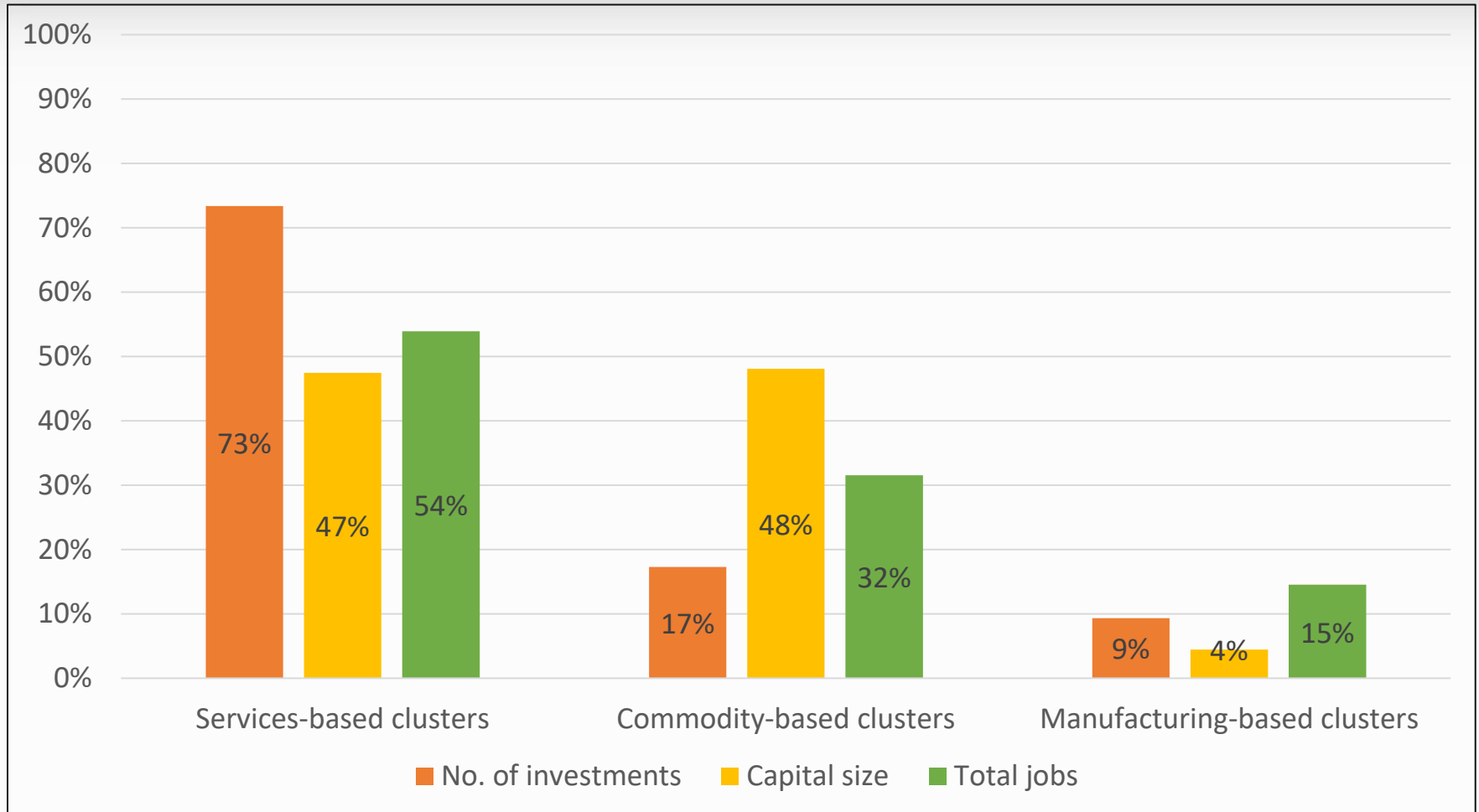
Relative advantages of manufacturing and tradable services for economic dev

	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

Compiling evidence on TiS

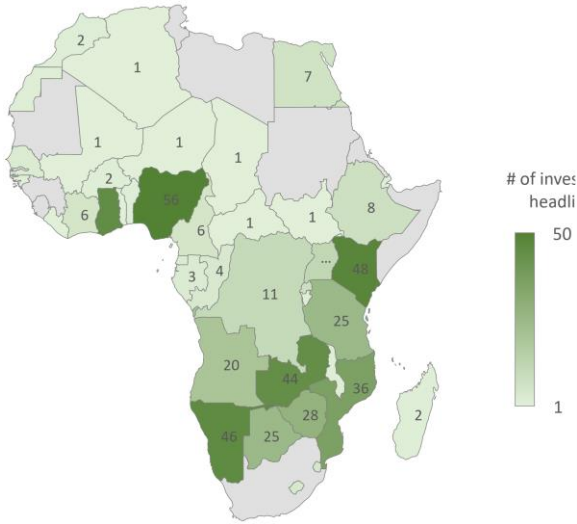
- Understanding the size and composition of international trade in services is hindered by lack of reliable statistics
- Quantitative: fDi Markets database (media monitoring)
 - Greenfields FDI i.e. excludes merges and acquisitions
 - January 2003 to August 2019
 - 492 projects: partial picture
 - Focus on cluster (i.e. end-user industry) to understand regional value chain
- Qualitative: 15 interviews + SA media/website analysis
 - companies based in SA, independent observers, and government officials
 - property development, engineering consulting, architecture, finance, construction, logistics.

Share of investment, capital and jobs between cluster types



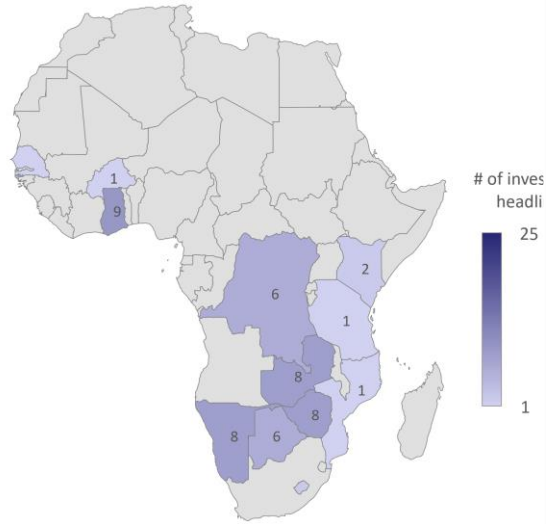
Spread of investment flows from SA into Africa

All Industries



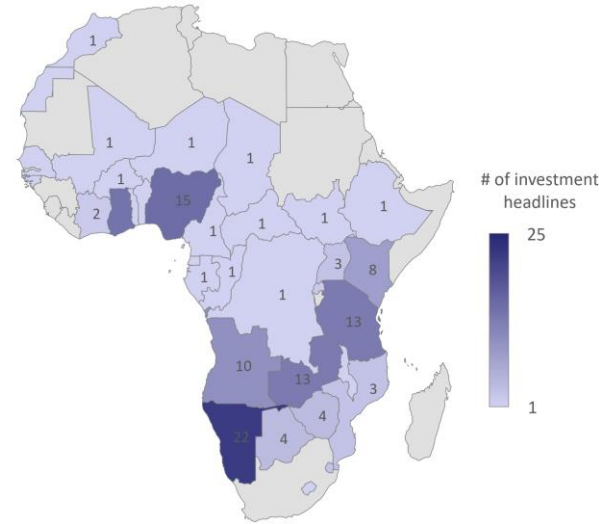
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Minerals, Chemicals & Metals Cluster



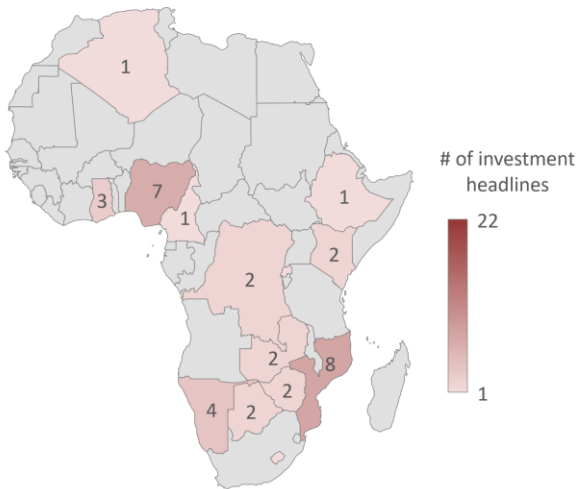
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Financial Services Cluster



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Construction Cluster



Key messages: FDI data

- **SA 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 function.
 - **Financial services** and **telecoms projects** were the most numerous and most **widespread**.
 - **Construction projects** provided the **most jobs** although were limited in number and reach.
 - Services **embedded** within traditional industry clusters
- SA infrastructure services in Africa still **probably low** compared to market size on continent:
 - Deloitte 2019 Construction Trends: USD 459 billion projects (#452)
 - SA: builds 3.9%, finances 2.2%
 - China: builds 31%, finances 20.4%

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Qualitative analysis

- **Low value-added** routine services – shopping centres, retail operations, bank branches, household insurance, cell-phone services, transport services
 - Driven by underserved consumer demand – simple, standardised, scale-able
- **High value** technical services based on know-how
 - engineering, surveying, design, project management ...
 - Driven by government infrastructure spend – complex, bespoke, opaque – less on production
 - Influenced by foreign funders + rising competition in S

SA corporate capabilities & expertise

- Apparent strength in depth
 - Retail services for diverse market segments
 - Financial services (banking, insurance): Absa, Standard Bank (3.8 million customers, 31% of earnings)
 - Telecoms: MTN, Vodacom
 - Transport/logistics
 - Property development & construction
 - Engineering (civil, mechanical, electrical)
- Reflects SA experience & middle-income status
 - Extensive infrastructure, functional cities, property markets, financial system, consumer demand

But less competitive in riskier environment

- Rising competition & volatility in consumer markets
 - New entrants (e.g. Turkish +... retail chains)
 - Commodity prices, currency fluctuations
 - Shifting rules of the game (globalisation vs localisation)
- Many SA companies slow to adapt
 - Opportunistic, extractive approach ('fly-in, fly-out')
 - Disjointed ('go it alone')
 - Using SA suppliers (professionals, materials, goods)
 - Vulnerable to obvious criticism – (come back to bite)
 - So experience very mixed – 'hit & miss' -> scaling back and vulnerable to foreign takeovers

Scope for improvement

- Africa - a long-term commercial opportunity
- + a social and economic imperative (e.g. urbanisation)
- Government generally indifferent, esp. to services
- Guidelines to discourage one-sided practices
- No alternative, constructive vision
- Needs a targeted approach to sectors & territories, based on understanding risks and rewards
- Not ad hoc projects, but value chains, clusters, urban & connective infrastructure, partnerships, production
- Long-term commitment, coordination, complementarity



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Siyabonga
Enkosi
Ke a leboha
Ndza nkhensa
Dankie!

[Link to the paper: https://doi.org/10.35188/UNU-WIDER/2020/851-1](https://doi.org/10.35188/UNU-WIDER/2020/851-1)