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# **The Economic Gateway to Africa? Geography, Strategy and South Africa's Regional Economic Relations**

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**South African Institute of International Affairs**

*African perspectives. Global insights.*

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## **ABSTRACT**

The paper argues that South Africa's role as an economic gateway primarily depends upon geography, ie upon naturally given and man-made structures in geographical space. Based upon these structures, politicians and businessmen have to pursue the right strategies in order to maintain the gateway status. Hence, the paper examines South Africa's location, physio-geographical conditions in Southern Africa and regional transport infrastructure. It then takes a closer look at South Africa as a hub for regional headquarters of multinational companies; a hub for logistics and distribution activities; a sourcing hub for regional markets; and a financial hub for regional markets. Although these analytical steps reveal that South Africa does serve as an economic gateway for other African states, there are emerging challengers to the South African gateway. The paper concludes by highlighting how the South African government tries to foster the gateway role by transport-related and trade policy strategies.

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## ABBREVIATIONS AND ACRONYMS

AfDB	African Development Bank
COMESA	Common Market for Eastern and Southern Africa
DBSA	Development Bank of Southern Africa
DFI	development finance institution
DIRCO	Department of International Relations and Cooperation
DPE	Department of Public Enterprises
DRC	Democratic Republic of Congo
EAC	East African Community
FDI	foreign direct investment
JSE	Johannesburg Stock Exchange
LPI	Logistics Performance Index
LSCI	Liner Shipping Connectivity Index
MNC	multinational company
OFDI	outward foreign direct investment
PIESA	Power Institute for East and Southern Africa
SADC	Southern African Development Community
SDI	spatial development initiative
TANZAM	Tanzania–Zambia Highway
TAZARA	Tanzania–Zambia Railway
T-FTA	Tripartite Free Trade Agreement
TEU	twenty-foot equivalent unit
the dti	Department of Trade and Industry
UNCTAD	United Nations Conference on Trade and Development

## INTRODUCTION

*‘Our geographical positions as regional business hubs and gateways into our respective regions provide us with the muscle to increase our economic and trade outcomes.’*

Jacob Zuma, in his speech to the Members of the Abu Dhabi Business Chamber and South African Business Delegation at the Emirates Palace, United Arab Emirates.

Being a ‘gateway’ to Africa is, following President Jacob Zuma’s statement, a highly relevant feature of South Africa’s economy. A closer look at economic interaction in sub-Saharan Africa confirms that South Africa interlinks many of its neighbouring countries globally.

So far, the gateway role of South Africa has not been analysed systematically. This lack of research explains two weaknesses of the discourse on South Africa as a gateway. Firstly, it is unknown exactly what makes South Africa a gateway. Even though experts on South Africa’s economy can come up with various factors that explain plausibly why South Africa is a gateway, there is no scientific order in such accounts. Secondly, South Africa’s impact as a gateway is not spatially delineated, meaning that no one has specified which African countries are interlinked globally by South Africa.

The paper argues that being a gateway, and the range of a gateway, depends primarily upon physical and man-made geography. Geography provides opportunities and constraints that policy and private-sector strategies – the secondary factor of being a gateway – need to address. In other words, geography is the setting that enables a country to be a gateway; but without the right decisions taken by its politicians and businessmen, such a role will not be fulfilled in the long term. This approach allows for closure on the two essential weaknesses of the discourse on South Africa as a gateway. Hence, the paper investigates the following question: How does geography, in interaction with policy and private-sector strategies, shape South Africa’s role as a gateway?

South Africa’s role as a gateway consists of three components. First, location and physical geography provide opportunities and constraints for being a gateway, especially physical barriers that hamper transport by rail and road. Resources that can be integrated into commodity chains also play a certain role. Second, the states of Southern Africa depend upon South African transport infrastructure, ranging from railway lines and roads to airports and harbours, in order to connect to world markets. Regarding air transport, even the entire sub-Saharan region is tied to South Africa’s major airport, OR Tambo in Johannesburg. This indicates that the range of the South African gateway depends upon its specific functions.

Third, Johannesburg – and to a lesser extent, Cape Town – is the key location for overseas companies that set up regional headquarters for their business in sub-Saharan Africa, with South Africa doing relatively well in terms of logistics. Moreover, South African investment dominates throughout Southern Africa, most likely channelling overseas capital to the region. South Africa also serves as a hinge joint for commodity chains and the Johannesburg Stock Exchange (JSE) is a conduit for financial flows from

the rest of the world to the entire African continent, although data constraints limit analysis in this regard.

## CONCEPTUAL FRAME

Saul Cohen, an American geographer, argues that gateways serve as transmission belts between the regional and the global level. This way, they open their region for external influences: goods, people and ideas. If the gateway role is accompanied by political power or hegemony, the respective state will be the core of a geopolitical region.<sup>2</sup> A geopolitical core outweighs its neighbouring countries in terms of territorial size, population, transport facilities and ideational dynamics. It possesses a leadership role and a nodal function. Regional clustering occurs around it. This clustering makes the core influential on the regional scale and an interesting partner for external powers.<sup>3</sup> Most interesting is Cohen's argument that geopolitical cores have to be analysed by their success in achieving regional 'nodality'.<sup>4</sup> Links to extra-regional partners are crucial for achieving nodality; so is regional connectivity.

Cohen's description of nodality includes some dimensions of the gateway role that cannot be covered in the paper: as gateways, geopolitical cores play a key role in global governance. South Africa has recently joined the BRIC (Brazil, Russia, India and China) Summit and, as a member of the G20, shapes global economic governance more than any other African state. Established great powers and newly emerging powers consider South Africa a key political partner. The paper does not examine South Africa as a political gateway but as an economic one, with its analysis limited to how geography, interacting with policy and private-sector strategies, influences economics.

Moreover, because the paper focuses on analysing South Africa as an economic gateway, it concentrates on regional connectivity. Even though good regional connectivity boosts extra-regional links since external players seek to benefit from the regional connectivity, there are other factors that influence the attractiveness of South Africa as a conduit to the region for non-African companies. These factors, ranging from political stability to the degree of economic liberalisation, are addressed briefly in the last two sections of the paper. Analysing them in depth is a task for follow-up research.

Following Cohen, the paper argues that nodality – or the gateway role of South Africa – derives from naturally given and man-made geography. Geography, first of all, is understood as location and physical geography.<sup>5</sup> An advantageous location, eg centrality, boosts the gateway role of a state. Physical barriers, such as mountain ranges between the gateway and its neighbouring countries, limit the central states' impact on its neighbours. Moreover, physical geography provides incentives for regional economic interlinking, eg resources that can be mined in one place and processed at another.

However, geography is much more than a naturally given setting. It includes material structures in geographical space that mankind has built. Hence, the paper takes a closer look at transport infrastructure, ie connections by rail, road, ships and airplanes. With this second step, it addresses probably the most evident component of being a gateway: the capacity to transport people and goods from one place to another.

The paper reinforces the argument that South Africa is an economic gateway to the region by examining, as a third step, regional commodity chains and patterns of

investment. Commodity chains and investment add quality to the gateway because they turn it from a simple access point for transport into an economic hub that generates impulses for its periphery.

Putting its approach in a wider context, the paper deals with the impact of geography (the independent variable) upon economics and politics (the dependent variables). This makes its approach a geopolitical one – instead of a political one that would refer to politics as the independent variable. Famous adherents of geopolitics, such as Halford Mackinder<sup>6</sup> and Nicholas Spykman,<sup>7</sup> sought to explain the politics and economics of their time by location and physical geography. The paper expands this idea and brings in man-made structures in geographical space (eg railway lines). In other words, its approach is materialist and it seeks to find out how strategies interact with the fundament that geography provides. This ties up with Paul Krugman's contributions to economic geography. In a nutshell, Krugman<sup>8</sup> argues that location, ie proximity, matters for international trade and that regional economic processes tend to favour polarisation, because of economies of scale and associated agglomeration, eg between a gateway as core and its periphery.

The *World Development Report 2009* confirms this hypothesis: location and 'economic distance' (instead of Euclidean distance) matter. Trade intensity and proximity correlate,<sup>9</sup> at least for most of South Africa's neighbours. With regard to the special role of regional cores, the experts of the World Bank introduce the term, 'leading area',<sup>10</sup> and call for regional clustering around strong markets such as South Africa.<sup>11</sup>

The paper's concept concurs with these ideas: integration in Africa is most likely to be successful around geopolitical cores such as South Africa because these states are gateways and thus possess good regional and global connectedness. Integration around them should, however, not be measured by European standards of regulatory integration. It is about constructing and integrating networks such as railway lines, roads, transmission lines and various corporate services.<sup>12</sup> In other words, geopolitical cores integrate their region by building the geography that makes them gateways.

The division of geography into three components structures this paper and leads to a three-fold hypothesis. South Africa will serve as the gateway for other African countries:

- if South Africa's location and the regional physical geography favour economic interaction between South Africa and the other countries;
- if transport infrastructure links the other countries closely to South Africa; and
- if there are compatible economic activities between South Africa and the other countries.

The paper uses the following indicators in order to shed light on the variables. First, it provides a description of South Africa's location and the regional physical geography, which explains in a plausible way what impact related factors (eg the location of resources and physical barriers to movement) should have upon the economic gateway role of South Africa. Relevant information is based on existing literature, especially standard volumes on regional geography, updated by desk studies of newspapers from Southern Africa. Second, the paper outlines South Africa's regional and global transport links. Web-based desk studies reveal connections by airplanes, the size of harbours in the region and shipping links. Much information has been gathered in various interviews conducted with

organisations from South Africa's business sector and government officials. The paper also draws from studies published by the African Development Bank (AfDB) and the World Bank, which host the 'Africa Infrastructure Knowledge Program'.<sup>13</sup> Bringing in policy strategies, it takes a closer look at transport and development corridors to find out which places they connect and what role South Africa plays in them. Relevant information is taken from desk studies (existing literature and information available online). The authors also conducted interviews with organisations in charge of spatial development initiatives (SDIs), such as the Development Bank of Southern Africa (DBSA).

Third, the authors conducted problem-centred interviews with people from commercial offices, foreign chambers and embassies located in South Africa, as well as regional organisations, South African ministries and other governmental bodies involved in economics and trade to gain an understanding of how strategies of trade and investment interact with geography.<sup>14</sup> Furthermore, an attempt is made to analyse commodity chains in which South Africa interlinks its neighbours globally. Yet it appears impossible to establish precisely the extent to which South Africa is plugged into regional and global value chains because trade data does not lend itself to this kind of analysis. Instead, basic data on South Africa's regional trade, ie quantity of trade and sort of goods traded, is used in order to justify the reasoning on South Africa's role as a hinge joint in commodity chains. The elaboration on patterns of investment is based on expert interviews – again owing to a lack of data. Regarding both patterns of investment and commodity chains, the paper also elaborates upon challenges to South Africa's role as a gateway and the respective effects of policy strategies, either carried out by the South African government or suggested by the authors and some of their interviewees.

As this combination of variables shows, not everything is derived from geography. Policy and private sector strategies, ie decisions taken by politicians and businessmen, matter for South Africa's role as a gateway. Geography offers opportunities that politicians and businessmen may or may not take. It also constitutes a set of constraints that they should take into consideration. Although the purpose of the paper is to systematically analyse the factors that make South Africa an economic gateway and to delineate its range, its findings indicate what should be done to foster South Africa's role as a gateway and how economic benefit can be derived from it.

## LOCATION AND PHYSIO-GEOGRAPHICAL CONDITIONS

### Location

South Africa is located at the southern edge of the African continent. This means that it does not lie between other African states and extra-regional trading partners from Europe, the Far East and North America – which would boost its role as a gateway – but rather outside of these main currents. Even as a hub for intra-African trade, South Africa's location is unfavourable: it lacks centrality. Yet South Africa is also the only African country that possesses shores on the Atlantic and Indian Oceans. It can easily be reached by cargo ships coming from the cores of the world economy, including the emerging cores of Brazil (South America), China and India (Asia).



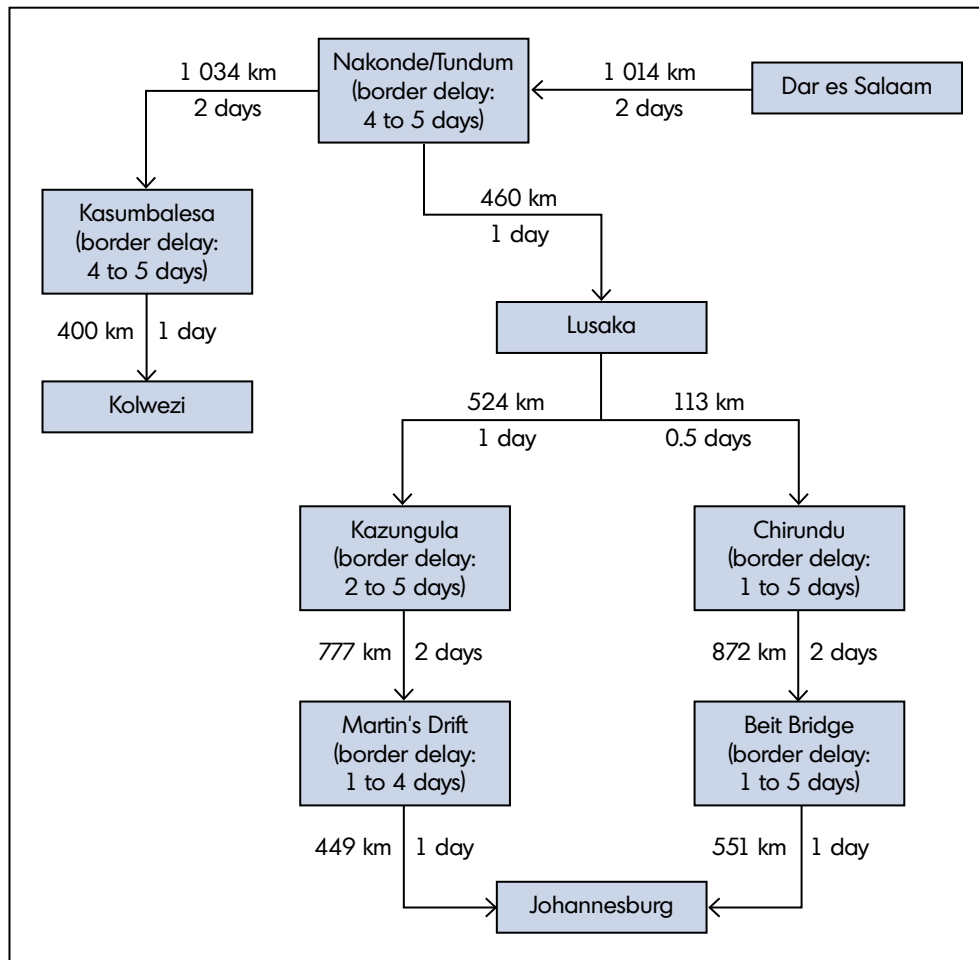
Looking at South Africa's relative location vis-à-vis other African states, one sees that South Africa borders with Namibia, Botswana, Zimbabwe and Mozambique. Lesotho and Swaziland are virtually islands within the South African territory. Five continental members of the Southern African Development Community (SADC) do not share borders with South Africa. Among all regional states, only tiny Lesotho, Swaziland and landlocked Botswana appear to be tied to South Africa for locational reasons. This is because their connection to the oceans, and thence to world markets, is via South African territory, albeit Swaziland also has access to the sea via Mozambique. Zimbabwe, another landlocked country, can also access the sea via Mozambique. Transport from South Africa to Angola, the Democratic Republic of Congo (DRC), Malawi, Tanzania and Zambia is not only rendered complicated by distance but also by the fact that there is always at least one other country in between.

Despite the success of regional governments at easing cross-regional transport, severe obstacles remain. Although Botswana and Namibia possess one-stop border posts that take 20 minutes for lorries, transport from Windhoek to Lubango in southern Angola can sometimes take up to 15 days because of border controls, involving corruption, and insufficient roads in Angola.<sup>15</sup> According to a senior Transnet official, transport times from South Africa via Zimbabwe and Zambia to the DRC's Katanga province could be reduced tremendously if border controls were better organised, for example, by managing them jointly through single border post arrangements so that goods going from South Africa to the DRC would not be controlled by the Zimbabwean and Zambian authorities.<sup>16</sup>

World Bank reports indicate that delays at Beitbridge, on the border of South Africa and Zimbabwe, are 34 hours for traffic northwards and 11 hours for traffic southwards. At Chirundu, Zimbabwe's border with Zambia, lorries will wait another 39 hours if they go northwards and eleven hours if they are southbound.<sup>17</sup> Goods transported along the entire North–South Corridor spend about one-third of their total transport time waiting at borders.<sup>18</sup> Taken together, delays at Beitbridge and Chirundu equal a 25% surcharge on transport costs.<sup>19</sup> Figure 1 shows that easing customs processes at borders is a key issue for facilitating economic growth by providing better conditions for transport along the North–South Corridor.

Yet realising projects that ease cross-border transport is a tricky business, as the failure of the Westcor power project, which was meant to link the DRC's hydropower station at the Inga Dam to South Africa's consumers, shows. Project managers from Eskom and an operator from the Power Institute for East and Southern Africa (PIESA) stated that Westcor was technically feasible but they had the impression that discrepancies in national legislation and political quarrels over how to distribute the revenues made the project fail.

In sum, geography significantly limits the impact that South Africa as a gateway should have upon other African states. South Africa's location implies that, at best, its direct neighbours are globally interlinked by it. However, such a general view on the location of South Africa cannot tell everything. If one narrows the perspective to South Africa's neighbourhood, it is necessary to consider geomorphology, meaning physical barriers, and geology, which reveals the location of resources that may be integrated into regional commodity chains.

**Figure 1: Time of transport along the North–South Corridor**

Source: TradeMark Southern Africa, *North South Corridor Pilot Aid for Transport Programme: Surface Transport*. Johannesburg: TradeMark Southern Africa, 2012, p. 17.

## Geomorphology

From a geomorphological perspective, South Africa belongs to High Africa – the part of the continent that ranges from the Ethiopian Highlands to the Cape Mountains. Its average altitude of 1 200 metres distinguishes High Africa clearly from Low Africa, which stretches from the southern slope of the Atlas Mountains to the Congo Basin at an average altitude of 300 metres. The geomorphological features of High Africa are its seemingly endless plateau landscapes, vast basins and the Great Escarpment.<sup>21</sup>

The interior plateaus of Southern Africa and the Great Escarpment constitute a tectonic bulge dating back to the Cretaceous period – 145.5 to 65.5 million years ago. This bulge is more intense at its fractured margins, which today form the Great Escarpment. Southern Africa hence possesses a bowl-like shape and the Great Escarpment sharply separates the interior of the continent from the narrow coastal plains. Rivers that pass it – many on the eastern and few on the western side for climatic reasons – contain rapids and waterfalls.

The Great Escarpment seals off the continental interior, and this is reinforced by some features of the coasts: river mouths are mostly deltaic; coastal waters tend to be shallow; and because of alongshore drifts, there are few bays but many sandbars.<sup>22</sup> Mozambique's port of Beira, for instance, can only be reached by larger cargo ships at high tide. At low tide, many ships would run aground. An access channel of 40 kilometres has to be dredged continuously to keep the port open. Moreover, mangroves and shallow inshore waters are frequent. Lagoons and swamps often abut the coasts. Only the coast of South Africa provides steep cliffs with at least some bays suitable for harbours.

This means that it is very difficult to connect Southern Africa to world markets. Suitable locations for harbours are few, and building railway lines and roads from the coast to the hinterland is a challenging endeavour. The few places that are suitable as harbours will, therefore, be in a very comfortable position regarding competition if they are well connected to the hinterland.

A closer look at the continental interior is also revealing. The landscape of Southern Africa beyond the Great Escarpment is not marked by small-scale variation because of long processes of weathering.<sup>23</sup> The Precambrian basement complex, Africa's primary geological feature whose oldest parts were formed 3.7 to 2.6 billion years ago, has been vastly eroded and planed. On top of the basement complex, there are younger sediments that form modestly waved plateaus. Cuestas and tectonic ridges occasionally alter the landscape, which is otherwise marked by monotonous peneplains and inselberge.

In addition to the plateaus, large basins occur all over the African continent. The Congo Basin, with its rain forests and extended rivers, as well as the deserts and steppes of the Kalahari Basin are characteristic traits. The effects of these two basins are totally different: whereas the Congo Basin is a severe physical barrier to human movement, the Kalahari provides good conditions for transport. The reason for this is not geomorphology but climate: because of almost constantly high precipitation, the vegetation of the inner tropics is dense and a vast river network marks the DRC. The Kalahari, being influenced all year long by subtropical anticyclones, neither possesses rivers nor vegetation that hamper human movement. Only the temporarily flooded Okavango Delta poses a physical barrier for transport; so do the rivers Cunene and Zambezi.

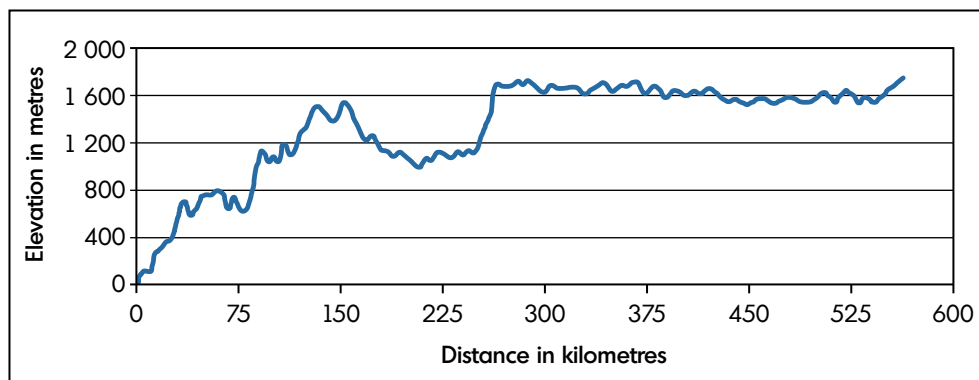
In East Africa, tectonic activity, the drifting apart of the African Plate and the Somalia Plate, has formed faults and volcanic mountains during the last 35 million years. The East African Rift Valley (in which areas at the sea level tie up with areas of an altitude of 2 000 metres on a horizontal distance of only 40 to 60 kilometres) ranges from Eritrea to the mouth of the Zambezi in central Mozambique. The Great Lakes are its most visible feature. Only the eastern branch of the Rift Valley, which crosses the uplands of Kenya and Tanzania, hardly hampers transport.<sup>24</sup> Otherwise, the East African Rift Valley is a tremendous obstacle to transport.

Reports of mudslides that bring trains of the Tanzania–Zambia Railway (TAZARA) to a stop are frequent. The Tanzanian government has launched a project called the 'Permanent Rectification of Landslides'. So far the Zambian government has not contributed to this project, which, in addition to upgrading locomotives and wagons, is necessary to make TAZARA work smoothly, according to its managing director.<sup>25</sup> Transport by lorries from the harbours of Mozambique and South Africa to Malawi is hampered by steep and often narrow roads that interlink the landlocked country regionally. Even Malawi's ambitious harbour project at Nsanje, which aims at linking Malawi via the rivers Shire and Zambezi

to the Indian Ocean, suffers from vast differences in altitude between the valley of the Shire and Malawi's most important cities, Blantyre and Lilongwe.

The East African Rift Valley ties up with the Congo Basin and delimits Southern Africa from a geomorphological perspective. If being a gateway is about facilitating the transport of goods in large quantities from the region to overseas locations, South Africa's role as a gateway ends in the DRC's rain forests and at the East African Rift Valley. The elevation changes, often abruptly, between Durban and Johannesburg (see Figure 2) and between Dar es Salaam and Lusaka (see Figure 3). Figure 4 highlights the contrast of the narrow coastal strip of Southern Africa and the interior plateau.

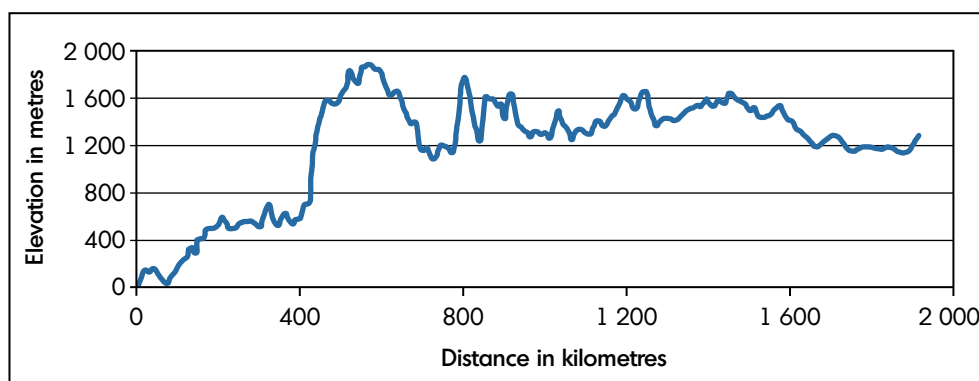
**Figure 2: Elevation profile for the route from Durban to Johannesburg**



Note: Comparison of the two elevation profiles is difficult because the horizontal axes show different distances (600 kilometres in the case of Durban–Johannesburg and 2 000 kilometres in the case of Dar es Salaam–Lusaka). This means that changes in altitude are much more pronounced in the second profile.

Source: Authors' compilation.

**Figure 3: Elevation profile for the route from Dar es Salaam to Lusaka**

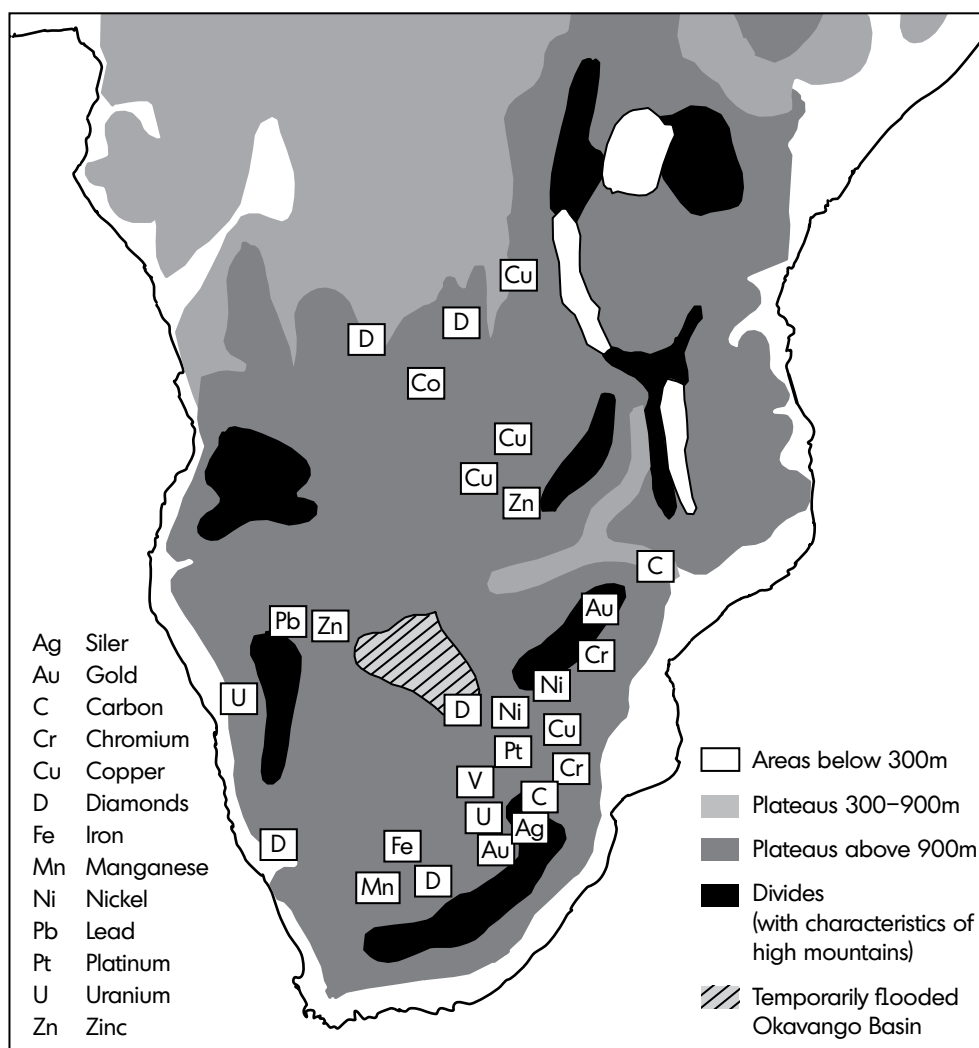


Source: Authors' compilation.

## Geology

The high age of the continental interior does not only explain the distinct geomorphology of Africa. It also accounts for the abundance of mineral resources, which locations are shown in Figure 4.

**Figure 4: Elevation and resources in Southern Africa**



Source: Scholvin S: 'The economics of Southern Africa from a geopolitical perspective: Why and how geography matters', in Bösl A *et al.* (eds): *Monitoring Regional Integration in Southern Africa 2010*. Stellenbosch: TRALAC, 2011, p. 97.

Geologists divide the interior of East and Southern Africa into cratons,<sup>26</sup> which form the surface of this part of the continent or are close to it because of long-term weathering. The Kaapvaal Craton and the Zimbabwe Craton are the oldest ones. Being a mixture of terranes and gneisses, intruded by granitic plutons, they contain vast quantities of minerals. Further

southwards, the Bushveld Complex is one of the richest systems of mineral deposits in the world. It is a two-billion-year-old layered intrusion that contains chrome, iron, nickel, platinum, titanium and vanadium on an area of roughly 30 000 square kilometres in the Pretoria–Polokwane area. Zimbabwe’s Great Dyke, a group of layered ultramafic intrusions, which are 2.5 billion years old, spreads in a Y-shape 550 kilometres from north to south. It is rich in copper, cobalt, gold, nickel and platinum group metals. The other cratons – Congo, Kalahari and Tanzania – also contain minerals, though in a much smaller diversity. Most noteworthy among them is the Congolese–Zambian Copperbelt. It has an extension of 200 kilometres from east to west and contains mostly copper and cobalt. The minerals of the Copperbelt were formed in the Precambrian period and remobilised and concentrated due to tectonic activity about 500 million years ago.

Besides the mineral deposits located in the ancient cratons, the Karoo System is rich in coal. It dates back to the late Carboniferous and Jurassic periods – 300 to 200 million years ago – and stretches along the Free State, Mpumalanga and KwaZulu-Natal provinces of South Africa.<sup>27</sup> Smaller fragments of the Karoo System are spread all over Southern Africa. They are the only location of coal deposits in the region. Among them, Botswana’s coal reserves, which Eskom<sup>28</sup> considers an opportunity for investment, and the ones of Mozambique, stand out.

Mozambique’s metallurgical coal resources in Tete province, so attractive to steel manufacturers, play a key role in an ongoing process of restructuring the regional geography of minerals transport. The Brazilian mining giant, Vale, and its Anglo-Australian rival, Rio Tinto, wish to establish a deep-water port in central or northern Mozambique, serving as an alternative gateway not only for Mozambique but also for Malawi, Zambia and Zimbabwe. The two companies have already provided new trains for the Sena Line, which runs from Tete to Beira. While Vale is concentrating on the port of Nacala as an alternative to Beira, Rio Tinto is considering building a totally new deep-water harbour and linking it by rail to Tete province.<sup>29</sup>

Having developed a strong financial fundament and good know-how on mining at home, mining companies from South Africa are active all over the region. Anglo American and the Impala Platinum Group run mines along Zimbabwe’s Great Dyke. Botswana’s state-owned Debswana has worked together with South Africa’s De Beers in diamond extraction since the late 1960s. AngloGold Ashanti gets 6% of its annual gold output from a mine in Tanzania near Lake Victoria.

Yet the operations of these enterprises are not limited to Southern Africa; nor is mining in Southern Africa dominated by them. According to a senior official of AngloGold Ashanti, his company goes wherever the minerals are.<sup>30</sup> At the same time, overseas companies from Europe, North America and emerging powers (ie Brazil, China and India) are very active in mining in South Africa’s neighbourhood. These companies, at least the ones from the West, usually co-operate with South African partners in order to plan their investment in Africa.<sup>31</sup>

## TRANSPORT CONNECTIONS

Man-made structures have been built at a certain point in the past; therefore history and nature are what makes today’s geography. Consequently, South Africa’s economic gateway

role has much to do with the fact that South Africa is more advanced economically than other African states. This situation can be traced back to Dutch colonisation: Cape Town was a convenient fuelling station en route to the East Indies. The opening of the Suez Canal undoubtedly diminished this role, but the superior economic structure, entrenched by major minerals exploitation, subsequent British occupation and incorporation into the British realm, meant that South Africa was able to secure its regional dominance and maintain it up to now.

One of the most apparent colonial legacies in Southern Africa is transport infrastructure. Railway lines link various harbours in Angola (Lobito, Luanda and Namibe), the two Congos (Matadi and Pointe Noire), Mozambique (Beira and Maputo), Namibia (Lüderitz and Walvis Bay) and Tanzania (Dar es Salaam) to the hinterland. These corridors, stretching from east to west, are hardly interconnected, splitting most countries in Southern Africa, especially the two former Portuguese colonies, into several fragments. Only the Coast2Coast Corridor – from Maputo to Gauteng to Walvis Bay – and the North–South Corridor – from Durban to Gauteng, Francistown, Harare, Lusaka to Lubumbashi and Dar es Salaam – bind some of the regional states together.

Having a much denser railway and road infrastructure, which is well connected to the rest of the region, South Africa and its major harbours in Durban, Richards Bay and Cape Town constitute an alternative to ports further northwards. Tables 1 and 2 and Figure 5 reveal that South Africa is far more important for maritime transport than any other coastal country from Southern Africa. Even Kenya, being the most important economy of the East African Community (EAC), does not come close to South African dimensions of maritime transport measured in terms of container cargo handled.

**Table 1: Per-country port traffic in East and Southern Africa, 2009**

Country	Container port traffic in twenty-foot equivalent units (TEUs)
Angola <sup>a</sup>	412 594
DRC	285 690
Kenya	618 816
Mozambique	214 701
Namibia	265 663
South Africa	3 726 313
Tanzania	370 401

a Data from 2007.

Source: UNCTAD, *Review of Maritime Transport 2009*. Geneva: UN, 2009, pp. 111–112; UNCTAD, *Review of Maritime Transport 2011*. Geneva: UN, 2011a, pp. 87–88.

**Table 2: Port traffic of major harbours in East and Southern Africa, 2009**

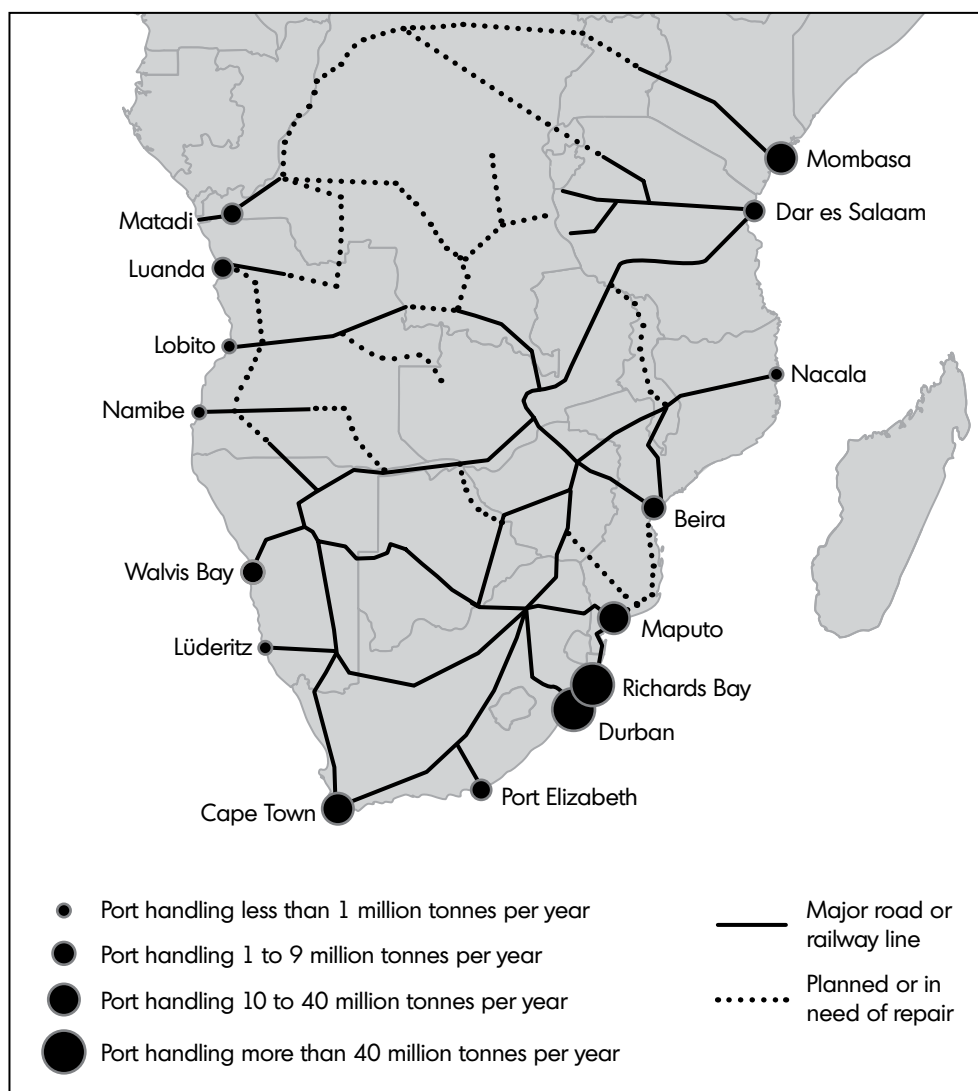
Port	Container port traffic (TEUs)	Total port traffic (tonnes)	Operating capacity (%)
Beira	100 000	3 000 000	50
Cape Town	740 000	13 700 000	90
Dar es Salaam	250 000	7 400 000	100
Durban	2 000 000	45 000 000	100
Lobito	30 000	300 000	30
Luanda	90 000	2 100 000	100
Lüderitz	1 000	200 000	80
Maputo	100 000	10 000 000	60
Matadi	40 000	1 600 000	60
Mombasa	500 000	16 000 000	100
Nacala	45 000	700 000	100
Namibe	0	700 000	20
Port Elizabeth	370 000	8 100 000	70
Richards Bay	0	80 000 000	80
Walvis Bay	100 000	3 000 000	60

Source: TradeMark Southern Africa, *North South Corridor Infrastructure Programmes*, prepared by TMSA on behalf of the COMESA-EAC-SADC Tripartite Task Force, February 2012.

South Africa's outstanding role for maritime transport is further stressed by the Liner Shipping Connectivity Index (LSCI) of the United Nations Conference on Trade and Development (UNCTAD), which measures, using various variables, how well the ports of a country are connected internationally on a scale of 0 to 100. South Africa's relatively high rating on the LSCI not only reflects the good regional and global connections of its harbours. It also hints at the fact that South African harbours often serve as hinge joints between other regional harbours and the rest of the world. Overseas goods unloaded at Walvis Bay, for example, have often been shipped on a large vessel to Cape Town first, where some of the cargo has then been reloaded on a smaller ship going to Namibia. Angola's main port in Luanda has recently entered a pairing agreement with South Africa's newly built port of Ngqura in order to co-ordinate vessel schedules and custom processes.

This role of South Africa may be reinforced by the Coega Industrial Development Zone near Port Elizabeth, which is intended to become a transport hub for Southern Africa. The port of Ngqura, 20 kilometres north-eastwards of Port Elizabeth, complements Richards Bay and Saldanha as the country's third deepwater harbour. The port became operational in autumn 2009. Its present capacity for trans-shipment, ie reloading cargo from overseas vessels to regional vessels, is 1 300 TEUs per day. Transnet intends to expand Cape Town's trans-shipment capacity to the same volume. The largest non-South African trans-shipment harbours in the region are Maputo (100 TEUs) and Walvis Bay (250 TEUs).<sup>31</sup>



**Figure 5: Transport infrastructure in Southern Africa**

Source: Authors' compilation.

That South Africa can fulfil this role of a regional transport hub does not only result from the transport geography of Southern Africa. It is also owing to the high level of economic development in South Africa, which has brought about an environment that facilitates business activities, including transport. In this sense, the World Bank's Logistics Performance Index (LPI), as shown in Table 3, reveals that South Africa offers better conditions for transport than other regional countries. By global comparison of the LPI, South Africa belongs to the first tier and plays on the same level as New Zealand and South Korea and Turkey. Its neighbouring countries belong to the third and fourth tiers, which are almost exclusive to the world's least-developed countries.

**Table 3: LSCI and LPI for East and Southern Africa, 2010 and 2011**

Country	LSCI	LPI
Angola	11.27	2.25
DRC	3.73	2.68
Kenya	12.00	2.59
Mozambique	10.12	2.29
Namibia	12.02	2.02
South Africa	35.67	3.46
Tanzania	11.49	2.60

Sources: World Bank, *Review of Maritime Transport International LPI: Ranking*, 2010, <http://info.worldbank.org/etools/tradesurvey/mode1b.asp?sorder=lpirank&cgroup=r6>, accessed 6 August 2012. Geneva: UN, 2009, p. 165; UNCTAD, *Liner Shipping Connectivity Index: 2004–2011*, 2011b, <http://unctadstat.unctad.org/TableViewer/tableView.aspx?ReportId=92>, accessed 4 February 2012.

Data on the quality of roads confirms the LPI's assessment: 88% of South Africa's roads are in good condition (SADC's average is 47%). Almost all major roads are tarred (SADC's average is 74%).<sup>33</sup> These advantages also become clear in the case of Ngqura: the port's authority advertises with its capacity to handle large quantities of goods quickly, whereas the delays in the harbours of South Africa's neighbours, except for Namibia, are hard to predict and can be tremendous. Storage facilities, including refrigeration, are provided in Ngqura – they are insufficient or even missing in ports in Angola, Mozambique and Tanzania. Transport to major agglomerations, such as Cape Town, Durban and Johannesburg, takes half a day.<sup>34</sup>

Even though the advanced stage of South Africa's economy partly explains why the country serves as a transport hub for Southern Africa, the dependence of the region upon South Africa remains odd from a geographical perspective. Beira and Nacala are much closer to landlocked Malawi, Zambia and Zimbabwe than Durban. Although one can argue convincingly that transport via Dar es Salaam is rendered very difficult because the East African Rift Valley separates that port from the landlocked countries of Southern Africa, there are no severe geographical reasons favouring South Africa's harbours over those in Mozambique. Even the harbours of Angola and Namibia are closer to some parts of Zambia, which explains why Chinese companies are motivated to finish fixing the Benguela Line that will, once again, serve as an alternative path from the Copperbelt to the seas. Location also favours the ports of Mozambique because they are closer to the Far East, and the Angolan and Namibian ports because they are closer to Europe and North America than South Africa. Namibia's port at Walvis Bay moreover benefits from a gap in the Great Escarpment eastwards of Swakopmund, where the terrain increases its altitude smoothly from the coastline to the interior plateau.

Colonial history provides the first part of explaining the dominance of South Africa as the region's transport hub. The transport infrastructure of Southern Africa became centred on South Africa in the colonial era because the Boers and the British expanded from the Cape north-eastwards and thus connected by rail the territories that later became Botswana, Zambia and Zimbabwe to South Africa's coast. On a much larger scale, Cecil

Rhodes' famous Cape-to-Cairo vision meant that railway lines were built by the British in a north–south direction in order to link the Cape to Cairo eventually. In Southern Africa, the first regional railway line went from Cape Town through Kimberly to Bulawayo. From there, it continued northwards to Kapiri Mposhi, which also became the first mining town of the Copperbelt. Until the completion of TAZARA by the Chinese in 1976, transport by rail ended there.

German expansion from Namibia and Tanzania into the interior of Southern Africa was blocked by the Heligoland–Zanzibar Treaty, signed in 1890, which ended further German expansion by limiting its sphere of influence to 'German South-West Africa' (today Namibia) and 'German East Africa' (today Burundi, Rwanda and mainland Tanzania). Portuguese ambitions to build an African Empire from Angola via what is today Zambia and Malawi to Mozambique were put to an end in 1891 by a British ultimatum. Hence, for political reasons, railway lines starting in coastal towns in Angola, Mozambique, Namibia and Tanzania did not become as relevant for the continental hinterland of Southern Africa as one may have expected.

The second part of understanding Southern Africa's transport system is what the apartheid regime subsumed under the euphemism 'transport diplomacy'. Until the independence of Angola and Mozambique, South Africa co-operated with the Portuguese colonialists in those countries. Maputo was a major port for South African exports. After the Portuguese left in 1974, this changed dramatically. South Africa sought to maintain its political dominance by keeping its neighbours dependent upon its transport network.<sup>35</sup>

Maputo lost its significance as a gateway to Gauteng. The most important reason for the decline of Mozambique as a transit country was the civil war, in which South Africa intervened in order to damage key transport infrastructure. Throughout the 1980s, only the Beira Corridor, protected by 10 000 Zimbabwean soldiers, and the TAZARA Corridor served as gateways for Zimbabwe, which then was the leading power of the anti-apartheid bloc.

To a certain extent, the apartheid regime did not even have to use violence to achieve its goals. The post-independence decline of the Angolan and Mozambican railway systems resulted at least partly from the fact that those trained to maintain the trains and tracks were colonialists who left in 1974.<sup>36</sup> Due to management problems, TAZARA only moved 452 000 tonnes of Zambian goods in 1979 despite its nominal maximum freight of two million tonnes per year. 637 000 tonnes of Zambian goods had to be shipped via South Africa.<sup>37</sup> On the west side of the continent, the Benguela Line, which links the Congolese–Zambian Copperbelt to the port of Lobito and was highly profitable in the early 1970s, ended its operations when the post-independence war in Angola began.

Reflecting not only geography but also these historical developments, railway lines and, more importantly, roads interlink South Africa and the other continental member states of SADC today. A clear boundary can be drawn in the DRC, of which only Katanga province is integrated into the railway and road network of Southern Africa. On the west side of the continent, transport becomes problematic in Angola. Obstacles there are due to the poor quality of roads and the fact that Angola remains split into three sections: corridors going eastwards from the ports of Luanda, Lobito and Namibe. On the east side of the continent, the East African Rift Valley poses a severe obstacle to transport, as discussed. Figure 5 shows the major roads and railways lines that tie the regional states together. Of course it does not show that South Africa's coastal neighbours suffer

either from a combination of poor roads and railway lines (Mozambique, in particular), congested and poorly managed ports (especially Angola and Tanzania), and insufficient global connectivity for maritime transport (Namibia, among others).

Conducting interviews with experts on regional transport, the authors gained the following additional information:<sup>38</sup> southbound rail and road transport dominates SADC. Firstly, this is because South Africa's main ports in Durban and Richards Bay have much larger capacities than non-South African harbours and can, therefore, offer better prices. That is why Zambia and Zimbabwe rely on Richards Bay. Beira, which is closer to their mining areas, lacks sufficient capacities. However, Maputo has recently become an alternative to South Africa's ports for the landlocked countries. Lobito is about to be linked again by rail to the Copperbelt. The upgrading of Dar es Salaam, TAZARA and the nearby Tanzania–Zambia Highway (TANZAM) is impressive. Nonetheless, all these ports remain much smaller than Durban and Richards Bay, as shown by Tables 1 and 2.

Secondly, South Africa provides good maritime connections to the Far East as well as to Europe and North America, whereas the harbours in its neighbourhood offer only one of these two options for apparent locational reasons.

Thirdly, South Africa's ports benefit from their integration into a reliable railway network. Botswana, for example, cannot export mining products in large quantities via Walvis Bay because there is no connection by rail. Where railway lines exist, most of South Africa's neighbouring countries run short of locomotives and wagons. Upgrading existing infrastructure or building new railway lines, for example from Gaborone to Walvis Bay, is beyond their financial capacities.

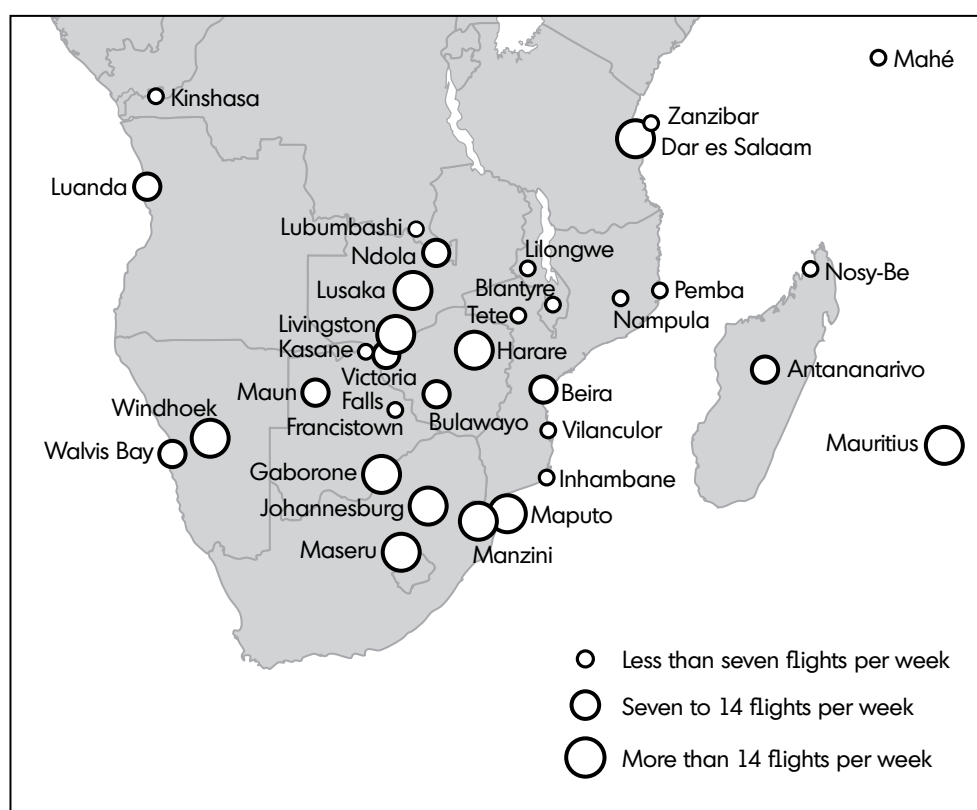
Building road infrastructure is similarly expensive, particularly if roads are to be tarred. Since a substantial portion, if not the bulk, of north–south truck traffic between the DRC and South Africa originates from or is destined for the DRC or Zambia, it makes sense to consider the road infrastructure as part of a regional network rather than expecting smaller transit countries to carry the cost. Unfortunately this does not seem to be the case currently, with Botswana, for example, constructing an expensive dual carriageway road to the border with Zambia and bearing the full cost.<sup>39</sup> Positive side-effects for the transit countries, such as service activities (eg storing goods and repairing vehicles) carried out on their territory, remain uncertain. Their motivation to invest in transport infrastructure is, hence, low.

Reports of the World Bank confirm these assessments: non-South African harbours are much smaller and suffer from poor transport infrastructure in their hinterland, which is why they are second options and Durban remains the first choice. Although the North–South Corridor is in a relatively good condition, the roads that interlink the ports of Lobito and Nacala are not even completely tarred.<sup>40</sup> The World Bank rates 59% of the roads between Lubumbashi and Durban as good, with problems occurring in the DRC and Zimbabwe. Between Lilongwe and Nacala, only 27% of the roads are in good condition.<sup>41</sup> The roads from Harare to Beira are in fair condition only (72%), with a large share (28%) not rated. Comparing transport from Durban and Dar es Salaam to Lusaka, delays at the port of Dar es Salaam make Durban the faster option. Considering Beira as a gateway for Zimbabwe, the advantages of Durban in terms of time and costs are even clearer. Dar es Salaam, however, can compete with Durban for the Zambian market because of lower costs of rail transport.<sup>42</sup>

With regard to rail transport, data gathered by the World Bank shows that the labour productivity of South Africa's Spoornet, measured as traffic units per employee, is 4.6 to 87 times the productivity of the national railway companies of its fellow SADC members.<sup>43</sup> It is, therefore, not surprising that the Common Market for Eastern and Southern Africa (COMESA), the EAC and SADC implicitly describe the development of corridors that lead to Angolan and Mozambican ports as side aspects of the North–South Corridor. Especially regarding transport by rail, the development of corridors that bypass South Africa is not feasible economically because of the low quantity of transported goods.<sup>44</sup>

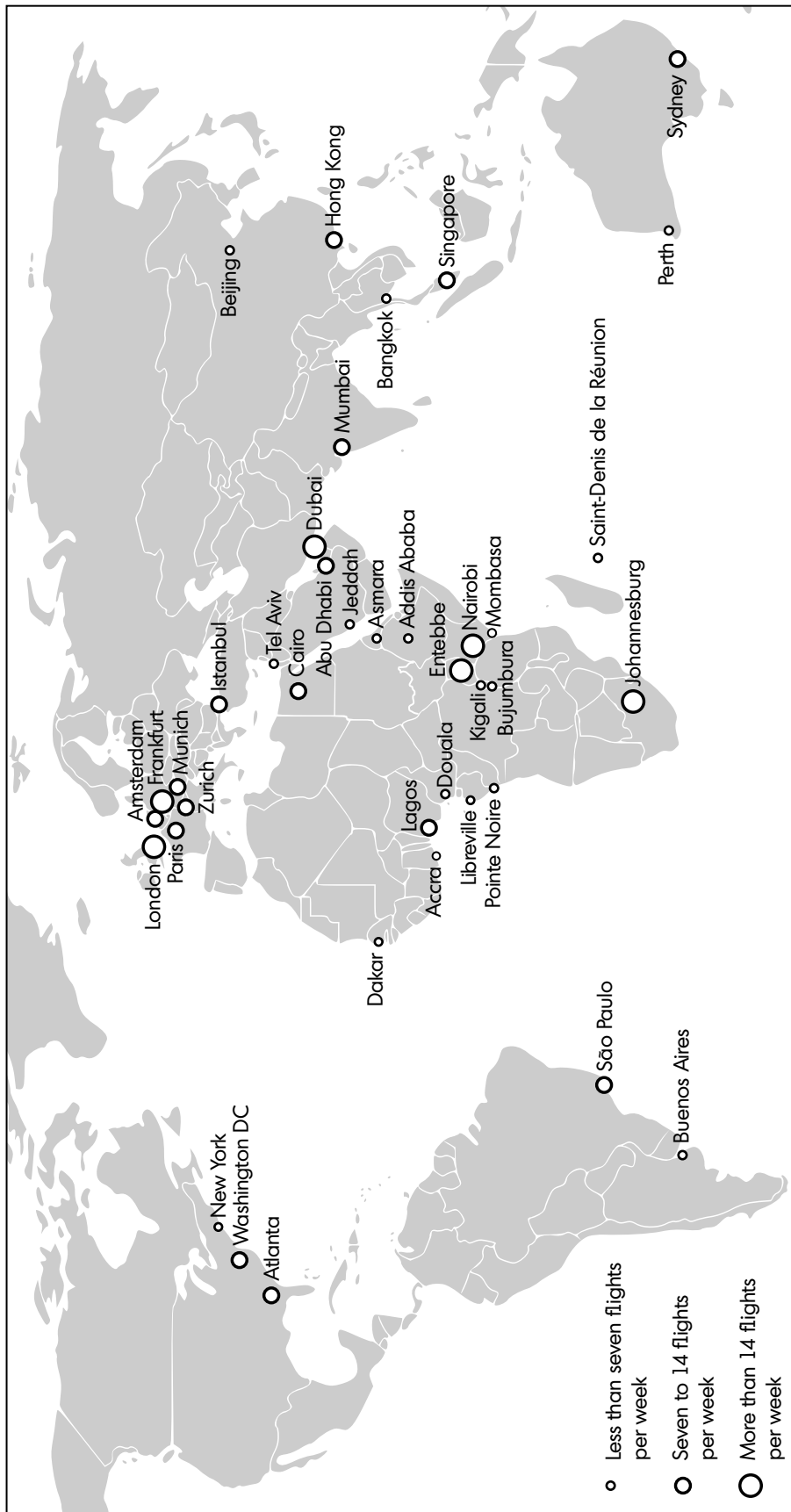
Transport by air is marked by features very similar to the ones that characterise maritime and land transport. As Figures 6 and 7 show, South Africa's major airports are the hinge joints of a network that integrates the regional with the global level. The SADC region is best connected to Johannesburg, meaning that there are several flights per day to the most important cities of South Africa's neighbouring countries. Africa beyond SADC is less densely tied to Johannesburg. In North Africa, only Cairo provides direct flights to Johannesburg. Other destinations have to be reached via Europe. East, Central and West Africa are, however, better connected to South Africa. The economically most important cities (Accra, Addis Ababa, Lagos and Nairobi) can be reached almost every day, with connections to Kenya being best. The non-SADC airports in sub-Saharan Africa with direct connections to Johannesburg then serve as interlinking hubs for regional flights.

**Figure 6: Intra-SADC flight connections starting at OR Tambo International Airport**



Source: Authors' compilation.

**Figure 7: Flight connections beyond SADC starting at OR Tambo International Airport**



Source: Authors' compilation.

## COMMODITY CHAINS AND PATTERNS OF INVESTMENT

As said, being a gateway is not only about transporting goods. Gateways also channel overseas investment to their region and globally interlink regional economic processes. This section therefore investigates whether South Africa is the conduit for connecting global corporate actors to regional markets and/or resources in preference to other countries in the region.

There are four linked possibilities regarding how South Africa may serve a gateway function for goods and services trade. First, multinational companies (MNCs) could use South Africa as a hub for regional headquarters, taking advantage of the country's relatively superior services infrastructure to co-ordinate and direct their regional activities. Although this means that the MNCs manage their regional affairs from South Africa, South Africa's superior services infrastructure also implies that it may be used as a hub for logistics and distribution activities, which constitutes the second dimension. Being a hub for logistics can best be shown by regional trade patterns. Third, the MNCs could use South Africa as a sourcing hub for goods destined for regional markets. For example, the American retailer, Walmart, could source perishable goods from South African farmers for its regional markets. And fourth, Johannesburg may serve as a financial hub for regional markets, channelling overseas savings into the region for various activities and via various modalities.

### **A hub for regional headquarters**

There are various components of the regional headquarters function. Johannesburg and the surrounding Gauteng province is the largest urban economy in sub-Saharan Africa. It is the centre of sophisticated services networks, which underpin a range of economic activities increasingly centred on regional markets. Network services, comprising transport, energy, finance and communications, arguably constitute the backbone of Johannesburg's competitive proposition. They are readily available at relatively reasonable cost compared with other sub-Saharan countries.

Over time, this sophisticated economic structure has been supplemented by agglomerations of other services activities that enable the complex business processes required to run modern economies and associated corporate networks. Those related services encompass a wide range of activities, from professional services such as legal and accounting through consulting to education services represented by South Africa's relatively sophisticated business schools and well-endowed universities, the widespread availability of various news and analytical services through numerous and growing channels, and a vibrant free press that underpins these. Such knowledge services are critical to head office functions, enabling knowledge accumulation at the centre in order to better manage subordinate activities in satellite countries – a general conviction that the authors encountered in practically all of the interviews.

South Africa's relative competitive strength in services, and more, is captured in Table 4, which shows that relative to the putative gateways to West and East Africa, Nigeria and Kenya respectively, South Africa scores very high, particularly in services-related areas such as financial market development and business sophistication. Relative to other sub-Saharan African countries and with a few exceptions such as Mauritius, South

Africa performs very well indeed. Clearly South Africa has built up strong comparative advantage in the kind of services that support establishment of regional headquarters in the country.

**Table 4: South Africa's competitiveness score relative to Nigeria and Kenya<sup>a</sup> 2011–2012**

Country	Ranking	Sub-indices		
		Basic requirements	Efficiency enhancers	Innovation and sophistication factors
South Africa	50	85	38	39
Best		Institutions	Financial market development	Business sophistication
Worst		Health and primary education	Labour market efficiency	Innovation
Nigeria	127	139	80	69
Best		Institutions	Market size	Business sophistication
Worst		Health and primary education	Higher education and training	Innovation
Kenya	102	118	73	53
Best		Infrastructure	Financial market development	Innovation
Worst		Health and primary education	Technological readiness	Business sophistication

- a The categories reflect increasing degrees of economic development and sophistication. A low score reflects better performance; in the table the overall ranking is shown out of 138 countries, then the ranking per sub-index. Within this each country's best score within the sub-index is shown, to give some sense of the kind of relative opportunities and challenges it confronts.

Source: World Economic Forum, *Global Competitiveness Report 2012*. Geneva: World Economic Forum, 2011.

These factors must at least partly explain why office space provision has grown rapidly in Johannesburg,<sup>45</sup> with a range of foreign companies setting up offices there since the end of apartheid. Unfortunately, it is not possible to establish empirically the extent to which those foreign operations represent regional headquarters co-ordinating a network of regional activities, as opposed to operations based in South Africa and targeting the local market. Geographically these professional services clusters go beyond Johannesburg; Cape Town has an agglomeration of companies, and professionals, working in the oil and gas sector servicing the West African coastline's growing energy fields.<sup>46</sup>

Moreover, soft factors reinforce South Africa's attractiveness to foreigners. The country offers a western style and standard of living, or what one commercial diplomat interviewed for this project called the 'golf course effect', if expatriates are prepared to accept the risks arising from a high crime rate and growing bureaucratic hassle. Relative to other



sub-Saharan destinations, such as Nigeria, it would seem that many of the MNCs are prepared to take this risk, since the latter are regarded as 'hardship posts'.<sup>47</sup>

Owing to all these factors, South Africa, and Johannesburg in particular, is attractive as a location for the MNCs conducting business in sub-Saharan Africa. Those activities are easily accessible via air, through South Africa's extensive connections to countries in the region. As discussed and shown by Figures 6 and 7, data on flight connections from OR Tambo reveal that South Africa does not only interlink Southern Africa globally. It is rather a transport hub for sub-Saharan Africa: working in Johannesburg, the staff of the MNCs can easily reach the cores of the world economy and all major destinations southwards of the Sahara.

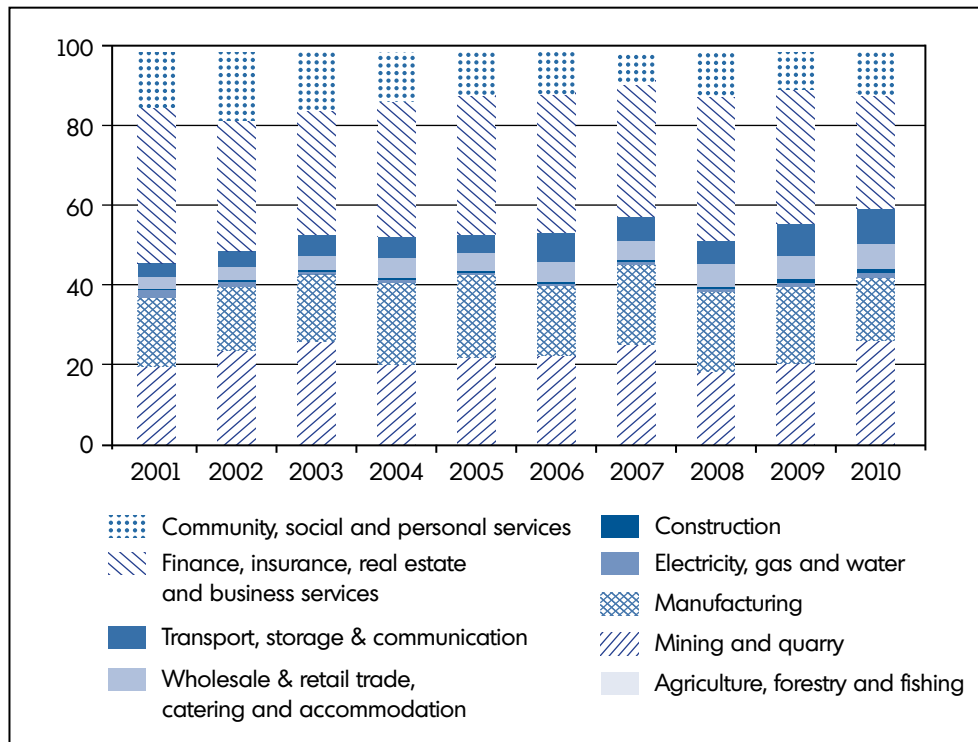
Interviewees also suggested that regional headquarters of the MNCs that are located in South Africa reach beyond Southern Africa. The commercial attachés of the American, British and Japanese embassies in Pretoria confirmed that, according to their knowledge, companies from their countries tend to manage their business in sub-Saharan Africa from South Africa, taking advantage of South Africa's extensive air transport connections to the sub-continent to cut deals when required.<sup>48</sup>

Adding another perspective, South Africa's strength in services also manifests in the country's outward foreign direct investment (OFDI) patterns, which are dominated by private sector financial, distribution, and telecommunication services<sup>49</sup> (see Figure 8). Southern Africa is the focus region for South Africa's OFDI footprint<sup>50</sup> (see Figure 9). Yet West Africa has figured more prominently in recent years. In the case of South African investment in West Africa, the concerned sectors, ie primarily finance but also communications, indicate that transport of goods in large quantities does not matter.<sup>51</sup> Therefore, the economic gateway role assumed for South Africa as a conduit for the MNCs is partly independent of the factors analysed in the two previous sections. The South African gateway has different regions of influence, its spatial scope varying according to the concerned economic activities.

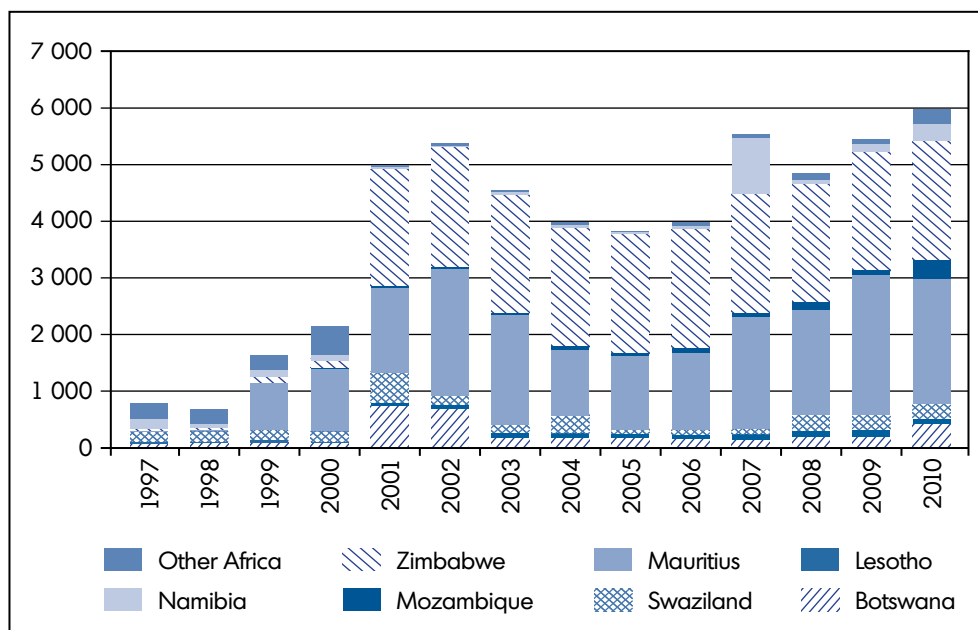
Even though South African OFDI is not a direct indicator of a gateway, some of the MNCs are very interested in acquiring South African companies in the abovementioned sectors in order to control the regional networks the latter have built up over the years. The recent acquisitions of Massmart Holdings by Walmart; of Absa Bank by Barclays Bank PLC; and Vodacom by Vodafone in the retail, financial services, and telecommunication sectors respectively, are good examples of this. By purchasing South African enterprises and their regional networks, the MNCs turn South Africa into a gateway. In order to establish empirically the extent of such mergers or acquisitions, an analysis on a sector-by-sector basis, through extensive use of interviews, would have to complement this investigation.

### **A hub for logistics and distribution activities**

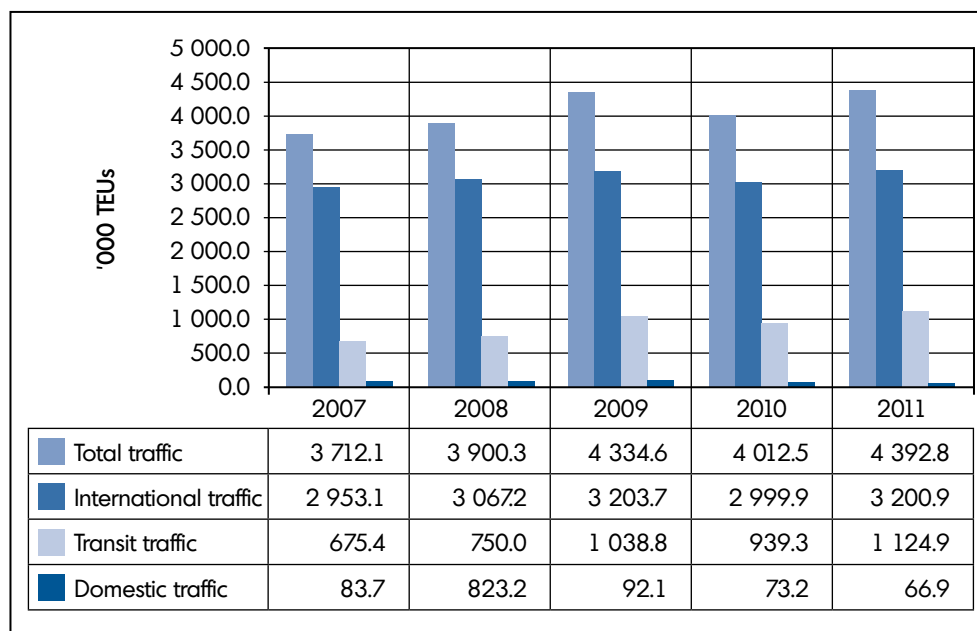
As shown, South Africa's ports play a substantial role in regional containerised transit trade, which in turn must utilise South African infrastructure to reach the relevant final destination. Figure 10 demonstrates that transit trade as a proportion of containerised cargo traffic moving through South African ports has increased in recent years: from 675 400 TEUs in 2007 to 1 124 900 TEUs in 2011. Transit trade in non-containerised goods, by contrast, is negligible.<sup>52</sup> Unfortunately, there is no data showing how much

**Figure 8: South Africa's OFDI to Africa by sector (%), 2001–2010**

Source: Online statistical query (historical macroeconomic timeseries information). Pretoria: South African Reserve Bank, 2012.

**Figure 9: South Africa's OFDI into Africa by top destinations (ZAR million), 1997–2010**

Source: Online statistical query (historical macroeconomic timeseries information). Pretoria: South African Reserve Bank, 2012.

**Figure 10: Container traffic ('000 TEUs), 2007–2011**

Source: South African Maritime Safety Authority, *mimco*, 2012.

of this transit trade is destined for other African markets, as opposed to constituting east–west trade linking, for example, Brazil with India. Apparently, the data exists at port level, so in order to determine an aggregate picture individual port data would have to be collated and aggregated.<sup>53</sup>

The background of these figures is that, as part of its services offering, South Africa has relatively strong capabilities in transportation, logistics and distribution, or in supply-chain management more generally. It is reasonably clear that according companies provide a range of sophisticated logistics and distribution services into the region, mostly using road transport given the many challenges involved in using rail infrastructure. Again, the true extent of these corporate capabilities is not known and would have to be established through detailed sector and company interviews.

It is also interesting to note that in a recent survey,<sup>54</sup> 58% of South African corporate respondents stated that their main strategy for servicing regional markets is ‘selling into them’. One-quarter were considering ‘operating business’ in them, and only 15% planned to manufacture in them. This reinforces the point that the sophisticated logistics, distribution, and transportation services on offer in South Africa are still the preferred route for connecting to regional markets, at least for South African companies. It would not be unrealistic to suggest that the MNCs interested in regional markets see things the same way.

### **A sourcing hub for regional markets**

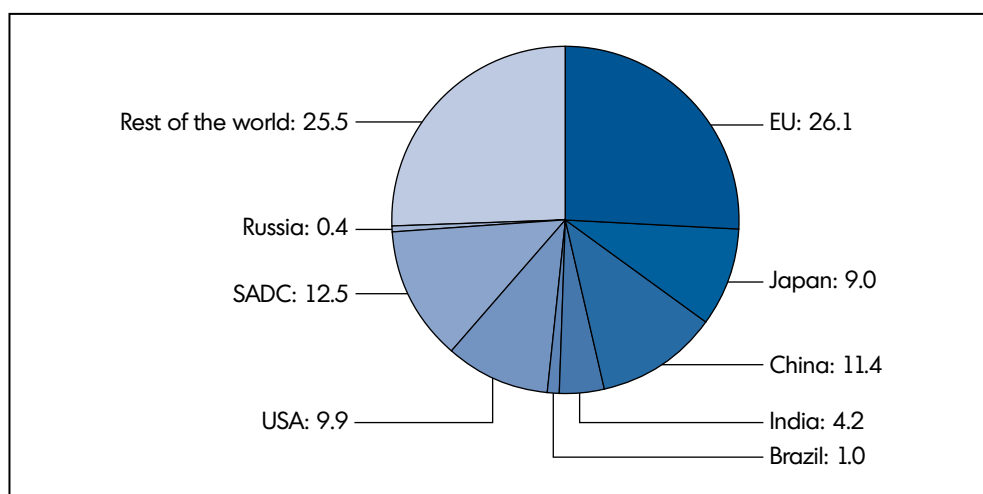
It is increasingly recognised in the trade policy literature that global trade and investment is driven by value chains in which production is parcelled out across different

jurisdictions and recombined at various points before final products are dispatched to final destinations.<sup>55</sup> This is largely an East Asian phenomenon, centred on China and the broader East Asia region, with North American and European markets driving final demand. However, the geography of global value chains is shifting in line with the inexorably rising ‘China cost’, thus affording new countries and regions the opportunity to insert themselves into these networks. Africa is regarded as the final frontier for this process.<sup>56</sup>

Presumably, South Africa is particularly well placed to be the regional hub of such activities, given its superior services and logistics infrastructure. Yet there are substantial obstacles in this path, with one interviewee characterising the South African economy as ‘high-wage; low productivity’. Since global value chains require low wages and high productivity, then to the extent that this characterisation is accurate, it would clearly militate against their relocation to South Africa.

Nonetheless, Figure 11 shows that SADC is the largest export destination in Africa for South African exports, accounting for 11.2% of South Africa’s global exports in 2011. That exports to SADC only constitute a minor share of South Africa’s total exports results from the simple fact that SADC is a small market compared with the cores of the world economy. Regarding a delimitation of South Africa’s gateway role, it is essential that Africa beyond SADC is relatively insignificant for South African exports.

**Figure 11: South Africa’s main export destinations (%), 2011**

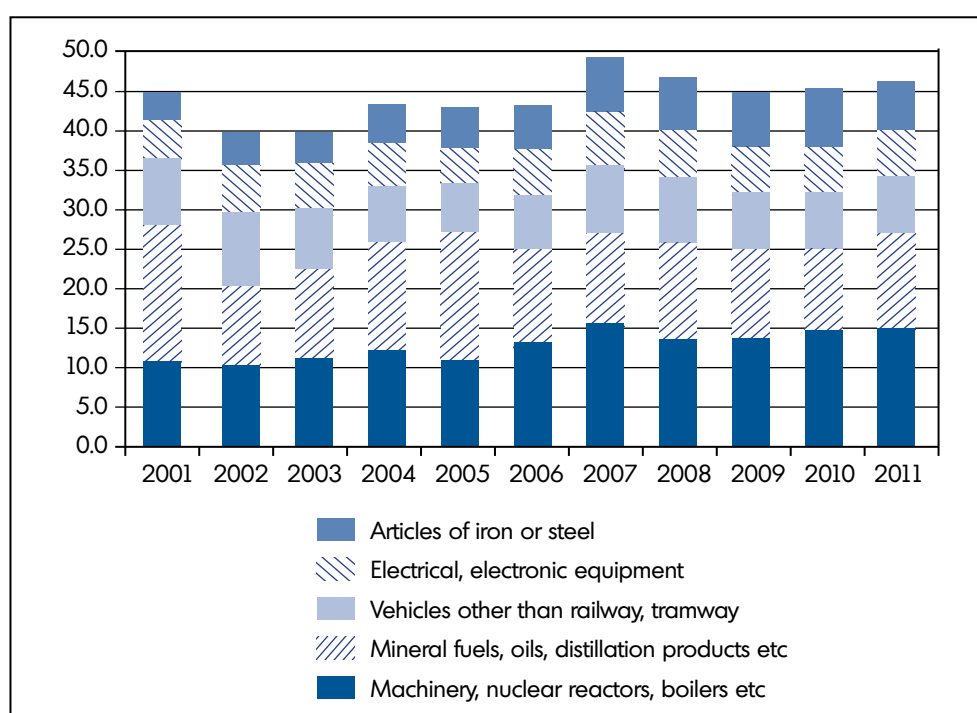


Source: Trade Map: *Trade Statistics for International Business Development*. Geneva: ITC (International Trade Centre), 2012.

There has, however, been growth of value-added exports, particularly luxury cars and agro-processed goods, into Nigeria and Kenya in recent years, albeit off a low base. Given the apparently rapid growth of the middle classes in these two countries and their respective hinterlands (the Economic Community of West African States for Nigeria; the EAC for Kenya), the government’s intention is to target those markets for substantial future growth.

Taking a closer look at the composition of South Africa's exports to SADC (see Figure 12), one sees that South Africa has managed to diversify its export basket to SADC very well. Since 2001 a gradual shift away from commodities to manufacturing is clearly shown. Moreover, most of South Africa's exports to SADC depend upon good transport infrastructure. Absa Bank and MTN Group can easily access West African markets because what they need most is a rapid internet connection and flights for their managers from Johannesburg to Accra and Lagos. However, most goods listed in Figure 12 require railway lines, roads, pipelines and harbours – infrastructure that hardly connects South Africa to countries beyond SADC.

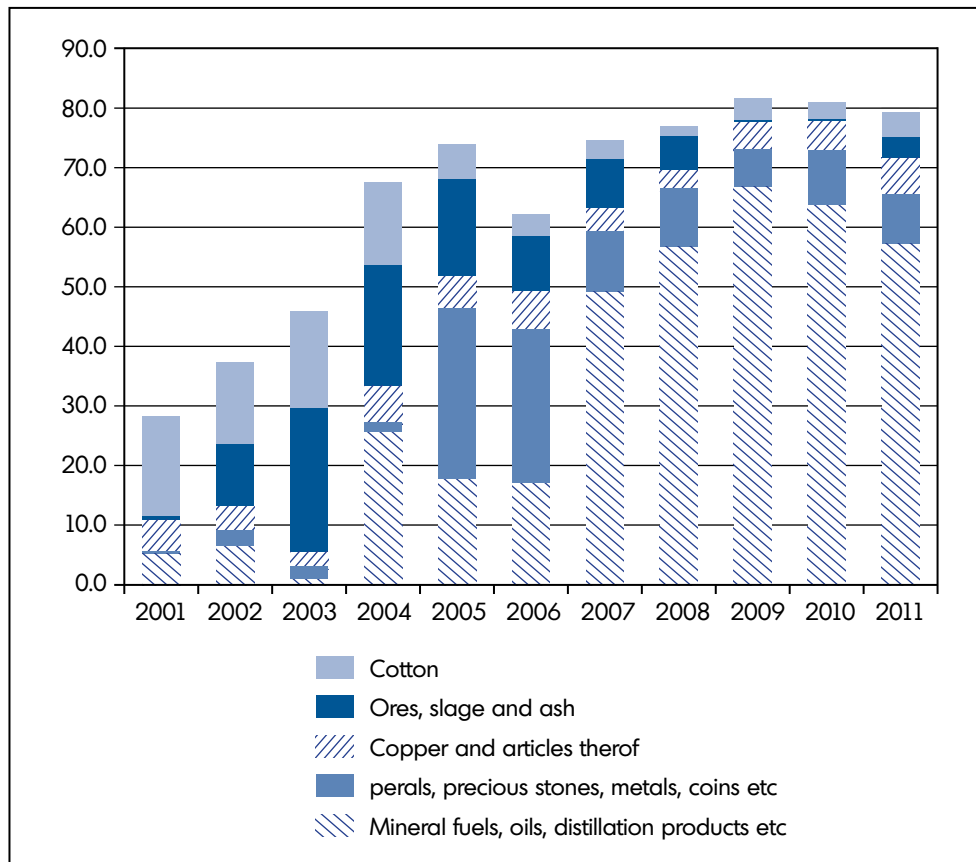
**Figure 12: South Africa's principal exports to the SADC (%), 2001–2011**



Source: Trade Map: *Trade Statistics for International Business Development*. Geneva: ITC, 2012.

South Africa's import basket from SADC (see Figure 13) is dominated by commodities, particularly mineral fuels, distillation products and oils. Other product groups vary widely in the consistency of trade, with the exception of copper. However, the authors' finding, which was confirmed by several interviewees, is that copper generally transits South Africa for export from the Congolese–Zambian border region via Durban en route to Asian destinations, especially China.

Since 2007, mineral fuels and similar products have accounted for more than half of South Africa's imports from SADC. This development has been driven by South African imports of oil from the dominant regional producer, Angola, and imports of ores, slag and ash from Zimbabwe.

**Figure 13: South Africa's principal imports from SADC (%), 2001–2011**

Source: Trade Map: *Trade Statistics for International Business Development*. Geneva: ITC, 2012.

Beyond SADC, the relevance of goods coming from South Africa diminishes. Table 5 shows that South African exports to COMESA accounted for 7.6% of South Africa's total exports in 2006, increasing to 10% in 2010. South African exports to COMESA grew at higher rates than exports to SADC countries; but if SADC members holding dual membership are excluded from the COMESA calculation, the relevance of the remaining COMESA-only members declines sharply to 2% of total export value. Among the remaining countries, Kenya is the most relevant trading partner. South African exports to the EAC, ie principally Kenya (see Figure 14), consist mostly of value-added product groups.

It is clear from this data that South Africa broadly fulfils the role expected of it in regional trade relations – an exporter of value-added products and importer of some commodities it does not possess. So long as transport of goods in large quantities is involved, conditions of physical geography, railway lines and roads are reflected by trade intensity. It is very likely that a substantial portion of the measured value-added exports are accounted for by the MNCs, but it is not possible to disentangle their contribution, which hampers a convincing analysis of South Africa as a gateway in terms of value chains.

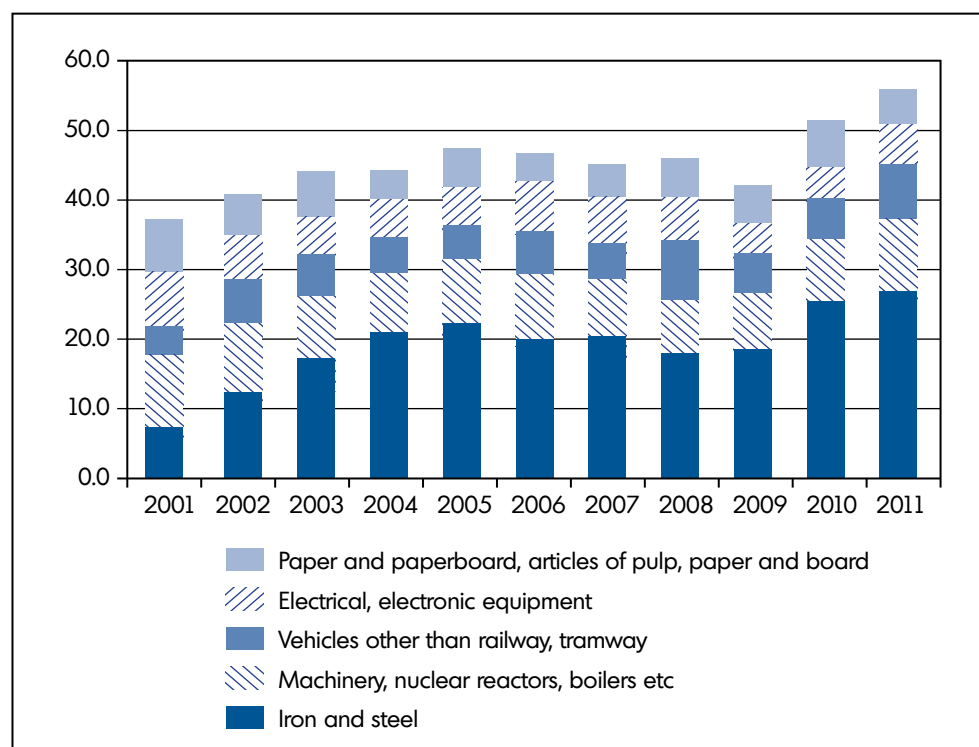
**Table 5: South Africa's exports to COMESA, 2006, 2010**

	2006			2010			Annual growth			
	\$'000	% total	% group	\$'000	% total	% group	2007	2008	2009	2010
World	52 601 760	100.0		71 484 309	100.0		21.7	15.5	-27.2	32.7
Africa	7 667 550	14.6		12 324 677	17.2		23.4	32.4	-16.0	17.1
of which										
SADC	5 250 319	10.0	100.0	8 950 433	12.5	100.0	23.0	38.6	-19.1	23.6
COMESA	4 009 424	7.6	100.0	7 146 838	10.0	100.0	26.7	40.3	-17.6	21.7
of which										
<i>Burundi</i>	7 177	0.0	0.2	9 119	0.0	0.1	-6.5	-1.9	38.4	0.0
<i>Comoros</i>	8 282	0.0	0.2	12 355	0.0	0.2	47.3	-45.8	-6.9	100.6
<i>DRC<sup>a</sup></i>	363 684	0.7	9.1	865 847	1.2	12.1	71.0	81.0	-49.0	50.9
<i>Djibouti</i>	16 890	0.0	0.4	14 404	0.0	0.2	-41.3	53.5	22.5	-22.8
<i>Egypt</i>	32 441	0.1	0.8	136 942	0.2	1.9	103.4	102.1	7.7	-4.7
<i>Eritrea</i>	4 403	0.0	0.1	27 831	0.0	0.4	44.2	6.0	166.1	55.5
<i>Ethiopia</i>	33 959	0.1	0.8	38 200	0.1	0.5	0.2	36.0	-19.7	2.8
<i>Kenya</i>	471 042	0.9	11.7	785 279	1.1	11.0	36.6	10.4	22.9	-10.0
<i>Libya</i>	5 910	0.0	0.1	29 479	0.0	0.4	2.8	132.0	-5.7	121.8
<i>Madagascar</i>	73 254	0.1	1.8	180 846	0.3	2.5	121.6	41.0	-46.5	47.8
<i>Malawi</i>	247 053	0.5	6.2	442 241	0.6	6.2	24.4	51.6	-7.9	3.0
<i>Mauritius</i>	285 889	0.5	7.1	345 338	0.5	4.8	-5.9	49.4	-25.4	15.2
<i>Rwanda</i>	11 276	0.0	0.3	24 180	0.0	0.3	32.2	108.8	-24.4	2.8
<i>Seychelles</i>	70 948	0.1	1.8	56 384	0.1	0.8	-18.7	-0.5	1.8	-3.5
<i>Sudan</i>	58 286	0.1	1.5	63 059	0.1	0.9	58.8	-37.4	31.3	-17.1
<i>Swaziland</i>	0	-	-	0	-	0.0	-	-	-	-
<i>Uganda</i>	103 225	0.2	2.6	208 420	0.3	2.9	48.2	8.4	-11.0	41.3
<i>Zambia</i>	1 150 536	2.2	28.7	1 750 864	2.4	24.5	23.5	38.3	-28.0	23.7
<i>Zimbabwe</i>	1 065 169	2.0	26.6	2 156 050	3.0	30.2	12.2	41.4	-4.8	34.1
COMESA (excl SADC)	752 891	1.4	18.8	1 349 268	1.9	18.9	38.8	14.2	14.1	-1.2

Note: SADC members are shown in italics.

a SADC member not participating in the free trade area.

Source: ITC, Trade Map database, 2011, <http://www.trademap.org>, accessed March 2011.

**Figure 14: South Africa's exports to the EAC (%), 2001–2011**

Source: Trade Map: *Trade Statistics for International Business Development*. Geneva: ITC, 2012.

### A financial hub for regional markets

Given the relatively large size and sophistication of South Africa's financial sector and the liquidity of its financial markets, especially the JSE, intuitively the proposition that South Africa channels financial transactions from overseas to Africa makes sense. Relative to its African peers the JSE is the giant, with an average day's trade being more than the annual trade of Nigeria and Mauritius put together.<sup>57</sup>

The South African government's strategic posture towards the financial sector on the face of it supports this notion, with the National Treasury developing a strategy positioning South Africa as the financial centre for Africa and, some time ago, having lifted exchange controls for South African companies investing on the continent, while retaining those controls for investments outside the continent. If this strategy works as intended, foreign investors will use South African markets for at least two purposes from the gateway perspective: to invest in South African companies, in other words portfolio investment, in order to access an African growth story by leveraging South African corporate networks; or to raise finance in South Africa directly for their own African operations.

As far as the JSE is concerned the first proposition dominates and in that sense South Africa, the JSE specifically, is an African gateway, but the sources of funds are primarily portfolio in nature. The chief executive officer of the JSE does not see the second proposition as having much traction with respect to the MNCs moving into the region.



The MNCs tend to have their own sources of finance and exchange control regulations make the exercise difficult.<sup>58</sup>

However, the JSE interviewees are of the opinion that there is a substantial opportunity to capture some of the business of financing corporate expansions into Africa directly, even if they are not currently doing so. They are also exploring how best to link African commodity markets to South African and potentially global buyers; and refer to the example of Zambian grain, which they are in the process of offering to make available through their commodities exchange.<sup>59</sup>

With regard to the geographical scope of the South African gateway, observations on the JSE as a channel for financial transactions from overseas indicate that there is a third region of influence. Although physical geography, railway lines and roads define Southern Africa as the gateway's region and South Africa's role as a hub for regional headquarters of the MNCs expands its influence to the entire sub-Saharan region, the JSE appears to make South Africa a gateway to the entire continent.

### EMERGING CHALLENGES TO SOUTH AFRICA'S GATEWAY POSITION

Despite the various opportunities for South Africa to act as a gateway, as presented in the previous sections, there are numerous challenges to the South African gateway. Identification of these challenges follows the four dimensions developed above.

First, South Africa is not the only potential headquarters hub for the MNCs that do business in sub-Saharan Africa. During the course of the interviews conducted for the paper, at least two non-African competitors emerged: Dubai and Western Europe, especially the former colonial capitals of London and Paris. Clearly these locations have major institutional advantages in their own right, which Johannesburg will struggle to match. That they are regarded as alternative gateways also points to different approaches by source country companies to establishing regional headquarters in Africa. Western European countries have long established networks in Africa and operate on the same time zones, more or less, as many African countries; therefore London and Paris make sense for British and French companies, respectively.

German companies, by contrast, generally do not establish African headquarters, since the markets involved are small relative to the overall size of the business. Consequently, African operations tend to be run out of head office in Germany.<sup>60</sup> American and Far Eastern companies, by contrast, seem to be more interested in establishing regional headquarters in Johannesburg or Dubai given their relative physical distances and, according to some interviewees, a lack of cultural and historical ties to Africa, which poses an entrance barrier to African operating environments.<sup>61</sup>

Dubai offers one perhaps extreme example of such a focused strategy, offering, pre-crisis, a package comprising, inter alia, highly sophisticated infrastructure; a global air connections route network; and a financial hub with its own set of inducements all subject to English law. This and more was designed to convince foreign investors to 'come to the desert and operate in 40 degrees heat'.<sup>62</sup>

Other intra-sub Saharan competitor locations are also emerging to attract headquarters investment. For example, General Electric Corporation chose Nairobi for its African

headquarters and locus for future expansion, citing three principle reasons. These were the rapidly growing East African market; Nairobi's positioning as a regional air transport hub; and General Electric's existing operations in South Africa, meaning there were relatively few benefits to building further on those.<sup>63</sup> The last point also highlights that companies wishing to build regional footprints across Africa are likely to want to have a more diversified footprint.<sup>64</sup>

Even in Southern Africa, some smaller countries such as Botswana and Mauritius are actively chasing headquarters investments by offering an attractive policy mix, including, for example, low tax rates, expedited visa processes and cheap office rentals.<sup>65</sup> South Africa by contrast does not seem to have a focused and internationally marketed headquarters strategy; rather the impression is that the government relies on what it considers the country's natural status as the gateway to Africa.

Second, with regard to South Africa as a hub for logistics and distribution activities, the Barloworld Logistics survey<sup>66</sup> identifies several challenges confronting business in South Africa, the main ones being availability of skills, government institutional capacities and political instability, labour relations, and currency fluctuations. Transport and logistics issues and costs also featured, but less prominently.

The survey also identified South Africa's major competitors for the gateway tag from the standpoint of logistics and supply-chain management. Dubai featured prominently in the trans-shipment space, albeit particularly for North Africa. Nigeria was next; followed by Mozambique, particularly the port of Maputo; Angola; Kenya; and finally Namibia, with its port of Walvis Bay.<sup>67</sup> South African business really sees the country as the gateway to Southern Africa, so the relatively high ranking of Dubai, Nigeria and Kenya reflects the growth of markets in North, West and East Africa respectively rather than direct competition for Southern African markets. Nonetheless, the majority of the survey's respondents feel that South Africa's regional dominance is tenuous, and expressed concerns about South African policy initiatives and co-ordination.

Moreover, political deficiencies might hamper South Africa: one of the interviewees argued that notwithstanding the South African government's grand infrastructure build ambitions, the ultimate objective for some South African policymakers and their associated political supporters is not to build cost-effective infrastructure but rather to maintain Transnet's asset base in order to retain the parastatal's key role astride the commanding heights of the South African economy. In his view, this perspective is likely to lead to more costly infrastructure and therefore to relative undermining of South Africa's regional position in Southern African transport networks.

Furthermore, this interviewee was not optimistic that, given the scale of the funding challenge relative to South Africa's small tax base, the build programme could be sustained. By contrast, there is a view in the South African government that concessioning has failed wherever it has been tried in Africa. Mozambique was cited as one example, where the entire port system was concessioned,<sup>68</sup> which apparently resulted in the state's role in directing infrastructure development being limited.

In the longer term, as the region presumably gets its act together, it is not obvious why South African ports and infrastructure should remain the first choice. Having said that, the potential competitors face major challenges of their own in rolling out competitive infrastructure; so these processes will take considerable time to unfold. All over Southern Africa, ports are congested and, with the exception of Lüderitz and Walvis Bay, poorly

managed. Transport through Angola, Mozambique and Tanzania remains a nightmare, with railway lines and roads being in poor conditions or non-existent. Moreover, the non-South African harbours in the region often lack key facilities, such as cooled storage rooms.

An interesting example of potential medium-term competition is Mozambique, which is in the early stages of an energy and minerals boom that is likely to drive regional investments into infrastructure,<sup>69</sup> including a substantial electricity hub linked to this,<sup>70</sup> and suck in imports of many kinds. Already today, overseas mining companies, in particular Rio Tinto and Vale, exploit the coal fields in Tete province. They contribute to the rehabilitation of the Beira Corridor and long for a deep-sea harbour in Nacala or elsewhere in northern Mozambique that is linked to Tete by rail. At the same time, the Mozambique electricity grid could be substantially upgraded and regionally interlinked. The so-called 'Mozambique Backbone' will stretch through the country from south to north, either as a 765-kilowatts or a 533-kilowatts line. It is intended to be operational in 2015. Although construction works for a transmission line to Malawi are being carried out and plan to be completed next year, similar endeavours for a prolongation to Tanzania, which possesses coal reserves in the southwest and gas reserves off its coast, and to Kenya, originally envisaged for 2014, remain at the planning level.<sup>71</sup>

In the long term, and assuming Mozambique's mineral wealth is managed properly and reinvested into productive infrastructure and that the government manages the various private sector projects strategically in order to mitigate development of enclaves,<sup>72</sup> the country could start to shift the regional geography of transport distribution, particularly for bulk goods.

This highlights the broader point that assuming other countries in Southern Africa maintain their relatively rapid economic growth rates and continue to invest in their own transport infrastructure, so regional trading and associated distribution patterns will change, and possibly not in South Africa's favour.<sup>73</sup> Angola's ever closer ties with China demonstrate this. Since 2009 two flights per week connect Luanda to Beijing; Luanda's new airport, built by Chinese companies, will be the biggest airport in sub-Saharan Africa and will make Angola a hub for regional transport.<sup>74</sup>

Yet distributional networks also consist of interpersonal and corporate relationships built up over many years. So for this reason too, it may take considerable time for established relations to shift in response to the opening of alternative routes.<sup>75</sup>

Based upon interviews conducted and data gathered for the paper, it seems that, for the foreseeable future, the perception of South Africa as the best distribution gateway for regional, principally Southern African, markets will remain strong among the MNCs. South Africa's entrepôt role seems relatively secure, provided it can maintain its regional infrastructure advantages which, in light of the South African government's major infrastructure-build programme, seems plausible, notwithstanding the issues around state-owned enterprises.

Third, the sourcing possibility linked to global value chains is the most interesting for South Africa, since it involves adding value in the country. More domestic value addition linking imports to expanding regional exports could generate sustainable jobs and foreign exchange, and suck in complementary services activities such as transportation, distribution, finance and other areas of South Africa's competitive strength.

Unfortunately, there are no signs that the MNCs, at least from developed countries, see South Africa in this light. It is rather unlikely that the MNCs from the major emerging markets would see South African manufacturing in this light either, although this was not tested explicitly. Rather, South African manufacturing came across as uncompetitive, protected, and generally not well positioned to plug into global value chains. Furthermore, the integration of South Africa's service industry into global value chains suffers from unfavourable trade policies, as explained in the final section of this paper.

Fourth, regarding the notion of South Africa constituting a financial gateway to Africa, it would appear there is currently no systematic strategy in place to promote it. The interviews revealed that the National Treasury has been working on such a strategy for at least 10 years, apparently without sustained results. The JSE interlocutors observed that it would require dedicated attention to a variety of policy and regulatory barriers, such as allowing skilled African financial market operators to relocate to South Africa by relaxing work permit restrictions and liberalising exchange controls in order to promote free flow of funds.

Emerging competitors in the form of Mauritius and Botswana,<sup>76</sup> and the growing trend towards MNC listings on African exchanges, seem to have boosted treasury's work on this subject in recent months. Yet the latter phenomenon appears to be driven primarily by political considerations, as investors seek to ride the growing and related waves of resource nationalism and indigenization in African countries.<sup>77</sup> Since the authors were not able to secure an interview with National Treasury, this view cannot be substantiated.

However, various interlocutors were concerned that economic policy uncertainty in South Africa has risen in recent months, associated particularly with the nationalisation debate, leadership succession in the African National Congress, and the Walmart saga. These uncertainties are affecting investors' views about South African financial markets, with financial markets in general being highly susceptible to negative news.

Although policy, political and regulatory uncertainties are undoubtedly higher and likely to remain so for the foreseeable future in other African gateway markets, the returns on offer are generally higher than in South Africa. Therefore, there is a growing need to establish clear policy certainty if South Africa is to build on its gateway function.

## THE SOUTH AFRICAN GOVERNMENT'S STRATEGIC RESPONSES

During interviews with government officials,<sup>78</sup> the authors picked up a growing awareness in the South African government of the need to formulate strategic responses to the emerging challenges to the country's gateway role. Responsibility for formulating the vision of South Africa as a gateway seems to have initially been passed to the Planning Commission. Owing to capacity constraints it was subsequently passed on to the Department of Trade and Industry (the dti), which, together with the Department of International Relations and Cooperation (DIRCO), co-chairs a committee designed to co-ordinate 'SA Inc's activities' in Africa. This committee resides under the DIRCO-led economic diplomacy strategy.

As things currently stand, other government departments are not yet contributing meaningfully to the strategy-formulation process, but are rather pursuing their own internal processes. Nonetheless, the dti is working with the Department of Public

Enterprises (DPE) and the state-owned enterprises, leveraging the dti's appointees to the boards of the state-owned enterprises, *inter alia*.

The dti is also leveraging the export councils it co-ordinates, especially those with engineering and project-management capabilities, such as the capital equipment council, to take advantage of project opportunities. The idea is that working with the private sector, state-owned enterprises and South African development finance institutions (DFIs), the dti will scope out project opportunities in the region. Central to this is information gathering, rooted in the various industrialisation policy initiatives taking hold in the countries across the region.<sup>79</sup> The strategy is discussed in two parts: transport-related and trade policy.

### **Transport-related strategies**

South Africa's infrastructure build programme is targeted primarily at the domestic coal, iron ore and manganese railway lines and associated port infrastructure, primarily in Ngqura, Richards Bay and Saldanha.<sup>80</sup> One interviewee further stated that it appears no one is currently thinking systematically about the gateway vision in relation to regional infrastructure. Rather, the domestic infrastructure programme is primarily about poverty reduction.<sup>81</sup> Nonetheless, as the domestic infrastructure build programme is rolled out, this could subsequently free up Transnet capacity to focus on regional traffic.<sup>82</sup>

A key pillar in the emerging gateway strategy is the North–South Corridor project. As explained, the North–South Corridor is, in addition to the Coast2Coast Corridor, the essential transport infrastructure project that aims at binding the entire continental SADC region together. Given the vast resources in the Congolese–Zambian Copperbelt, it connects one of the key regional locations of resources via South Africa to world markets. Whether the Benguela Line, the TAZARA Corridor and the Chinese railway projects from Lubumbashi via Ilebo to Kinshasa and from Lubumbashi to the Great Lakes, which are all linked to the North–South Corridor, will expand the range of the South African gateway or bring about alternatives, remains to be seen.

The North–South Corridor is premised on Durban's pre-eminent role as the container hub port for Southern Africa. Transnet is in the early stages of substantially expanding Durban's container port capacity by acquiring the land that constituted the old Durban airport and, in time, expanding the existing space of the current port.<sup>83</sup> The port of Ngqura is being positioned as a trans-shipment hub for the region, linking east (Asia) and west (South America) to Southern Africa; but also South Africa to sub-Saharan ports.<sup>84</sup>

The latter is intended to leverage Ngqura's status as one of the few deep-water container ports in Africa capable of handling post-panamax container ships. Underpinning this strategy is a long-term view that the Suez Canal will not be able to handle the kinds of ships still to be built, and a shorter-term perspective that the piracy problem will continue to raise the cost of shipping via Suez.<sup>85</sup>

Furthermore, Transnet is entering into port-pairing arrangements with regional ports, notably Luanda. These would set in where those ports do not have the capacity to handle incoming cargo, meaning they would then redirect such cargo to South African ports for trans-shipment either via mooted regional feeder lines or land transport infrastructure. Given the cost of keeping ships idle in regional ports, this becomes a viable proposition.

The key to progressing the policy establishing regional feeder lines is the proposed tonnage tax, which would, if introduced, bring South Africa's fiscal system in line with the ones of other major maritime nations. A tonnage tax system means that instead of being taxed on profit, shipping companies are taxed at fixed rates on the basis of size and amount of days of operation. In total, this way of taxation reduces the taxes paid by shipping companies. It makes the amount of taxes they have to pay certain from the beginning, transparent and encourages economic activity instead of ownership.<sup>87</sup> An additional policy lever currently under consideration is imposition of a regional cabotage regime, whereby companies moving goods into or from the region via South African ports would be required to make use of South African flagged carriers.<sup>88</sup>

Apart from that, Transnet has for the first time, 'in a very long time' as one of the interviewees put it, assumed an outward-looking posture. However, its balance sheet is not particularly strong. Therefore, Transnet expects the South African DFIs to provide some of the financing for regional projects. The approach to formulating these regional projects goes beyond that of 10 years ago, in which the SDIs essentially constituted technical assistance or project-scoping packages. Now, the intention is to align SA Inc behind developed project proposals in order to benefit from them.<sup>89</sup>

Nevertheless, it takes quite a long time to align SA Inc, and it is not obvious that the company has the wherewithal to offer the kind of grand package intervention associated with major projects that competitors such as China can.<sup>90</sup> For example, in order to secure access to resources in the DRC, South Africa should be able to offer complementary investments into industrial processing zones and associated financing. In other words, SA Inc requires sufficient institutional resources and co-ordination thereof to cement its own role in regional economies.

Hence, the DPE, together with the major state-owned enterprises that report to it, is in the early stages of formulating such an approach – termed 'hunting in packs'.<sup>91</sup> This would be most easily pursued by DPE-managed, state-owned enterprises in the first instance, leveraging other government departments and DFIs on a case-by-case basis. Where cross-border bottlenecks emerge, these should be solved politically in interstate negotiations.<sup>92</sup> In this light, the infrastructure initiative of the African Union, which is carried out by states and the DBSA in Southern Africa, becomes potentially useful and explains why President Zuma is championing the North–South Corridor.<sup>93</sup>

An explicit gateway strategy could throw up some surprises in terms of existing government approaches to the role of transport state-owned enterprises. For example, South African Airways seems to exercise a hold over the Department of Transport's allocation of flight licences to South Africa, which it uses to minimise competition.<sup>94</sup> But a gateway strategy might require an expressly liberal approach in order to maximise passenger and cargo movements through Johannesburg airport.

Similarly, concessioning ports might lead to improved efficiencies but could challenge Transnet's control over port development and infrastructure. Nonetheless, it may be necessary simply in order to mobilise private sector finance, given the scale of the announced programme and competing demands on the fiscus. It will be interesting to see how these tensions play out as the transport gateway strategy is elaborated and implemented.

### Trade policy strategies

On the trade front, the proposed ‘Cape to Cairo’ Tripartite Free Trade Agreement (T-FTA) is a major opportunity for the South African government and business to go on the offensive. Analysis for the paper suggests that economic interaction within the T-FTA will be limited mostly to those activities that do not depend upon transport of bulk goods, but rather value-added manufactures and services (eg South African investment in banking and telecommunication). So South Africa stands to gain much from a rapid tariff liberalisation process stretching all the way up the East Coast via Nairobi and Addis Ababa to Cairo<sup>95</sup> and liberalisation of trade and investment in service industries. This perspective is strongly supported by business in South Africa.<sup>96</sup>

However, the dti seems to have slowed the process down to a cumbersome tariff line by tariff line negotiation and associated complex rules of origin.<sup>97</sup> This approach, if pursued to its logical conclusion, will take a decade or more to deliver a result – and that is before turning to services negotiations, which have been postponed to a distant second phase.<sup>98</sup> This conservative approach is rooted in the dti’s domestic trade and industrial policy strategies, and perspective on regional industrial development.

Regarding domestic trade and industrial policies, the dti’s idea of a ‘developmental state’ is one that drives industrialisation. In the South African Trade Policy and Strategy Framework of 2010, the dti<sup>99</sup> refers explicitly to the theory of strategic trade policy to justify selecting and even creating strategic sectors and thereby create long-term comparative advantage.

However, models of strategic trade policy are so restrictive and demanding with respect to the knowledge government requires that one can plainly exclude the success of any strategic trade policy. Furthermore, the dti promises selective tariff liberalisation delivering tariff escalation: processed goods are more highly protected than unprocessed goods. This is meant to improve export performance; inputs are cheaper than before and thereby enhance exports.

However, this only promises short-term benefits. Protection from foreign producers of processed goods represses structural change and prevents productivity gains, which are created mostly by means of import competition. Productivity gains, in turn, are necessary to develop the ‘decent jobs’ that are a key objective for the South African government. In the medium and longer run, technology and human capital export industries suffer through tariff escalation.

This policy approach also makes it more difficult to insert manufacturing industry into global value chains, which requires a transactions cost-reduction agenda spanning tariff and services sector liberalisation; or a trade in tasks, not trade in goods perspective.<sup>100</sup> It also causes South Africa to behave like the industrialised world. By mimicking the North’s discriminating trade policy, South Africa distorts trade with less-developed countries, particularly fellow Africans, since it forces them to specialise in unprocessed goods and prevents them from developing skills in processed goods. In the long run, that may reverberate politically, too.

When it comes to regional industrialisation, the dti’s basic idea is to build regional value chains. Global value chains seem to be regarded as somewhat threatening to regional industrial capacity;<sup>101</sup> therefore the policy preference is effectively to extend import substitution into the region. The dti’s policy approach is to offer improved regional



infrastructure to the MNCs, and to induce them to partner with South African companies in accessing regional opportunities.<sup>102</sup> Those partnership opportunities are concentrated in areas of South African corporate strength, notably finance, telecommunications, retailing, and agro-processing.

Rhetorically, the dti's position seems to be that it does not want to promote South Africa as a gateway at the expense of other countries in sub-Saharan Africa. Given the low levels of development elsewhere, it is quite comfortable for the benefits of investment and growth to go elsewhere.<sup>103</sup>

Yet the embryonic economic gateway strategy currently being formulated suggests that the dti's intentions may be different. Ultimately it comes down to, as one interviewee put it, 'we have to decide what we want to be when we grow up'. In other words, South Africa needs to decide whether or not it wants to be an economic gateway. Although there are many rhetorical statements affirming this desire on the part of the South African government, the interviews suggested that systematic thinking along these lines is just beginning.

Meanwhile, and unfortunately, during the course of the interviews, the authors encountered growing scepticism, particularly in the business media, about the South African government's management of the economy. This encompasses business scepticism concerning the emphasis on state-driven development in the government's New Growth Path; worries over what appears to be an increasingly interventionist attitude to FDI into South Africa and recourse to the Competition Authorities to act as a quasi-inward investment regulator (with reference to the Walmart and Kansai takeovers); tolerance of an extremely destabilising discourse over nationalisation; and resultant concerns over who is actually driving economic policy.

It is worthwhile recalling Keynes's dictum concerning what drives investment: the 'animal spirits' of the investor. There seems to be a growing feeling in the international and domestic investor community that South Africa is not getting it right, whereas better opportunities are emerging elsewhere in the subcontinent. Although the trickle of FDI previously destined for South Africa but now diverted to the likes of Nigeria and Kenya is unlikely to immediately become a flood, if current trends continue, then in 10 years' time the reality may be very different. What happens to the gateway notion then?

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