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Integrated urban services can boost regional development in Africa – this is how

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Urbanization provides a unique opportunity to accelerate economic and social development across Africa. South Africa has some of the technical capabilities to support the process through systematic planning, institution building and investment in essential infrastructure. This requires a proactive approach from government working with the private sector to marshal their collective resources and know-how.

Introduction

Service industries make up a growing share of global trade. They also offer countries additional pathways to economic development beyond primary and secondary sectors. For example, the indispensable role of international transport in exporting basic commodities and manufactured goods has been bolstered by the imperative for efficient logistics in contemporary global value chains. In addition, digital technologies have broadened the scope and reach of tradable services to embrace many business and professional services, software, telecoms, education, and entertainment.

Yet, South Africa's export base remains narrow and dominated by natural resources and commodities. A more diverse export basket would improve economic stability and expand employment. Africa's fast-growing urban population affords abundant opportunities for South Africa to boost trade with its neighbours in all kinds of consumer and producer services. Yet, the country needs to avoid extractive trading patterns that foster consumerism without improving the real economy of these countries. Stronger relationships involving the exchange of knowledge and expertise would be mutually beneficial in enhancing the trajectory of African urbanisation and thereby unlocking gains for productivity and jobs. In other words, South African service providers should help to design and develop functional cities and not simply supermarkets and shopping malls.

This article is based on a paper titled '*Building Malls or Metros?*' produced for the SA-TIED programme (Southern Africa: Towards Inclusive Economic Development).[i] We examine the reasons why South Africa should encourage the providers of urban services to trade elsewhere in Africa and review the experience of companies that have tried to do so. We identify examples of relative success and failure, and conclude by considering what government policies could do to support the provision of better coordinated urban services across the region.

The rationale for tradable urban services

The concept of integrated urban services covers a range of complementary activities that are critical to building cities that function well and that raise living standards over time. They start with the strategic allocation of land, to investment in urban infrastructure, the production of the built environment and the provision of public utilities. Multiple professional and technical services are involved in enabling and sustaining orderly urban development, including civil engineering, real estate, construction, architecture, urban design, land-use planning, surveying, law, and development finance. In recent years, these traditional sectors have had to embrace new technologies and adapt to looming environmental concerns, including water, food and energy security.

Cities benefit immensely when these activities receive appropriate attention and are effectively aligned. Building institutions and systems that can develop, regulate and tax urban land creates places that are compact, well-connected and uncongested. This fosters human interaction and the efficient circulation of goods, resources and information, which in turn attracts investment and generates powerful 'agglomeration economies'. Positive outcomes include urban environments that are productive for business, liveable for households, and resilient to climate shocks and stresses. This requires that cities are planned and governed as interconnected systems, rather than blank spaces on which discrete projects are placed. Sprawling and haphazard urban growth undermines economic activity and industrialisation on the continent.

There are essentially three arguments why South Africa should promote external trade in integrated urban services and help to realise their catalytic potential.

First, the country's exports continue to revolve around metals, minerals, and agricultural products. The extent of beneficiation to transform raw ores to more valuable finished products is limited. Meanwhile, the country's service exports are largely restricted to transport and travel. Traditional local strengths in engineering, design, property, transport planning, project management and other business and professional services linked to urban development have not been converted into competitive exports. The result is missed chances for sizeable job multipliers to be generated among the home-grown, typically labour-intensive firms that supply materials, plant, equipment and other inputs used in buildings and infrastructure.

Second, there is burgeoning demand and opportunities on the doorstep for the country to export urban services. Africa's urban population is projected to double over the next two decades and to triple to over 1.3 billion by 2050. The continent is only halfway through its urban transition, offering a window of opportunity to reshape its growth path and lay the physical foundations for a more prosperous future. South Africa has valuable knowledge and expertise to share with other countries and thereby strengthen their technical and institutional capabilities, in line with the African Continental Free Trade Area. Domestic service providers are more familiar with neighbouring socio-economic and environmental conditions than their rivals from other continents, many of whom are promoting costly 'smart-city' solutions of dubious relevance to the local situation.

Third, tradable urban services could form part of a broader Pan-African strategy to enhance cohesion and stability. This goes beyond one-off commercial transactions and piecemeal projects that may be perceived as one-sided and extractive. It is about developing a common agenda and joint ventures to plan and manage African urbanisation in a way that develops dynamic city economies and inclusive communities. This requires governments to work together and to engage the private sector and civil society organisations (including universities, professional bodies and NGOs) to share knowledge and build civic institutions with suitable skillsets and competencies. It means collaborating on practical initiatives, experimenting with new ideas and learning from experience.

South Africa's uneven experience of exporting urban services

South African companies have more experience of trade and investment elsewhere in Africa than is commonly understood. However, their track record in the sphere of tradable services is very mixed. Many firms have recognised the potential to serve neighbouring markets, but relatively few have made the long-term commitments necessary to establish successful operations. Consequently, the positive examples are somewhat isolated, and they have not laid the groundwork for broader progress across the urban development agenda.

The foremost examples of service exports comprise relatively straightforward retail, financial and telecommunications services. They are geared more towards consumers than upgrading the urban fabric, and include supermarket chains (such as Shoprite), personal banking and insurance (Standard Bank and Sanlam) and mobile phone services (MTN). These kinds of services are amenable to standardisation and simple marketing. The service ‘products’ on offer are fixed in advance and their delivery methods are routine and predictable. They were conceived and formulated before the companies ventured into neighbouring territories. Consequently, the tasks carried out at their destinations are manageable from a distance.

Other service exports are more explicitly concerned with urban development. The leading examples are South African property companies, building contractors, engineering consultancies and related service providers that have designed and developed shopping centres, office blocks and hotels in other African countries. Evidence from company interviews suggests that many of them began to look for new clients and markets north of the border after 2010, when domestic conditions began to deteriorate following the 2010 World Cup construction boom and as state capture escalated. Some of these firms won contracts to design and construct buildings and infrastructure in unfamiliar territories. They sometimes piggybacked off their prior relationships with established South African exporters.

For example, a group of property investors and developers had previously undertaken projects in South Africa for Shoprite. Following Shoprite’s lead and encouragement, they then began to build shopping centres in other African cities. Their tasks were to identify suitable 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 was the anchor tenant in each centre, thereby guaranteeing a certain rental income and reducing the risks of failure.

South African companies have had less success in exporting other urban services or embarking on other kinds of projects. One set of reasons for floundering can be traced to the attitudes and behaviour of the firms themselves. Many have been reluctant to take the initiative or are unable to make the commitments required to succeed in what are loosely described as ‘frontier’ markets. They have not invested time and effort to understand the specific circumstances of each city, the unique requirements of each country, or to build trusting relationships with the key stakeholders.

As a result, they don’t appreciate the extra rewards that can accompany higher risks. Many have pursued minimalist methods of market entry, such as ‘parachuting’ their experts in and out for short visits or importing all their inputs. This leaves them vulnerable to the criticism that their role is opportunistic and extractive, leaving little behind. They have also tended to see each other as rivals and to go it alone, rather than share their insights and find ways of working together to reduce the hazards involved in exploring new markets.

Another set of reasons for falling flat relates to the complexity of navigating many of these markets and the challenging operating conditions that often prevail. Average incomes, levels of investment and public spending on infrastructure in most African countries all remain relatively low, and many firms struggle to adapt their business models accordingly. Resource-dependent economies tend to have volatile currencies, which make it even more difficult for South African companies doing business there to price their products/services accurately and to repatriate surpluses.

Investors also face other uncertainties that range from weak political leadership and unpredictable rules and regulations to mismanagement and misconduct. Ambiguous land ownership and development rights are major obstacles to investment in property projects. Those commissioning urban infrastructure schemes are often government entities, with archaic procurement rules and onerous local content requirements. Meanwhile, competition to provide professional services from Europe and North America is rising and multinational firms based there are widely believed to receive unfair support from their governments.

What could be done to support urban service exports?

A recurring theme from the research is the shortcomings of government support in South Africa. The state's involvement in service exports has been patchy and tentative, and relationships with the private sector are weak. Senior politicians often express negative sentiments about other African countries, compounding xenophobic attacks on foreign nationals, and causing reputational harm for firms doing business there. There is no vision offered for the role of either urbanisation or tradable services in Africa's development. So, the opportunities for companies to contribute technical advice, construction, logistics and other know-how are diminished.

Contrast this with China's whole-of-government approach, leading to its dominant position in urban infrastructure provision across the continent. Chinese companies have built and financed commuter rail systems and countless roads, bridges, ports, dams and power stations in African cities. China's Belt and Road Initiative provides a broad game plan full of fresh ideas to frame wide-ranging international cooperation, tangible investments and other bold actions by state-owned companies and private sector partners. Knowledge-intensive services are deliberately targeted to open up opportunities for other sectors and firms.

The South African government should learn from this experience and take tradable urban services more seriously. Local companies possess valuable knowledge and technical capabilities that could make a distinctive contribution to economic and social progress elsewhere in Africa. There would be precious spinoffs back home for all the firms and industries that provide inputs such as materials, equipment and labour.

The potential is clearest in the sphere of urban land, infrastructure and the built environment. African governments and multilateral organisations such as the African Union and the United Nations Economic Commission for Africa are increasingly aware of the transformative potential of urbanisation. They recognise that continent is at a critical juncture. If the process is planned and managed attentively, it could boost livelihoods and living conditions for millions of citizens. However, if it is neglected, it threatens widespread hardship and social disorder.

The South African government should launch an initiative to bolster urbanisation through systematic planning, institution building and investment in infrastructure. A central pillar should involve forging stronger relationships with other African governments to develop a concerted urban agenda. Cooperation with these states should focus on reforming policy and regulatory frameworks and introducing the institutional systems required to steer urban development effectively. Direct city-to-city collaborations should also be encouraged to foster mutual learning and joint action on practical projects.

Another pillar should focus on building the competencies of African firms and service providers to implement the urban agenda. An enlightened approach would involve joint ventures and other partnerships between South African firms and companies elsewhere to transfer skills and know-how. A useful point of departure would be to consolidate information on all the major urban projects being planned and commissioned across the continent in order to make a strategic assessment of the current situation and to identify obvious gaps in provision.

A third pillar should focus on the domestic scene. There could be proactive efforts to encourage alliances among private companies with diverse technical capabilities to pool their resources and jointly pursue urban opportunities elsewhere in Africa.

Government, working with other stakeholders, such as universities and professional associations, could do much to open doors, support preparatory work, and mitigate the risks facing such ventures.

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[i] Turok, I. and Visagie, J. (2020) Building Malls or Metros? South Africa's exports of tradable urban services to the rest of Africa. WIDER Working Paper 94/2020. Helsinki: UNU-WIDER. Available at: https://www.wider.unu.edu/publication/building-malls-or-metros