The Latest UN-Habitat Report Revealing the Growing integration of African Cities into the World Investment Network: *The State of African Cities 2018: The Geography of African Investment*

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Introduction:
Recently the full 400 page *State of African Cities 2018: The Geography of African Investment* Report was launched. According to this UN-Habitat report, foreign firms and investors into African cities can play a critical role in the region's development, and explores how Africa can help finance its development by attracting FDI to cities. This, hereby noting that SDG 11 (sustainable cities and communities) recognizes the role of cities as productivity hubs that drive growth and development, and attract investment. As such, African governments must connect FDI to sustainable urbanization by strengthening urban policies and planning, and financial and legal systems.

According to Aisa Kirabo Kacyira, Deputy Executive Director UN-Habitat, the "groundbreaking" nature of the study is due to its focus on the economic geography of FDI, rather than strictly on urbanization itself, which is a necessary countermeasure considering that by 2030, half of Africa's population will live in cities, which will likely exacerbate unplanned urbanization, informal settlements, poverty, inequality, unemployment, humanitarian crises and conflict.

It is argued in the report that the advancement of African cities is not only important for the continent's future, but arguably for the entire world. For this reason, the report's studies have explored African cities as integral components in an evolving world system. The analyses explore the effects of past FDI on different African locations e.g. inequality, employment and food security, as well as the factors desirable to make African cities more attractive to future investors e.g. good governance, infrastructure and regional integration.

About the report:

Drawing on various databases e.g. fDi Markets and Orbis, investment flows between many world cities and covering the period 2003 - 2017, the report explores the economic integration of African cities with other world cities. The report is unique as it reveals FDI into cities as well as countries. The report empirically shows the networks of FDI that bind African cities into the world investment system, using GIS, network analysis and econometric techniques. The spatial structures, trends, and forecasts of African FDI are revealed in the report at global, continental, national and urban scales, and show how these impact social, environmental and economic developments in African cities. The report covers various studies done by researchers from different international universities, including Chinese FDI into Africa; the impact of investment on inequality, employment and wages; food investment and food security; investment competitiveness, renewable energy investments and climate change. Also, four case studies are explored in-depth by local researchers from the cities of Johannesburg (South Africa), Cairo (Egypt), Abidjan (Ivory Coast) and Kigali (Rwanda).

The aim of the study has been to contribute to policies that can make African cities into more attractive, competitive and resilient FDI destinations, and how to use investment to improve economic development. For instance, it is shown that that cities need to intimately engage with higher scales of policy-making, e.g. supra-regional and continental. Urban regional agglomerations are critically important for attracting investors given their unique capacity to capture and enable diverse economic activities. African cities increasingly shape the economic performance of entire countries and regions and should therefore be more actively viewed as constituent parts of regional economies of scale. In advancing the economic development of the African continent, while addressing high levels of income inequality, unemployment and poverty, the five major African regions, within the responsibility of their respective regional institutions and the African Union, should closely collaborate to target different sources of FDI worldwide. Attracting global FDI is highly competitive and therefore regional cooperation is critical to amplify individual cities' and nations' negotiation strength.

FDI in Africa
In recent years, especially after the 2008 financial crisis, there has been a steady increase in FDI towards the Global South. This has been a welcome trend for Africa, not only because of its developmental challenges, but also due to the generally limited availability and expense of domestic financing, which has stubbornly hampered African businesses. Nonetheless, despite a growing FDI influx, Africa's share of the total volume of world FDI remains small, at roughly

5%. This compares poorly with the continent's 15% share of global population and over 30% of world poverty. The currently large GDP per capita gap is likely to widen if 'business as usual' were to continue. This is further reflected in Africa's relative disconnection with the global investment system.

There is a pressing need for more FDI in Africa. Financial and policy interventions are needed to support Africa's emerging transformations and strengthen the already declining primary sector (resources) investments, towards secondary and tertiary sectors (manufacturing, services and hi-tech). This would facilitate structural economic transformation and generate higher value added productivity on economic activities. In this light, FDI is a key resource to expedite Africa's growth potential, since it promises to bring not only financial resources, but also new technologies, knowledge and expertise. Investment generally promotes employment, productivity and competitiveness through entrepreneurship in FDI destinations. Substantial private capital injections can, for instance, help close Africa's massive gap in physical infrastructure, improve the quality of the built environment, and make it a more attractive destination for FDI.

The role of cities

Cities perform a quintessential role in Africa's evolving transformation because urban environments facilitate growth in critical economic sectors. Cities can accommodate the industries that already demonstrated notable and sustained economic growth from 2003 to 2017, and whose trend is anticipated to continue. African cities can boost their economies by positioning themselves as desirable locations for multinational firms' regional headquarters or sub-offices and thereby become important nodes in these firms' corporate strategies and supply chains. However, it is pertinent that, as potential FDI destinations, cities should understand investors' rationales to expand business to foreign countries. In an age of globalization and the emerging 4th industrial revolution, the role of African cities and urbanization must reverberate in the long-term economic, spatial and demographic planning of the continent.

Under conditions of very rapid urbanization, African cities bring both problems and solutions; notably in respect to urban poverty incidence. In the absence of commensurate economic growth in urban and rural economies alike, urban poverty occurrence has become proportional to the rate of urban-rural migration and natural urban growth. Conversely, urban economic development can lift millions out of poverty, as it has done in East-Asia over the past three decades, with African cities becoming hubs of productivity that accelerate economic growth and broad-based well-being. For that to happen, African cities need to seize a more prominent position in the world economy by enhancing their accessibility, connectivity, markets and place attachment. They also need to build workers' skills and productive capacity, their knowledge and technology levels as well as their institutions and investment networks. FDI can be a means to kick-start this.

General conclusions:

Despite its relatively low ability to attract FDI in comparison to other continents, the recent rate of FDI growth into Africa is the second highest in the world. While this is partially explained by the low investment base from which the continent started, it does demonstrate a growing interaction between Africa and the global economy. Indeed, FDI is now an important source of finance and represents roughly a third of foreign financial sources flowing into the continent.

The better a city or urban agglomeration is globally and regionally connected as an FDI destination, the more FDI it will be able to attract. Cities will have stronger economies when they facilitate international trade and link up to diverse FDI clusters in the world economy, while at the same time boosting their own local markets and economies. African cities should, therefore, develop strategies to become key nodes for commodities and services in the global marketplace. Spatial policies such as industrial zoning and clustering are conducive to this because they help create opportunities to engage peripheral parts of the urban agglomeration in economic development. They also help provide investments in physical infrastructure and social capital, while enhanced ICT supports improved accessibility and connectivity. Key aims would be to make major inroads into addressing urban unemployment and poverty, lower urban informal settlement (slums) proliferation and, not in the least, securing critical future urban food security. In this sense Africa's urban revolution will have to go hand-in-hand with a pronounced agricultural revolution.

Nonetheless, FDI is neither a panacea nor the ultimate answer since it has both good and less helpful traits. Commonly recognized negative aspects of FDI are its potential for crowding-out local businesses in developing economies; its tendency to prevent or reduce domestic investments; and latent adverse consequences of certain sectors to increase wage inequality and block the development of indigenous skills. Therefore, careful choices should be made by cities in their pursuit of new and additional FDI, which can lead to inclusive economic growth.

Some key findings:

1. African cities are still strongly disconnected from the investment backbone of the world economy. The competitiveness and resilience of African cities does not only depend on their local social, economic and environmental development, but more importantly the improvement of their regional, continental and global trade and investment connectivity.

2. Because African cities are now the fastest growing in the world, African local, regional and continental authorities, need to consciously embrace rapid urbanization and coordinate and collaborate activities across these geographic scales, to ensure sustainable development.

3. Because the sectoral investment diversity of African cities is modest, these cities are easily exchangeable to global investors. This means that these cities have many African and global competitors who hold the same industries. This makes most African cities highly vulnerable! Local governments must therefore ensure that their cities develop new potential and capacity to attract a more diverse portfolio of investment sectors, through which their cities can become more diversified and specialized, hereby attracting more investment capital.

4. African cities are rapidly developing into regional agglomerations. Investments to cities in these agglomerations are unevenly spread, which is common around the world. Instead of trying to attract equal amounts of investment and the same types of sectors, these cities should understand the nature of hierarchical urban systems, and instead find complementarity, collaboration (co-opetition) and coordination amongst cities. In this way, emerging African mega-agglomerations will compete with each other, instead of the cities within themselves.

5. Cairo, Johannesburg, Tangier, Lagos, Casablanca, Algiers, Cape Town, Nairobi and Abidjan have attracted the most investment over the past 15 years. Most investment goes to North Africa, although its growth rates have dropped radically, arguably triggered by events like the Arab Spring.

6. The biggest investors into African cities are, in descending order, Paris, London, Dubai, Johannesburg and Beijing. There are three continental investment superclusters in Africa. The first is an Anglo-Saxon cluster, the second a Franco-Arabic cluster, and the third a Resource-Port cluster. Johannesburg, Nairobi, Lagos, Cairo, Lome, Port Louis, Luanda and Dar es Salaam serve as the most strategically positioned cities within the global capital system.

7. Africa is no longer dominated by investment into natural resources (as is commonly understood), but has been strongly overtaken by knowledge intensive and advanced industry sectors e.g. renewable energy, food, communications, real estate, financial services, business services and IT.

8. Since 2003, the source of investments into African cities have increasingly been from distant locations. This means that the geographic investment scope of Africa has expanded tremendously across the globe.

9. FDI into Africa is forecasted to rise again, starting approximately in 2019. Nonetheless, regional economic differences exist, where for example East Africa is expected to sport the highest growth rates and volumes.

10. Johannesburg’s biggest global investment competitors are Bogota and Chicago. In Africa, these are Cape Town and Casablanca. Its biggest competitors in Asia are Delhi and Manila. In West Europe these are Zurich and Helsinki. These competitor studies have been done for various African cities, and results shown in the report.

11. Although most studies on urban competitiveness assume that cities compete vis-a-vis one another, little attention is paid to actually measuring the intensity of competition between cities. It is shown in this report that Johannesburg, Cairo, Abidjan and Kigali compete with entirely different cities, based on very different sets of investment industries.

12. It is shown that African investment is determined by access to growing local markets, physical proximity to regional markets, skilled workforce ability, business trustworthiness, available domestic credit for partnerships, and, governments with progressive forms of democracy. It is also shown that in future, the increased involvement of women in the ‘formal’ labor force will strongly boost future investment.

13. It is shown that investment into African cities, such as Johannesburg, tend to reinforce the colonial and apartheid spatial structures of these cities. This is determined by better education, tourism, infrastructure, real estate, financial services, and the production and export potential of certain privileged districts. This means that in future, poorer areas must gain (1) improved infrastructural access and locational characteristics to these wealthier regions, and/or (2) that improvements and incentives are made by these districts, to attract foreign investors into the less wealthy parts of the city.

14. The report shows that Nigeria, South Africa, Zambia, Ethiopia and Tanzania are the main recipients of Chinese foreign investment. These investments originate primarily from the Chinese provinces of Zhejiang, Shandong, Jiangsu and Beijing. It is seen that China’s investment into different countries is not sectorally homogenous, but that China has very different and clear interests in each African country.

15. The determinants of Chinese investment into Africa are political instability, levels of democracy, market seeking motives, political proximity to China, and economic proximity to China. Interestingly, resource seeking and asset seeking motives do not play a role, despite popular belief.

16. Africa holds the highest wage inequality levels in the world (Gini coefficient). The study finds that FDI in general increases inequality in African countries, unless paired with well-developed technological absorptive capacity in these countries, improved tertiary education, and institutional reliability.

17. It is shown that the average minimum wage levels across African cities do not have a significant relationship with the attraction of FDI into these cities. This means that generally wages are not an operation cost, considered by multinationals investing in Africa. This contributes to exclusive growth and employment exploitation in the continent. It is recommended that minimum wages are set at the continental level to prevent this kind of exploitation, and hereby enhance inclusive growth.

18. The report shows that knowledge intensive FDI is attracted into Africa by the global competitiveness index of cities, as well as levels of innovation, technological readiness, well established financial markets, and population growth.

19. It is found that multinational firms are particularly attracted to the regional market reach of African cities. An index was developed to measure how physically connected, by road, a city is to every other city in Africa. This measure was shown to be a very powerful determinant of foreign investment to these cities. It emphasizes the need to develop infrastructural regional connectivity in Africa, and the need for regional and continental cooperation.

20. The report shows that Real-Estate FDI into African cities is determined by the regulatory quality of the cities, urban population growth, the amount of total FDI invested, the control of corruption, the presence of special economic zones. Furthermore, Real-Estate FDI is deterred by rigid town planning policies, and the number of days needed to obtain a building permit.

21. It is shown that Africa has the highest food insecurity levels in the world, where these countries are highly vulnerable, due to high volumes of food imports (corn, wheat, rice, pork and chicken), and the exploitation of food multinationals that are mainly geared towards exports to global markets. African Food FDI is shown to not contribute towards the food security parameters of affordability, availability and food quality and safety.

22. Another study shows that FDI in renewable energy is determined by various energy policies at the country level. These include feed-in-tariffs (price regulation), renewable portfolio standards (inclusiveness of renewables), fiscal measures, energy production payment (government contributions), public investments and carbon tax (fossil fuel imposed tax). These are policies that African governments might want to develop, if they are interested in raising renewable energy investment in their countries.

23. A study on Smart Cities shows that the smartness of a city is not only determined by the technological measurement and coordination of cities, but particularly by its position within global networks of foreign investment. In other words, the more cities a city is connected to by means of investment, the smarter it will be.

24. The report shows that besides a city's level of global competitiveness, based on World Economic Forum indicators, the level of "greenness" measured by Yale University's Environmental Performance Index, determines the level of FDI that a city attracts. This means that being a green city gives an added advantage in attracting FDI.

General recommendations:

The report makes city-level, country-level, regional-level, continental-level and global-level recommendations, calling for, inter alia:

- Increased diversity of FDI sectors and intra-sectoral specialization to enable greater economic competitiveness and more urban economic resilience;

- Intensify investment connectivity of African cities to the world;

- Autonomy of cities to shape their investment environments by, for example, accommodating location preferences of multinational firms;

- Scrutinizing sectors of investment and only attracting types that reduce income inequality and environmental degradation;

- Urban planners to create technological hubs for high-tech firms to gain economy of scale benefits and to increase absorptive capacity of foreign technology;
- Promotion of gender parity in the labor market;
- Local authorities to build on sectors where they already have comparative advantages;
- Linking cities, countries and regions through road and rail transportation to expand market size, especially for landlocked countries to connect with port cities;
- Targeting investment in renewable energy; smart cities, food security, green cities, infrastructure, real estate, infrastructure
- Formulating policies that attract food firms focused on local markets; and
- African continental, regional, national and municipal institutions to invest in and support accessible high-level data collection, as well as stimulate advanced analytical methods and technologies.
- Globally, the report calls for international organizations to, inter alia: expedite investments in Africa by financing regional infrastructure to improve the flow of goods, finance and labor; prioritize urban food security; and help promote governance to attract multinational firms in the food sector.

This post is written by Ronald Wall, and based on The State of African Cities 2018 – The geography of African investment (UN-Habitat) report. The report was initiated and developed by Ronald Wall (Wits University and IHS-Erasmus University Rotterdam), Alioune Badiane and Jos Maseland (UN-Habitat), and co-developed by Katharina Rochell and Mathias Spaliviero (UN-Habitat). This post represents the views of the author.

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