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South Africa's Economic Engagement in Sub-Saharan Africa

Drivers, Constraints and Future Prospects

CHATHAM HOUSE
The Royal Institute of International Affairs

Summary

- The 'maximalist' approach that has driven South Africa's external engagements since 1994 – as Africa's champion and 'one among many'; as simultaneously development partner, moral leader and industrial investor across sub-Saharan Africa; and as friend and ally to developing countries, to traditional donors and more recently to its BRICS partners – is under increasing strain. As South Africa's ability to fulfil these complex and often conflicting roles diminishes, it must develop a more strategic and realistic approach to a changing continent.
- The African National Congress (ANC) government has sought to leverage South Africa's economic weight to bolster the country's political influence on the continent. Commercial enterprise has been the primary driver of South Africa's engagement in Africa, but the strained relationship between the objectives of business and government in South Africa is often reflected in the country's regional engagements.
- South Africa's long-standing economic dominance has in part reflected the relative weakness of other African economies. But governments elsewhere on the continent have gradually sought to modernize their economies and encourage investment not just in extractives but also into services and manufacturing. A critical shift came as a rebasing of Nigeria's economy in 2014 showed that it far outranked South Africa as the continent's largest in terms of overall gross domestic product (GDP), although South Africa has a significantly higher level of average GDP per head and its economy is more diversified.
- With a series of end-of-decade elections due in Southern Africa – including in South Africa in 2019 – many of the 'old guard' of national liberation movements will come under the scrutiny of voters who have high expectations of delivery, and for whom the mantra of liberation may be insufficient as a guarantor of loyalty in the current context. And although members of the old guard in South Africa may not be at imminent threat of electoral defeat, their political attention is already more inward-looking as the polls approach.
- While South Africa's external political engagement on the continent may be stalling, commercial expansion continues, and the changing picture at home, regionally and more widely across Africa creates opportunities as well as challenges for South Africa's next generation of leaders.
- A new approach to engagement in Africa does not need to be at the expense of the values that have driven policy since the end of apartheid. South Africa can use its relative economic heft to play a stronger developmental role in Africa by leveraging the strengths of its business sector and its financial agencies. But it must also play a stronger and more cooperative role politically by cultivating relationships with pivotal states such as Nigeria, Kenya, Ethiopia and Angola.
- Shaping policies that are simultaneously able to deliver benefits to South Africa, adapt to a rapidly changing global environment, and build robust bilateral relations across the continent will demand strategic vision and delicate diplomacy by South Africa's government and its international representatives. At a time of increasing domestic political disunity, it is unlikely that such clarity of purpose will be achieved soon.

Introduction

Since 1994 the African National Congress (ANC) government has sought to leverage South Africa's long-established economic dominance in sub-Saharan Africa to bolster the country's political influence on the continent, and to take advantage of its relative global integration, strong institutions and diversified economy to position South Africa as Africa's primary representative in international forums.

South Africa under the ANC has consistently placed Africa at the centre of its stated foreign policy objectives. The post-1994 government harnessed post-apartheid political goodwill to promote itself internationally as a champion of a new world order, supporting South–South cooperation. More recently, South Africa secured recognition as a major emerging economy in joining Brazil, Russia, India and China in an expanded BRICS bloc. And, with an eye on a permanent seat on the UN Security Council, it has also positioned itself as Africa's representative at the G20, and has projected itself globally as the corporate and institutional gateway to the continent.

However, economic strength and a high international profile have not translated into political clout elsewhere in Africa. Indeed, its focus on becoming an influential force in the global South has undermined its standing on the continent, reinforcing a perception on the part of its critics that it regards itself as superior to other African countries, and that it has not prioritized the forging of alliances with other pivotal states across the continent. Moreover, South Africa's assertion that it will use its representation at the international level to push for greater recognition of African issues has been met with some scepticism among other African nations, which do not regard South Africa as the continent's leader in the way that some outside Africa do.

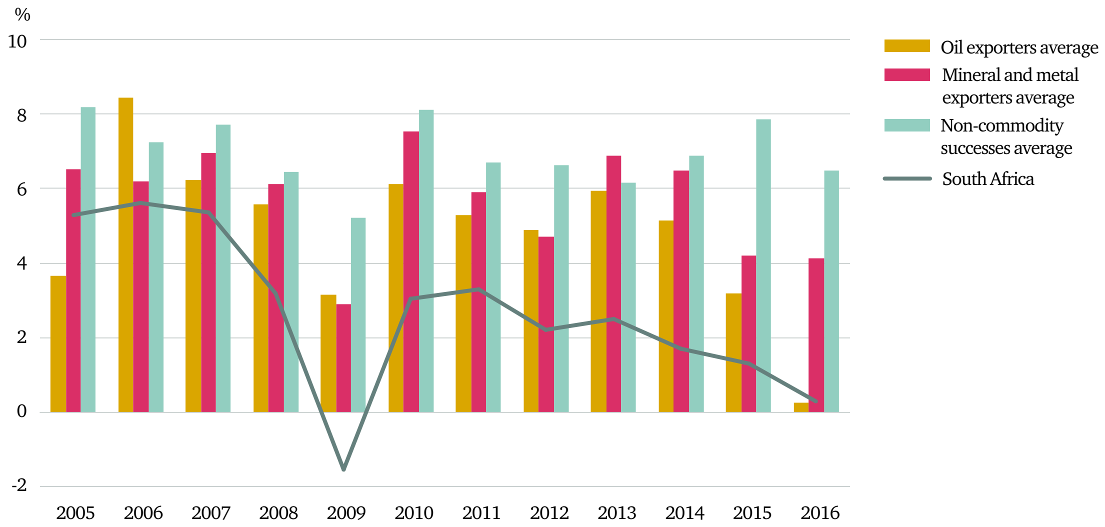
South Africa's economic dominance has in part reflected the relative weakness of other African economies. But this situation is starting to change, as governments elsewhere on the continent have gradually sought to modernize their economies and encourage investment not just in extractives but also into services and manufacturing. This has brought 'business-friendly' reforms and improved governance measures as part of efforts to attract the investment needed to encourage private-sector growth and job creation. At regional level, new and rehabilitated ports and the development of new transport corridors are starting to erode the importance of South Africa as a logistics hub for Southern and Central Africa.

A critical shift came with the rebasing of Nigeria's economy in 2014, according to which its overall gross domestic product (GDP) – at $510 billion in 2013 – far outstripped South Africa's $370 billion.[1] The Nigerian economy thus became Africa's largest, although the South African economy is more diversified and average GDP per head is significantly higher. In 2016 South Africa's GDP per head was $5,200, as against Nigeria's $2,200.

Meanwhile, the other BRICS states, particularly China, have also forged their own direct political and trade links with other African countries. However, the influence and status of the bloc, admission to which was totemic for South Africa, have latterly been eroded as some of its member states suffer significant economic and/or political challenges.

[1] Although World Bank data show that Nigeria overtook South Africa in 2012, it was the rebasing of Nigeria's GDP in 2014 that reflected the growing difference in size: World Bank Data, https://data.worldbank.org/indicator (accessed 6 Oct. 2017).

Figure 1: Real GDP growth, 2005–16



Oil exporters – Angola, Nigeria, Gabon
Mineral and metal exporters – Botswana, DRC, Mali, Zambia, Tanzania
Non-commodity successes – Ethiopia, Kenya, Rwanda, Senegal
Source: Compiled by Chatham House from World Bank Open Data, https://data.worldbank.org/.

Not least because of its greater degree of openness to international markets, with high portfolio flows, South Africa's economy was harder hit by the 2008 financial crisis than was much of the rest of the continent. It also failed to see the high levels of GDP growth recorded – albeit from a significantly lower base – by other oil, mineral and metal exporters in sub-Saharan Africa as a result of the commodity 'super-cycle' (see Figure 1). But whereas the 2009 recession in South Africa was attributable to exogenous factors, a technical recession in early 2017 has been attributed to the ANC's failure to tackle deep-seated impediments to growth.[2]

> South Africa is seen by some as a regional hegemon, and as having failed to demonstrate the kind of leadership role its larger economy and global standing could allow.

Notwithstanding its emphasis on building partnerships across the continent, South Africa has struggled to set the right tone in the rest of Africa since 1994. It is seen by some as a regional hegemon, and as having failed to demonstrate the kind of leadership role its larger economy and global standing could allow. Framing regional engagement in the context of development has further highlighted the difference in economic power between South Africa and its neighbours.[3]

South Africa, in a context of multiple and deep-seated social issues, has also come to be seen as being unwelcoming to other Africans, and there have been outbreaks of violence against migrants in low-income areas which are most affected by high levels of African immigration – both legal and

[2] Cotterill, J. (2017), 'South Africa's unexpected recession confounds economists', *Financial Times*, 6 June 2017, https://www.ft.com/content/a736b864-4abd-11e7-a3f4-c742b9791d43 (accessed 18 Oct. 2017).
[3] Grimm S. (2011), 'South Africa as a Development Partner in Africa', Policy Brief No 11, EDC2020, http://www.edc2020.eu/fileadmin/publications/EDC2020_Policy_Brief_No_11_-_South_Africa_as_a_Development_Partner_in_Africa_v3.pdf (accessed 18 Oct. 2017).

illegal.[4] Legislation such as the Border Management Authority Bill, approved (at the third attempt) by the National Assembly in June 2017, is tightening access for migrants and refugees.[5]

A series of end-of-decade elections in Southern Africa is expected to increase regional political uncertainty, as many of the 'old guard' of national liberation movements come under the scrutiny of voters who have high expectations of delivery and, in many cases, little direct memory of these governing parties' past standing. Zimbabwe has elections due in 2018, and South Africa, Mozambique, Botswana and Namibia will all go to the polls in 2019. While there are considerable differences in the systems of governance and quality of democracy in these countries, each of these parties is faced with increasing pressure, particularly from a new generation of voters for whom the mantra of liberation may be insufficient in the current context.

The old guard may not be at imminent threat of electoral defeat, but as the polls approach their political attention is inevitably more inward-looking. This internal focus is already evident among South Africa's politicians, but while South Africa's external political engagement on the continent stalls, commercial expansion – already a critical factor in South Africa's engagement in Africa – continues. For South Africa's next generation of leaders, a more realistic and strategic political and economic approach to Africa must take account of changing global and regional dynamics.

Political context and foreign policy priorities

Since the beginning of South Africa's new democratic era in 1994, the government under the ANC has placed Africa at the centre of its stated foreign policy strategy, building on linkages forged during the struggle against apartheid and establishing new relationships across the continent. South Africa's foreign policy in Africa, through contributions to peacekeeping or economic development, is both an extension of the ANC's long-held ideals to promote and create a just, equitable and free world, and a pragmatic response to regional risk.

South Africa has sought to advance these principles multilaterally through the African Union (AU), and in particular through the AU's Regional Economic Communities, the New Partnership for Africa's Development (NEPAD)[6] – which it hosted for several years – and the African Peer Review Mechanism.[7] It has participated in African peace and security initiatives, and has supported regional development through the state-owned Industrial Development Corporation and Development Bank of Southern Africa, as well as through development assistance to other African states.

South Africa has extended its diplomatic representation significantly since 1994, and by mid-2017 it had embassies and high commissions in 44 African states, with non-resident accreditations to a further seven.[8] It is a signatory to 99 treaties, declarations, conventions and multilateral organizations on the continent.[9] In the course of 2015 there were 21 official visits made by the president or deputy president to other African states or organizations, and in 2016 there were

[4] Misago, J. P. (2017), 'Xenophobic violence in the 'Rainbow' nation', *Al Jazeera*, 1 March 2017, http://www.aljazeera.com/indepth/opinion/2017/03/xenophobic-violence-rainbow-nation-170301075103169.html (accessed 18 Oct. 2017).
[5] Akoob, R. (2017), 'South Africa's borders may become even more unwelcoming to asylum seekers', *Daily Vox*, 20 June 2017, https://www.thedailyvox.co.za/south-africas-borders-may-become-even-unwelcoming-asylum-seekers-rumana-akoob/ (accessed 18 Oct. 2017).
[6] NEPAD is an economic development programme of the African Union. It has lost momentum in recent years.
[7] The African Peer Review Mechanism (APRM) is a mutually agreed AU self-monitoring mechanism focusing on values, codes and standards, and on political, social and economic development in support of the objectives of NEPAD.
[8] Department of International Relations and Cooperation website, www.dirco.gov.za.
[9] Ibid.

11 official visits on the continent.[10] South Africa is also a contributor to regional peacekeeping efforts, with a battalion of the National Defence Force currently deployed under the auspices of the UN MONUSCO stabilization mission in the Democratic Republic of the Congo (DRC), and past contributions including in Burundi, the Central African Republic and Chad.[11]

Since South Africa's readmission to the UN in 1994,[12] it has twice been elected as a non-permanent member of the Security Council, for 2007–08 and for 2011–12. It is the only African member of the G20 and of the BRICS,[13] was the first African country to have a strategic economic partnership with the European Union,[14] and is the biggest exporter to the US under the African Growth and Opportunity Act (AGOA).[15] External partners appear to regard South Africa as a figurehead in Africa, and prioritize it as a result.

This perception is not, however, widely shared across Africa, where there is significant reluctance to see one country leading or representing the continent as a whole, and where South Africa can be viewed as an economic power seeking commercial advantage and political influence. South Africa has, for its part, tended to downplay its potential leadership role in Africa, wary of charges of aspiring to regional hegemony, and has instead made efforts to project itself as a partner. It has avoided categorization as a donor in Africa, despite effectively having this role, although its development activities have nonetheless highlighted South Africa's dominant economic status.[16]

Development assistance has chiefly been directed through the African Renaissance and International Co-operation Fund, established under former president Thabo Mbeki to fund a diverse range of projects, including election observer funding, drought and medical relief, and agricultural projects in West Africa.[17] The fund is intended to be replaced by a new Partnership Fund for Development, which will form part of the new South African Development Partnership Agency (SADPA) to channel aid, assistance and support for other African countries.[18] This was expected to be in place by 2013 but was yet to be functioning by late 2017. Questions have been raised about whether it is cost-effective for South Africa to maintain a role as an external donor, particularly as its own economy weakens.[19] Furthermore, the nature of assistance to African countries has been changing with the entry of China, India and other actors that bring new models of assistance to countries with which they wish to do business.[20]

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[10] Department of International Relations and Cooperation, 2016 media statements, http://www.dirco.gov.za/docs/2016/index.html (accessed 18 Oct. 2016).
[11] Lotze, W., de Coning, C., and Neethling, T. (2015), 'Peacekeeper contributor profile: South Africa', http://www.providingforpeacekeeping.org/2014/04/03/contributor-profile-south-africa/ (accessed 18 Oct. 2017); and Martin, G. (2017), 'DOD outlines 2017 defence priorities', *Defence Web*, 3 October 2017, http://www.defenceweb.co.za/index.php?option=com_content&view=article&id=49445:dod-outlines-2017-defence-priorities&catid=111:sa-defence&Itemid=242 (accessed 18 Oct. 2017).
[12] South Africa had been suspended from the work of the UN in 1974, and was readmitted following the transition to democratic institutions in 1994.
[13] South Africa was accepted as a member of BRICS in 2011, after concerted lobbying to this end.
[14] Hengari, A. (2013), 'South Africa and the European Union: moving beyond asymmetry', South African Institute of International Affairs, Opinion Analysis, 16 July 2013.
[15] AGOA offers selected African countries preferential access to the US market. See 'AGOA info', https://agoa.info/data/trade.html (accessed 18 Oct. 2017).
[16] Grimm (2011), 'South Africa as a Development Partner in Africa'.
[17] Department of International Relations and Cooperation (2015), *African Renaissance and International Cooperation Fund: Revised Strategic Plan 2015–2020; Annual Performance Plan 2016–2017*, http://www.dirco.gov.za/department/african_renaissance2015_2020/arf_2015_2020.pdf (accessed 18 Oct. 2017).
[18] Parliamentary Monitoring Group (2016), 'South African Development Partnership Agency (SADPA): progress report', meeting report, 17 February 2016, https://pmg.org.za/committee-meeting/22022/ (accessed 18 Oct. 2017).
[19] Besharati, N. A. (2013), *South African Development Partnership Agency (SADPA): Strategic Aid or Development Packages?*, Johannesburg: South African Institute of International Affairs, https://www.saiia.org.za/research-reports/347-south-african-development-partnership-agency-sadpa-strategic-aid-or-development-packages-for-africa/file (accessed 18 Oct. 2017).
[20] O'Riordan, A. (2013), 'South Africa north of the border: The South African Development partnership Agency', South African Foreign Policy Initiative, Policy Brief No 41, Open Society.

The installation of democratic institutions in South Africa in 1994 was widely celebrated across Africa, particularly by those states that had supported the struggle against apartheid or otherwise influenced this outcome. Nonetheless, the tide of global attention given to South Africa and its new president, Nelson Mandela, later gave rise to some resentment among countries that now felt themselves displaced as the continent's leaders, chief among them Nigeria[21] and Zimbabwe.[22]

South Africa's idealism and apparent naivety in some of its early foreign policy actions in Africa also played a role in setting negative perceptions. Mandela's strong moral code and belief that democracy should trump African unity did not sit well with some of the continent's political 'old guard'. For instance, his calls for international sanctions against Nigeria in retaliation for the military regime's hanging of Niger Delta activists in 1995 angered other African leaders, who viewed his behaviour as high-handed, and as a violation of the established principles of unity and negotiation on issues affecting African countries.[23]

Mandela's successor, Thabo Mbeki, was more grounded in realpolitik, but he too had many foreign policy challenges in Africa. Significantly, under his leadership South Africa failed perhaps its biggest test – i.e. to use its influence to bring an end to human rights violations and the abuse of democracy in neighbouring Zimbabwe. His policy of 'quiet diplomacy' in reality helped to embolden the authoritarian leadership of President Robert Mugabe, and allowed the disintegration and eventual collapse of the Zimbabwean economy in 2008.

> Under Mbeki's leadership South Africa failed perhaps its biggest test – i.e. to use its influence to bring an end to human rights violations and the abuse of democracy in neighbouring Zimbabwe.

Mbeki set great store in promoting 'African renaissance', which in his vision denoted African self-sufficiency and renewal. The stirring rhetoric of pan-African renaissance was interpreted by some critics within Africa as an attempt by Pretoria to forge a leadership role for itself that was more about post-apartheid South Africa's reassertion of its African identity than about Africa's renewal and prosperity more widely.[24]

South Africa's idealistic and principled foreign policy has, moreover, often been criticized for trying to be all things to all people. Along with forging cooperative relations with other African states, it has tried to maintain relevance to countries ranging from the US and China to Cuba and Iran. It has not always succeeded in reconciling the inherent tensions between a high leadership profile in global affairs and a continental role as 'first among equals'.

Under the presidency of Jacob Zuma, South Africa's focus has become increasingly inward. Although government ministers assert that Africa is at the forefront of South Africa's foreign strategy, policy outcomes have fallen short of the political rhetoric, and both the country's standing on the continent and its status as a preferred partner for international governments are being challenged. The downscaling of its regional peacekeeping commitments illustrates the country's limited capacity and appetite to intervene on the continent.

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[21] Games, D. (2013), 'Nigeria South Africa Baseline Study', South African Foreign Policy Initiative No 45, Open Society.
[22] The Standard (2013), 'Mugabe fought Mandela over global relevance', 8 December 2013, https://www.thestandard.co.zw/2013/12/08/mugabe-fought-mandela-global-relevance/ (accessed 19 Oct. 2017).
[23] Mbeki, M. (1998), *Issues in South African Foreign Policy: The African Renaissance, South African Yearbook of International Affairs 1998/99*, Johannesburg: South African Institute of International Affairs, Johannesburg. 1998.
[24] Maloka, E. (2001), 'The South African "African Renaissance" debate: A critique', Africa Institute of South Africa.

The actions of the ANC government under Zuma in support of African solidarity have, moreover, at times frustrated external partners where these actions have been deemed to be in conflict with its international obligations, perhaps most visibly in the case of its refusal to arrest Sudan's President Omar al-Bashir when he attended the AU summit in Johannesburg in 2015. As a signatory to the Rome Statute of the International Criminal Court (ICC), the South African authorities were obliged to arrest al-Bashir, against whom the court has issued two arrest warrants related to charges of war crimes and genocide in Darfur.[25] In July 2017 the ICC found that South Africa had failed to comply with its obligations by not arresting and surrendering the Sudanese president to the court, specifically rejecting the government's argument that al-Bashir was subject to diplomatic immunity as a serving head of state leading his country's delegation to the summit.[26]

In 2016 the Zuma government, which has been a vocal critic of the ICC for disproportionately targeting African leaders,[27] announced its intention to withdraw from the Rome Statute, but it revoked this decision in March 2017 in accordance with a high court ruling that the declared withdrawal was 'unconstitutional and invalid'.[28]

The country's status on the continent has also been weakened by Nkosana Dlamini-Zuma's four-year tenure as chair of the AU Commission, which ended in 2017. It is undoubtedly significant that Dlamini-Zuma was the first woman to be appointed to this position, and she is credited with having spearheaded the flagship 'Agenda 2063' policy agenda for continent-wide development.[29] But she has also been criticized for taking an inconsistent line on presidential term limits and on other areas of democratic reversal on the continent, on failing to promote civil society, and for the AU's inaction on, or inadequate response to, key crises on the continent, including in South Sudan and Burundi, and during the 2014–16 West African Ebola epidemic.

The main criticism levelled at Dlamini-Zuma during her time at the AU Commission was that she always had 'one foot in South Africa'. She brought with her South African staffers, and spent considerable time in her home country. This sense of a South African 'takeover' was a cause of resentment from the outset, not least as there had been a tacit understanding that none of the continent's 'big' countries would go for the position, and the lobbying by South Africa of its neighbours cost it much political capital. There was, moreover, a perception that Dlamini-Zuma (now one of the front-runners for the presidency ahead of the ANC elective conference scheduled for December 2017) was at the AU 'in exile' from South Africa, so that she would be unable to challenge Zuma for the remainder of his presidential term.[30]

There are signs that a lack of cohesion in South Africa's foreign policy in recent years reflects the fault lines in the established order. Government through the so-called tripartite alliance – i.e. the ANC, the Congress of South African Trade Unions (COSATU) and the South African Communist Party –

[25] Bowcott, O. (2015), 'Sudan president Omar al-Bashir leaves South Africa as court considers arrest', *Guardian*, 15 June 2015, https://www.theguardian.com/world/2015/jun/15/south-africa-to-fight-omar-al-bashirs-arrest-warrant-sudan (accessed 19 Oct. 2017).
[26] Simons, M. (2017), 'South Africa Should Have Arrested Sudan's President, I.C.C. Rules', *New York Times*, 6 July 2017, https://www.nytimes.com/2017/07/06/world/africa/icc-south-africa-sudan-bashir.html (accessed 19 Oct. 2017).
[27] For a detailed discussion of the topic, see du Plessis, M. (2017), 'Time to Resolve the Debate Over Immunity and the International Criminal Court', Chatham House Expert Comment, 26 October 2017, https://www.chathamhouse.org/expert/comment/time-resolve-debate-over-immunity-and-international-criminal-court (accessed 27 Oct. 2017).
[28] Onishi, N. (2017), 'South Africa Reverses Withdrawal from International Criminal Court', *New York Times*, 8 March 2017, https://www.nytimes.com/2017/03/08/world/africa/south-africa-icc-withdrawal.html (accessed 18 Oct. 2017).
[29] Du Plessis, C. (2017), 'Dlamini-Zuma's failures, achievements as AU Commission chair', *News24*, 25 January 2017, http://www.news24.com/Africa/News/dlamini-zumas-failures-achievements-as-au-commission-chair-20170125 (accessed 18 Oct. 2017).
[30] Allison, S. (2017), 'Farewell, Madam Chair: Inside Nkosazana Dlamini-Zuma's troubled tenure at the African Union', *Daily Maverick*, https://www.dailymaverick.co.za/article/2017-01-23-farewell-madam-chair-inside-nkosazana-dlamini-zumas-troubled-tenure-at-the-african-union/ (accessed 18 Oct. 2017).

has long contributed to a multi-layered foreign policy, and conflicting interests have become more evident under the current administration. For example, Zuma's personal connections to Swaziland's King Mswati have been at odds with the support offered by COSATU to the opposition People's United Democratic Movement (PUDEMO). And, while South Africa challenged, bilaterally and through the Southern African Development Community (SADC), import restrictions imposed by Zimbabwe in 2016, Lindiwe Zulu, South Africa's minister for small business development, was cited as supporting Zimbabwe's efforts to protect its domestic manufacturers through restrictions on imports.[31]

Box 1: Zimbabwe – South Africa's critical regional concern

The 2016 import ban sits within the context of a highly complex relationship with Zimbabwe. South Africa is mindful that should the ongoing economic crisis in Zimbabwe deepen further, then immigration into South Africa will increase. This would increase the strain on service delivery in the country, and could exacerbate existing social tensions. Nonetheless, South Africa also benefits from immigration from Zimbabwe: there are, for example, many Zimbabwean healthcare workers in South Africa.

South Africa is Zimbabwe's most important regional economic partner, and almost half of Zimbabwe's trade is with South Africa. Between 2003 and 2015 South African companies invested US $1.29 billion into Zimbabwe, and there are estimated to be more than 300 South African companies operating in Zimbabwe, with the largest being in agribusiness and banking.[32]

Ongoing efforts to improve bilateral relations have resulted in reciprocal presidential visits between 2015 and 2017, and in the formation of a binational commission. In October 2017 the two countries signed five strategic agreements and memorandums of understanding, including on communications and energy. Zimbabwe is also a key element in South Africa's ambitions to promote its own ports as entry points to the region via the North–South Corridor.

Government–business relations and economic diplomacy

A key weakness of South Africa's external policy in sub-Saharan Africa is that it lacks an effective strategy designed explicitly to bring benefits to its domestic economy – and thus to its own citizens and enterprises – relying instead on domestic rewards falling into place as a by-product of its political engagement.[33] This contrasts with the obvious success of economic diplomacy employed by investors from other emerging countries and more developed economies such as China, Turkey and South Korea. The failure to develop a discrete economic strategy as part of its external engagement reflects in part the ANC's vision of itself as the driver of a 'developmental state' – i.e. using macroeconomic policy and state intervention for the objective of domestic development – rather than as a facilitator of business and investment.

Also significant in this context is a historical mistrust of mostly white-owned 'big business' on the part of successive socialist-leaning administrations since 1994. The complex relationship between government and business in contemporary South Africa is a reflection variously of the legacies of

[31] Masiyambiri, S. (2016), 'Lindiwe Zulu supports Zimbabwe's Statutory Instrument 64 of 2016', Bulawayo24, 2 August, http://bulawayo24.com/index-id-opinion-sc-columnist-byo-93543.html (accessed 18 Oct. 2017).
[32] Chitiyo, K., Vines, A., and Vandome, C. (2016), *The Domestic and External Implications of Zimbabwe's Economic Reform and Re-Engagement Agenda*, Research Paper, London: Royal Institute of International Affairs, https://www.chathamhouse.org/sites/files/chathamhouse/publications/research/2016-09-08-zimbabwe-economic-reform-re-engagement-chitiyo-vines-vandome-final.pdf (accessed 18 Oct. 17).
[33] This view was expressed by Institute of Global Dialogue director Siphamandla Zondi in a 2012 paper: Zondi, S. (2012), 'Options for guiding the future conduct of SA Inc on the African continent', South African Foreign Policy Initiative, Policy Brief No 13, Open Society Foundation for South Africa.

the pre-democratic business environment, of racial and transformation issues, and of a lack of frank and collaborative discussion between business and government. As former business leader Michael Spicer has put it, 'South Africa's history, most notably apartheid and race, have ensured that the kind of cultural homogeneity and shared world views and goals, which have underpinned other successful societies, have never characterized the government/business relationship in South Africa.'[34]

For much of the post-apartheid era, big business in South Africa has avoided commenting on statements and behaviour by some in governing circles that has negatively affected investor confidence, apparently wary of falling foul of the ANC.[35] President Zuma, for his part, has stated explicitly that supporting the ANC is good for business. As reported by one newspaper in 2015, the president informed a party business forum: 'I always say to business people that if you invest in the ANC, you are wise. If you don't invest in the ANC, your business is in danger.'[36]

Political patronage has grown under President Zuma, who has even been accused of allowing his business connections to 'capture' the state by allowing them undue and improper influence in high-level political appointments as well as in the South African economy.[37] Business confidence has taken a knock, leading large corporates to stockpile cash, or to invest abroad rather than in South Africa.[38] And a fractious relationship between business and government at home is reflected in their external dealings.

Recurring attacks in South Africa's low-income areas on migrants from other parts of sub-Saharan Africa, fuelled by accusations of immigrants taking scarce jobs at a time of high unemployment for South Africans, have also tested the country's external relationships. The government was criticized for its apparently ambivalent initial response to such attacks, although an AU statement issued in April 2015 condemning xenophobic attacks on foreign nationals in KwaZulu-Natal did welcome interventions by the South African authorities to engage with and provide protection for those affected there.[39] The attacks on foreigners provoked threats of retaliation against South African businesses elsewhere on the continent, and a number of firms, including Shoprite in Malawi and Sasol in Mozambique, briefly suspended operations as a precautionary measure.[40]

Private sector-driven engagement

South Africa has since 1994 become one of the largest non-oil investors in Africa, and one of the most diversified.[41] Investment from other emerging economies such as India, China and Malaysia has latterly expanded the pool of investing nations beyond established, developed-country partners.[42]

[34] For a detailed examination of the issues, see Spicer, M. (2016), 'Government and business: Where did it all go wrong?', *Rand Daily Mail*, 15 November 2016.
[35] In 2012, notably, the Chairman of Nedbank, Reuel Khoza, made comments in the bank's annual report that were critical of the country's leadership. Although he did not mention the ANC by name, he was sharply rebuked by the government for his comments. See for example: *Fin24* (2012), 'Manyi Slams Nedbank Chair', http://www.fin24.com/Economy/Manyi-slams-Nedbank-chair-20120410 (accessed 18 Oct. 2017).
[36] Letsola, M. (2015), 'Your business is in danger if you don't donate to the ANC – Zuma', *Mail & Guardian*, 9 October 2015, https://mg.co.za/article/2015-10-09-your-business-is-in-danger-if-you-dont-donate-to-the-anc-zuma (accessed 19 Oct. 2017).
[37] Public Protector (2016), 'State of Capture', Report No: 6 of 2016/17, https://cdn.24.co.za/files/Cms/General/d/4666/3f63a8b78d2b495d88f10ed060997f76.pdf (accessed 18 Oct. 2017).
[38] Hogg, A. (2016), 'SA corporate cash piles hit new record', *BizNews.com*, 23 May 2016, https://www.biznews.com/sa-investing/2016/05/23/sa-corporate-cash-piles-hit-new-record-no-confidence-means-no-investment/ (accessed 19 Oct. 2017).
[39] Brand South Africa (2015), 'African Union statement on xenophobic attacks in SA', *Brand South Africa*, 15 April 2015, https://www.brandsouthafrica.com/south-africa-fast-facts/news-facts/african-union-statement-on-xenophobic-attacks-in-south-africa (accessed 19 Oct. 2017).
[40] Smith, D. (2015), 'SA faces backlash over xenophobic attacks on migrant workers', *Observer*, 19 April 2015.
[41] Grobbelaar, N. and Besada, H. (2008), *Unlocking Africa's potential: The role of corporate South Africa in strengthening Africa's private sector*, Johannesburg: South African Institute of International Affairs.
[42] Note: South Africa's investment outflows include statistics from local subsidiaries of non-South African companies.

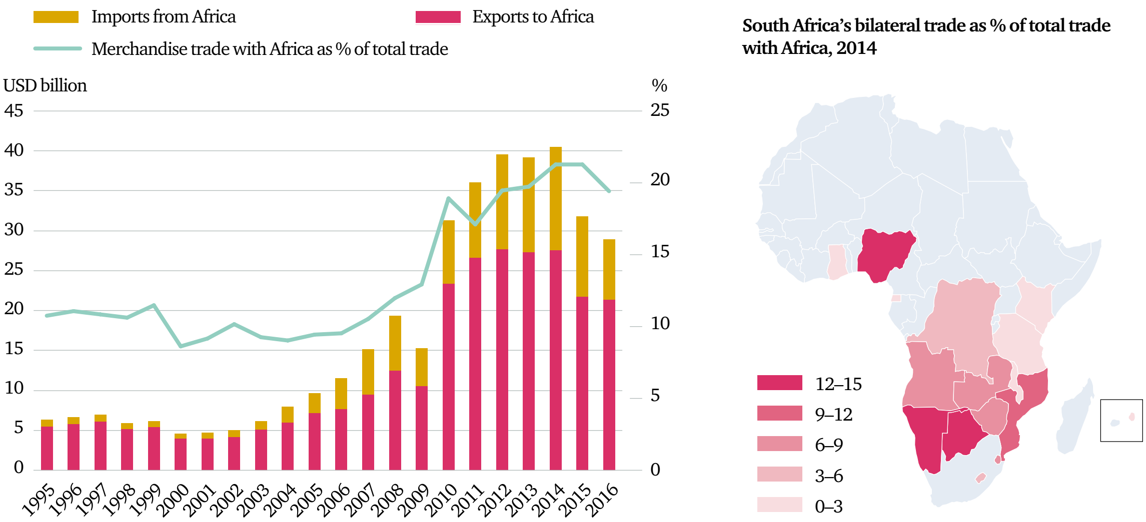
According to the South African Reserve Bank, between 2000 and 2015 the value of South Africa's investment stock in Africa increased from 5 per cent to 14 per cent of its total outward FDI stock.[43] South Africa's exports to other African markets increased from R9 billion in 1994 to about R300 billion by 2015, although the value of imports fell to R114 billion in the latter year from a peak of R141 billion in 2014.[44] The notable exceptions to this pattern of trade are Angola and Nigeria, which supply a significant proportion of South Africa's crude oil requirements.[45] Overall, the bulk of South Africa's trade remains within SADC.

> Between 2000 and 2015 the value of South Africa's investment stock in Africa increased from 5 per cent to 14 per cent of its total outward FDI stock.

South Africa has leveraged its developed infrastructure to position itself as an export–import hub for landlocked states to the north through regional trade initiatives such as the North–South Corridor linking the port of Durban to Central Africa. In 2015 non-South African value-added content made up 20 per cent of South Africa's gross exports.[46]

But despite the growth of its regional trade, South Africa has not capitalized to its full advantage as an 'early mover', particularly if compared with China as a new investor in Africa. While South Africa's external trade with the continent showed a threefold increase in the decade to 2011, China's trade grew 16-fold over the same period, albeit from a lower base. Exports to key economies such as Nigeria are also below potential: Nigeria absorbed just 4 per cent of South Africa's total exports to the rest of Africa in 2011; by comparison, 16 per cent of China's exports to Africa in that year went to Nigeria.[47]

Figure 2: South Africa's merchandise trade with Africa, 1995–2016



Sources: Compiled by Chatham House from UNCTAD and South Africa Department of Trade and Industry data.

[43] South African Reserve Bank, Statistical notes, https://www.resbank.co.za/Lists/News%20and%20Publications/Attachments/7981/09Statistical%20tables%20%E2%80%93%20International%20economic%20relations.pdf (accessed 18 Oct. 2017).
[44] Creamer, T. (2016), 'DTI sets up Africa-focused trade unit in bid to grow exports beyond R300bn', *Engineering News*, 15 July 2016.
[45] Iran was the main source of South Africa's oil imports until sanctions were imposed. At the end of 2013, 45 per cent of its oil came from Saudi Arabia, 23 per cent from Nigeria, and 18 per cent from Angola: *Fin24* (2014), 'SA dependence on oil imports growing', 2 September 2014, http://www.fin24.com/Economy/SA-dependence-on-petrol-imports-growing-20140902 (accessed 19 Oct. 2017).
[46] OECD-WTO (2015), 'Trade in value added: South Africa', https://www.oecd.org/sti/ind/tiva/CN_2015_SouthAfrica.pdf (accessed 18 Oct. 2017).
[47] Reuters (2012), 'SA wakes up to neighbours as Europe struggles', 26 June 2012.

Many multinationals initially regarded South Africa as a favoured destination for investment on the continent, but in recent years the government has been more actively developing policies to also facilitate onward investment from South Africa, including the relaxation of exchange controls.[48] Meanwhile, however, competing regional hubs have been emerging in countries such as Kenya, Nigeria, Ghana and Mauritius, as investors have sought cost-efficient locations as bases for their African operations.

Box 2: Drivers and patterns of trade and investment

Immediately after 1994, South Africa's non-resource companies opted for investment destinations based on proximity and familiarity, primarily the countries of the Southern African Customs Union (SACU)[49] – Botswana, Lesotho, Namibia and Swaziland. South African banks, retailers, food chains and other businesses had already begun expanding into neighbouring countries before the end of apartheid, in preparation for further expansion after the country's many years of isolation formally came to an end.

South African enterprises then looked for opportunities further afield, prioritizing countries that themselves displayed improving governance and economic liberalization such as Zambia, Mozambique, Tanzania, Uganda, Kenya and Ghana. Business ties with Nigeria have grown rapidly since the end of military rule there in the late 1990s; and South African investors have more recently had Ethiopia, Rwanda and Angola in their sights. A growing number of South African companies are taking advantage of the offshore financial benefits offered by Mauritius.

South African businesses have hitherto had limited engagement with francophone Africa, reflecting language issues and differing business and legal cultures. North African states are generally regarded as being too distant, both culturally and geographically.

Private companies were joined in the northward expansion by a number of South African state-owned enterprises in sectors including power, ports, aviation, water and telecommunications. At the height of its African expansion, in the early 2000s, the state-controlled power company Eskom had a presence in more than 30 countries, but it has since pulled back from the tougher environments in favour of opportunities back at home.[50] By contrast, South African Airways has stayed the course, in the face of new competitors in Africa as well as funding and governance challenges at home. Meanwhile, the government-owned Public Investment Corporation (PIC), the largest asset manager on the continent, has a growing rest-of-Africa portfolio.[51]

South African companies have benefited from their home country's proximity to growing but underdeveloped markets; a familiarity with the challenges of operating in those; efficient supply chains and technological advances; economies of scale; existing and developing free-trade areas; and development of skills and products suited to African markets. Zimbabwe remains important because of proximity and size, as well as historical ties and market gaps.

There have been two particularly significant initiatives in terms of regional trade liberalization: the SADC Free Trade Area, launched in 2008; and the Tripartite Free Trade Area, launched in 2015, which brings together 26 countries from three regional blocs – SADC, the Common Market for Eastern and Southern Africa (COMESA) and the East African Community (EAC).

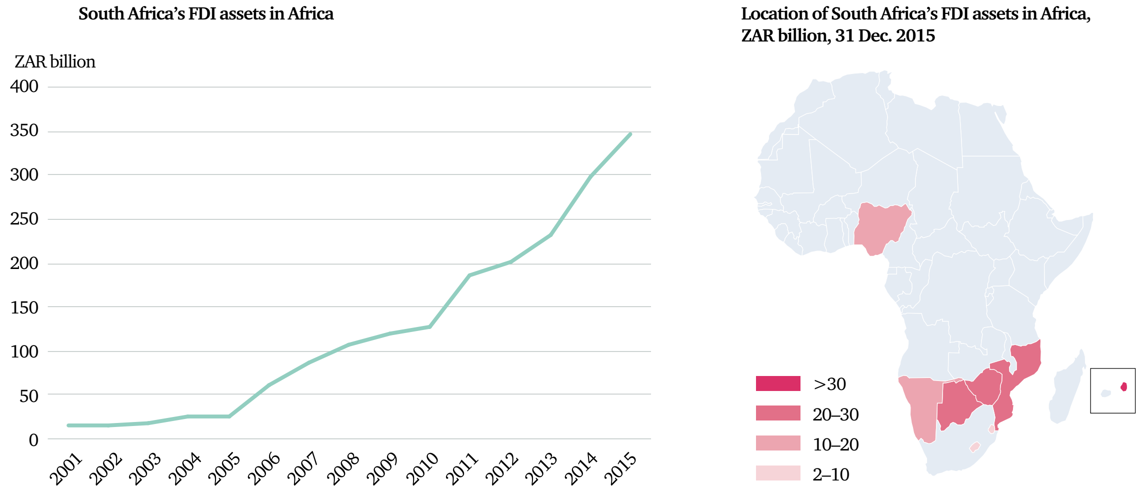
South Africa is unique in sub-Saharan Africa in being both 'African' but also an emerging power in the international system. It has the largest manufacturing sector on the continent, a developed service sector, and a deep and sophisticated capital market. The country's history and its position

[48] South African Government News Agency (2010), 'Gordhan announces relaxing of exchange controls', 27 October 2010, http://www.sanews.gov.za/south-africa/gordhan-announces-relaxing-exchange-controls (accessed 18 Oct. 2017).
[49] Member states of SACU, established in 1910, are linked by a single tariff with no customs duties on goods moving between them and a common external tariff. A revenue-sharing formula determines how the inflow of money from all customs, excise and additional duties is distributed. South Africa is the main recipient.
[50] Grobbelaar and Besada (2008), *Unlocking Africa's potential*.
[51] As of March 2017, the PIC was managing assets totalling R1.9 trillion on behalf of 23 public bodies. For further details, see https://www.pic.gov.za/index.php/about-us/our-clients/.

as a continental economic power singles it out for particular attention, and South African companies sometimes consider that they are subject to greater scrutiny and are held to different standards than are their counterparts in and beyond Africa.

Furthermore, many businesses in the region, particularly in consumer goods and retail, found themselves unable to compete in the face of incoming South African interests that already had developed economies of scale in their domestic market, and that had access to better branding and marketing expertise. The fact that many South African businesses, such as Shoprite and Pic n Pay, were mostly white-owned, was a cause of some resentment as they expanded across the continent. However, this seems to be changing for the better, with South Africans increasingly entering new markets through acquisitions in order to benefit from local knowledge.

Figure 3: South Africa's FDI assets in Africa, 2001–15



Note: The value of the rand fell substantially between 2010 and 2015, contributing to a marked increase in rand value of non-rand-denominated assets.
Source: Compiled by Chatham House from South African Reserve Bank data.

Box 3: Experiences of South African multinationals in Africa

Notwithstanding the challenges of entering new markets in Africa, a number of South African companies have expanded successfully beyond their home market. They include Standard Bank, Old Mutual, the Liberty Group and Rand Merchant Bank in financial services; Protea Hotels (now part of the Marriott Group), Legacy Group, Southern Sun and Sun International in hospitality; Shoprite, Pic n Pay, Massmart, Woolworths, PEP, Foschini, Mr Price and Truworths in retail; MultiChoice in pay television; Vodacom and MTN in mobile telecoms; Group Five in construction; Anglogold Ashanti, De Beers, Randgold Resources and Sasol in extractives; and Tiger Brands, Promasidor, Famous Brands and Illovo Sugar in food. There are professional services companies, law firms, engineering companies, energy providers, infrastructure companies, colleges and many others with operations in sub-Saharan Africa.

Some South African multinationals have become household names across the continent. One is the mobile phone operator **MTN**, sub-Saharan Africa's biggest mobile phone operator, with operations in 21 countries, 16 of which are in Africa.[52]

[52] MTN (2017), 'Press Office: About Us', http://itnewsafrica.com/pressoffices/mtn/aboutus.html (accessed 18 Oct. 2017).

However there have been regulatory, security, infrastructural and other challenges in its various markets. A particular challenge has been the Nigerian market, MTN's biggest, with 60.5 million subscribers compared with 30.2 million in South Africa.[53] In 2015 the Nigerian federal government issued the company with a fine of $5.2 billion for not deactivating unregistered sim cards after missing a government deadline to do so.[54] After months of negotiations the penalty was reduced to $1.7 billion.[55]

Shoprite, Africa's biggest grocer, is an example of a success story in the retail sector. In 2017 the Shoprite Holdings group had 200 stores in 13 countries outside South Africa,[56] including supermarkets, furniture stores and other diversified retail outlets. (This is in addition to more than 700 supermarkets at home, and several hundred fast food restaurants, convenience and furniture stores.) It was a retail pioneer on the continent, moving to its first market outside SACU – Zambia – in 1998. Like MTN, Shoprite has shown a strong appetite for risk, backed in this case by a well-developed supply chain and several decades of experience. Its fresh produce subsidiary, Freshmark, has more than 200 African suppliers across the markets in which it operates.[57]

But a number of South African companies – including some big household names – have suffered or failed in certain markets in Africa, among them:

Mobile operator **Vodacom**, despite success in South Africa, Lesotho, Tanzania and Mozambique, has had problems in Nigeria and the DRC. It withdrew from Nigeria in 2004, just weeks after entering the market in a management contract with Zimbabwe's Econet Wireless, citing high risk, a breach of trust and corporate governance issues.[58] It also ran into trouble in the DRC when the company was sued for $14 billion by Alieu Conteh, the majority shareholder of Vodacom's minority partner in the country, who alleged that the company undermined his position as a statutory director of Congolese Wireless Network, the partner company.[59]

Telecommunications parastatal **Telkom** pulled out of Nigeria in 2011, having lost almost R7 billion there in four years as the company's local acquisition, Multi-Links, failed in the market. Critics said Telkom had underestimated the highly competitive nature of the market, and that it had chosen the wrong technology for its operations there.[60]

Financial services conglomerate **FirstRand** had its $5.4 million purchase of Zambia's Finance Bank reversed in 2011, just months after buying the bank, following the cancellation of the deal ordered by incoming president Michael Sata.[61]

Consumer company **Tiger Brands** incurred huge losses after acquiring 65 per cent of Dangote Flour Mills from Nigeria's Dangote Group, in 2012. The stake was sold back to Dangote Industries for $1 in 2015.[62] The losses were attributed to sub-standard mills and an oversupplied market, but the corporate cultures, forged in very different markets, were also understood to have been misaligned.

[53] Laing, R. (2017), 'MTN suffers decline in subscriber numbers', *Business Day*, 3 May 2017, https://www.businesslive.co.za/bd/companies/telecoms-and-technology/2017-05-03-mtn-suffers-decline-subscriber-numbers/ (accessed 18 Oct. 2017).
[54] Fick, M. and Cotterill, J. (2017), 'MTN: What next for Africa's $17bn telecoms group?', *Financial Times*, 14 March 2017, https://www.ft.com/content/d17a2412-0328-11e7-ace0-1ce02ef0def9 (accessed 18 Oct. 2017).
[55] Prinsloo, L. and Ibukun, Y. (2016), 'MTN Resolves Nigerian Phone Dispute With $1.7 Billion Deal', Bloomberg, 10 June 2016, https://www.bloomberg.com/news/articles/2016-06-10/mtn-agrees-to-pay-1-7-billion-nigeria-fine-over-three-years (accessed 18 Oct. 2017).
[56] See Shoprite website: https://www.shopriteholdings.co.za/ (accessed 24 Oct. 2017).
[57] Ibid.
[58] Balancing Act, 'Nigeria's Vee Network: The transaction that sunk a deal and cost two senior people their jobs', *Balancing Act*, Issue no 210, undated, http://www.balancingact-africa.com/news/telecoms-en/8603/nigerias-vee-network-the-transaction-that-sunk-a-deal-and-cost-two-senior-people-their-jobs (accessed 18 Oct. 2017).
[59] Bowker, J. (2015), 'Vodacom sued for $14 billion in Democratic Republic of Congo', Bloomberg, 18 November, https://www.bloomberg.com/news/articles/2015-11-18/vodacom-sued-for-14-billion-in-democratic-republic-of-congo (accessed 18 Oct. 2017).
[60] SAPA (2011), 'Telkom loses R7bn in Nigeria venture', *South African Press Association*, 25 July 2011.
[61] Kamhunga, S. (2011), 'Firstrand in shock after Zambia cancels bank sale', *Business Day*, 4 October 2011, https://www.pressreader.com/south-africa/business-day/20111004/textview (accessed 18 Oct. 2017).
[62] Reuters (2015), 'Tiger Brands to sell stake in Nigerian unit to Dangote Industries', 14 December 2015, http://www.reuters.com/article/tiger-brands-divestiture-dangote-industr/tiger-brands-to-sell-stake-in-nigerian-unit-to-dangote-industries-idUSL3N14327T20151214 (accessed 19 Oct. 2017).

South Africa within a new global order

South Africa's own business interests have benefited from the desire of many incoming investors – lacking experience, footprint and networks in Africa – to tap into South African assets, skills and services in support of their expansions plans. This applies to the arrival on the continent not just of its BRICS partners, but also of Indonesia, South Korea, Turkey and Argentina and other emerging economies.

The presence of new investors has of course also meant increased competition, particularly in sectors such as construction, ICT and retail, that is eroding South Africa's 'early mover' advantage. Moreover, Chinese companies are also not constrained by shareholder and compliance protocols, and their labour laws allow for low-cost business models using workers from home, which often makes their bids for projects in sub-Saharan Africa more competitive than those of South African (and other) companies.[63]

Competition from Chinese products has been pointed to as causing large-scale job losses, particularly since China's admission to the World Trade Organization in 2001. Research published in 2014 assessed that the influx of Chinese goods in African markets had resulted in the loss of nearly 78,000 jobs in labour intensive manufacturing industries in South Africa in 2001–10, and that over the same period South Africa had lost an estimated $900 million in trade with the rest of the continent.[64]

Conclusion

The 'maximalist' approach that has driven South Africa's external engagements since 1994 – as Africa's champion and 'one among many'; as simultaneously development partner, moral leader and industrial investor across the continent; and as friend and ally to both the global South and traditional donors – is under increasing strain. South Africa is now faced with growing corruption, high crime levels, poor governance and an increasingly inward political focus. The presidency of Jacob Zuma has, moreover, eroded South Africa's international and regional standing, and undermined any sense of exceptionalism that its citizens may have held after 1994.[65]

> While South Africa remains a significant investor, its market share has been diluted by the arrival of well-resourced companies from Asia, the Middle East and elsewhere.

Even in business, South Africa's market share in other key African markets has declined as a result of the arrival of new competitors. While it remains a significant investor, its presence has been diluted by the arrival of well-resourced companies from Asia, the Middle East and elsewhere. Many South

[63] Centre for Chinese Studies (2006), 'China's Interest and Activity in Africa's Construction and Infrastructure Sectors', Centre for Chinese Studies, Stellenbosch University, https://www.icafrica.org/fileadmin/documents/Knowledge/DFID/China%E2%80%99s%20Interest%20and%20Activity%20in%20Africa%E2%80%99s%20Infrastructure%20and%20Construction%20Sectors.pdf (accessed Oct. 2016).
[64] Edwards, L. and Jenkins, R. (2014), *The Competitive Effects of China on the South African Manufacturing Sector*, Development Policy Research Unit Policy Brief, commissioned for the World Bank Group, Cape Town: DPRU, University of Cape Town.
[65] As this paper was being finalized for publication, South Africa's Supreme Court of Appeal upheld a high court ruling from 2016 that 783 counts of corruption should be reinstated against Zuma. The charges, related to alleged corruption in arms procurement in the late 1990s, under the Mbeki administration, had been set aside in 2009, allowing Zuma to assume the presidency. See BBC News (2017), 'SA President Zuma must face corruption charges, court rules', 13 October 2017, http://www.bbc.co.uk/news/world-41607511; Cotterill, C. (2017), 'Court rules Zuma corruption charges can proceed', *Financial Times*, 13 October 2017, https://www.ft.com/content/6339785a-aff7-11e7-beba-5521c713abf4 (both accessed 27 Oct. 2017).

African companies, constrained by a risk-averse view of the continent, failed to make the most of their competitive potential sufficiently early, and as late arrivals have found increased competition both from other regions and from African companies.[66]

South Africa's engagement with sub-Saharan Africa has been further weakened by mistrust between the government and business at home undermining a joined-up external approach. The benefits of a cohesive approach in exploring new areas of commercial interest have been shown by both South Africa's traditional trading partners – the US, the UK and others – as well as by its BRICS counterparts.

So there are many issues for South Africa to consider as it weighs up how best to leverage its natural advantage in Africa for the 21st century. While the government is scaling up its efforts to drive development in Africa, it also needs to work with business to define how to work in South Africa's national interest.

Economic diplomacy should assume greater importance in South Africa's foreign policy, building opportunities for South African companies elsewhere on the continent that will deliver not just success in new markets but also growth and job creation at home. Substantive dialogue between business, civil society and government is essential to ensure South Africa's declining competitiveness does not compromise the success of its companies domestically or in external markets.

This need not be at the expense of the values that have driven policy since the end of apartheid. South Africa has the opportunity to use its relative economic heft to play a stronger developmental role in Africa by leveraging the strengths of its business sector and its financial agencies.

To sustain its position as one of the most strategically important economies in Africa over the coming decades, the government needs a more coherent strategy to develop new opportunities for engagement across the continent. As part of this, it must play a stronger and more cooperative role politically by cultivating relationships with pivotal states such as Nigeria, Kenya, Ethiopia and Angola. It need not do this at the expense of its BRICS relationships. While the bloc has lost some momentum as a result of the specific economic and/or political challenges facing each country, its member states remain important trading partners for Pretoria as well as other African countries.

But balancing these roles and aspirations will be a delicate and difficult task. Shaping policies that are simultaneously able to deliver benefits to South Africa, adapt to a rapidly changing global environment, and build robust bilateral relations across the continent will demand strategic vision and delicate diplomacy by the ANC, its leaders and its international representatives. At a time of increasing political uncertainty in South Africa, it is unlikely that such clarity of purpose will be achieved soon.

[66] Cropley, E. (2010), 'Rising Africa puts SA on the spot', *Mail & Guardian*, 26 May 2010, https://mg.co.za/article/2010-05-26-rising-africa-puts-sa-on-the-spot (accessed 19 Oct. 2017).

About the author

Dianna Games is chief executive of Africa @ Work, an advisory consultancy focusing on African business, and is a specialist commentator on business issues, trends and developments in Africa. She has written many reports on African business issues, including a series for the South African Institute of International Affairs, and has been a columnist on African issues for *Business Day* newspaper in South Africa since 2003. Her book *Business in Africa: Corporate Insights* was published by Penguin South Africa in 2012. She is a fellow of the Centre for Dynamic Markets at the University of Pretoria’s Gordon Institute of Business Science.

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Cover image: Customers register their MTN Group Ltd mobile phone sim cards at a roadside kiosk in Lagos, Nigeria, on 31 October 2015. The South African multinational MTN is Africa's largest wireless operator.

Photo credit: Bloomberg/Getty Images

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The Royal Institute of International Affairs
Chatham House
10 St James's Square, London SW1Y 4LE
T +44 (0)20 7957 5700 F +44 (0)20 7957 5710
contact@chathamhouse.org www.chathamhouse.org

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