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The Locational Behaviour of Foreign Direct Investment: Evidence from Johannesburg, South Africa

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Abstract This article represents a contribution to the limited scholarship on understanding the locational behaviour of foreign direct investment (FDI) in Africa. Against a background review of international research and debates on locational decision-making of foreign investors at both international (particularly within the developing world) and national scales of analysis, the profile and patterns of foreign investment in Johannesburg are documented and the key factors influencing investor location choice are analysed. Although investors from 34 countries are represented in Johannesburg, the leading ten investor countries, headed by USA, Germany and UK, account for 85% of all investments. An emerging trend is for the growth of FDI from India, China and the Middle East. Reasons given by foreign investors for selecting Johannesburg as an investment destination largely mirror the international experience of location decision-making by foreign investors. Johannesburg is shown to be the preferred choice for business operation both in South Africa and the broader southern African region because of several agglomeration factors which relate to the city's position as economic hub, financial centre and core market of southern Africa.

Keywords Location of foreign direct investment · Johannesburg · South Africa

Introduction

The advance of globalisation is often symbolised by the international expansion of foreign direct investment (FDI) across the world. Over the past 25 years significant changes have been observed in patterns of global FDI flows (UNCTAD 2007). Sectorally, the most important change has been the shift to investment in services

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rather than natural resources or manufacturing activities. Spatially, alongside the strengthening of North–North flows as well as the continuation of North–South flows, an emerging trend is for more FDI to originate in developing economies setting in motion an increase in South–South FDI. Oman (2000) reveals that there is intensifying competition among national governments to attract foreign direct investment, including through the application of various forms of investment incentives. Thomas (2003, p. 987) goes further to observe that “competition for economic activity especially for investment is virtually everywhere geographically and takes place at all levels of government”. At the sub-national scale, ‘world cities’ or global city regions are often identified by their attractiveness for clusters of foreign investors, both in manufacturing and services, and compete aggressively for new investors (Marton and Wu 2006; Wei et al. 2006, 2008). For both national and urban policy makers, therefore, an understanding of the location decisions made by foreign investors emerges as an important issue (Cheng and Kwan 2000; Markusen and Nesse 2007).

During the past two decades, scholars in the field of business, economics and human geography have devoted considerable energy to interpreting the location choices made by foreign investors both at the aggregate level and at the intra-national level (e.g. Blackbourn 1982; Glickman 1988; Head et al. 1995, 1999; Canfei 2003; Hong et al. 2008; Wei et al. 2008). This article seeks to contribute to the relatively undeveloped scholarship on understanding the locational behaviour of foreign investors in Africa. Within Africa, South Africa is one of the leading country destinations for foreign investment and the city of Johannesburg considered as Africa's ‘global porthole’ (Centre for Development and Enterprise 2008, p. 25). The globally connected city of Johannesburg has long been recognised as the economic hub for Africa and major site for foreign investors (Rogerson 1981, 1982, 2005). One recent study confirms that the city is the continent's leader in terms of providing a suitable business climate that supports commercial development and FDI (Mastercard 2007). The Mastercard Worldwide Centres of Commerce Index ranked 63 cities of which Johannesburg—the sole African city to be listed—was 47th of the world's top 50 cities, hubs of the global economy (Mastercard 2007).

The purpose of this paper is to focus on this aspirant ‘world city’ which is “the leading South African investment destination when measuring FDI in terms of value of capital expenditure, the number of projects and jobs created” (City of Johannesburg 2008a, p. 14). Against a background review of international scholarship and debates on the locational behaviour of foreign investors at both international (particularly within the developing world) and national scales of analysis, the scope and patterns of foreign investment in Johannesburg are documented and key factors influencing investor location choice are analysed.

Understanding Investor Behaviour at International Scale

At the aggregate level, many developing countries engage actively in investment promotion through the activities of Investment Promotion Agencies (IPAs). According to Morisset and Andrews-Johnson (2004) the core functions of these agencies are fourfold. First, is *image-building* in terms of creating a positive perception of a country as an attractive site for potential international investors. Second, is *policy advocacy* which involves supporting initiatives to enhance the national investment climate as well as identifying the views of the private sector on that issue. Third, is *investor facilitation and investor services* which refers to a range of services (such as information provision, a 'one-stop-shop' service for approval, and assistance in obtaining sites) provided in a host country that can assist an investor in making investment decisions, establishing a business, and maintaining it in good standing. Finally, *investment generation* entails the targeting of specific sectors with the objective of creating investment leads (Morisset and Andrews-Johnson 2004, p. 7).

It must be appreciated that the investment decision process in the developing world involves a series of steps. First, is drawing up an extended list of potential host countries. Often this listing is compiled either by company executives or a location consultancy firm. The extended list typically includes perhaps 8–20 countries which belong to three different groups: (1) most popular global FDI destinations; (2) countries close to the existing operations of the investor; and (3) emerging FDI destinations. The inclusion of this last category offers opportunities to IPAs. As argued by Harding and Javorcik (2007, p. 8) the "potential investor or the consulting firm working on its behalf is likely to include in the third group countries whose advertisements they have recently seen in international media whose IPAs have recently approached them or their colleagues, or countries whose IPA representatives they have met at conferences and industry fairs". The second step involves reducing the extended list down to a short list of up to five countries based on a trade-off between costs and quality of the business environment. As this process is usually done without visiting countries "the accessibility of the information about the business conditions in a host country plays a crucial role" (Harding and Javorcik 2007, p. 8). It is thus essential that IPAs provide up-to-date, detailed and accurate data on websites and that "IPAs that are willing to spend time preparing detailed answers to investors' inquiries and customise these answers to the needs of an individual investor and increase the chances of their countries being included in the short list" (Harding and Javorcik 2007, p. 8).

A third stage involves visits to short-listed countries which will be done by the potential investor, location consultant or both. Multiple sites within a country may be visited. This stage involves interactions with an IPA which has the opportunity to stress the advantages of a country as a potential investment location and address questions posed by the potential investor. The final stage involves the foreign investor choosing an investment location based on availability of potential sites, costs, overall quality of the business climate and availability of incentives. At this stage the IPA can assist in providing information and access to incentives and assist with registration procedures (Harding and Javorcik 2007).

There is widespread agreement that the use of incentives cannot substitute for making essential improvements in the national business environment (UNCTAD 1997; Blomstrom and Kokko 2003). That said, in conducting the functions of investor facilitation and investment generation, national investment promotion agencies increasingly have become involved in using a range of targeted fiscal incentives including tax concessions, cash grants or other subsidies in order to 'bid' for foreign investors (UNCTAD 1997; Blomstrom and Kokko 2003; FIAS 2005). The use of such incentives has been widely documented in several investigations

(UNCTAD 1997; Oman 2000; Fletcher 2002; Charlton 2003; FIAS 2005). Considerable controversy rages over the effectiveness of such incentives, more particularly when offered as a substitute for fundamental reform in the existing business environment. It is evident, however, that as barriers to international investment have fallen over the past two decades, the growth of incentives-based competition for foreign direct investment has become increasingly intense (Oman 2000; Charlton 2003; Markusen and Nesse 2007). Oman (2000) qualifies this statement by the observation that the competition for investment is especially intense in particular sectors (such as motor-vehicle plants or pharmaceuticals) and for large investment projects. Another significant observation is that most incentives-based competition is effectively *intra-regional* in character in that states within particular regions of the world are competing against each other in order to attract any investor committed to undertaking an investment in that region (Oman 2000; Charlton 2003).

For developing world countries, Tesfachew and Sauvant (2005) caution of a need to carefully consider the trade off between the costs of attracting FDI and benefits. On the one hand restrictive policy regimes will not encourage FDI but on the other hand too generous incentives can drain a country's meagre resources and trigger 'a race to the bottom' if countries compete with each other. Instead, a call is made for "intelligent" FDI strategies. Sector targeting is viewed "by investment promotion practitioners as 'best practice' as it is believed that more intense efforts concentrated on a few priority sectors are likely to lead to greater FDI inflows than less intense across-the-board attempts to attract FDI" (Harding and Javorcik 2007, p. 18). Other dimensions of 'intelligent' FDI promotion strategies could include having incentives linked to enterprises committing to develop local capability to supply foreign firms; SME support programmes; subcontracting exchange programmes and establishing local industrial parks to provide local firms with the opportunity to build capabilities through clustering and inter-firm partnerships (Tesfachew and Sauvant 2005).

An important finding from recent research on FDI is of the significance of local institutions in shaping the location decisions of MNCs in developing economies (Wei et al. 2008). A primary means of governments in emerging economies to attract new investors is through the provision of financial incentives, industrial infrastructure and an open environment for foreign enterprises. Such provision is considered as essential "as they reduce not only investment costs but also investment risks for foreign firms" (Wei et al. 2008, p. 2). The importance of local institutions is threefold: (1) "the modulation of investment costs through financial incentives", (2) support of operational needs through industrial infrastructures, and (3) enhancement of business environments (Wei et al. 2008, p. 9). Bevan et al (2004, p. 24) stress that foreign direct investors consider "institutions as an important aspect of the locational advantages of a potential host country". Institutions are part of the *created assets* of countries and arguably have become as significant locational factors as more conventional 'natural assets' like raw materials and cheap labour. Overall, it is stressed that the institutional environment "has become a crucial locational advantage" (Bevan et al. 2004, p. 45). In making location decisions, foreign investors search for locations where the institutional environment facilitates the development of firm-specific advantages. Of particular importance is the balance between the restrictions and incentives created by institutions which can shift the playing field to favour of certain locations and to the disadvantage of others (Bevan et al. 2004, p. 46).

Historically, Africa is the region of the world which is “most marginalised” in terms of attracting foreign direct investment (Bezuidenhout and Naude 2008, p. 1). Indeed, it has been argued that “Africa has traditionally not been on the radar screen of foreign direct investors” (Sauvant 2007a). Africa's failure to attract large scale foreign investor flows is attributed variously to the fact that it is a high risk environment for private capital as well to various ‘anti-growth policy syndromes’ that have depressed investment (Bezuidenhout and Naude 2008, p. 1). It is considered that the most important locational factors influencing country selection for investors in sub-Saharan Africa are “economic stability, political stability, local market, skilled labour, quality of infrastructure, legal framework, presence of key clients, labour costs, and the transparency of investment climate” (City of Johannesburg 2008a, p. 14).

Within the emerging scholarship and debates on foreign investment in the developing world Africa occupies a minor position. Although virtually all African countries are actively seeking to attract FDI through setting up IPAs, Owhoso et al. (2002, p. 48) observe that “the African continent has been ignored in academic studies of FDI”. Wong (2004) points to the dangers of African countries avoiding ‘bidding’ for investors and instead maximising their value for money with incentives by ensuring spillovers. Further, in recent African debates about foreign investment Sauvant draws attention to a “need to move away from the national plane and identify concrete investment opportunities at the provincial and city levels” (Sauvant 2007b, p. 29). Indeed, Sauvant (2007b, p. 30) states that “all investment is local—hence local opportunities need to be brought to the attention of investors and the local regulatory and business environment needs to be competitive”.

Understanding Location Decisions of Foreign Investors at National Level

This section turns to review key findings of international research around location decision-making by foreign investors within countries. It is argued that from this literature several major reasons can be extracted to interpret the attractiveness of Johannesburg as an important investment destination for FDI in the developing world and especially within Africa.

For national governments concerned with uneven spatial development, an understanding of factors influencing the location decisions of foreign investors within countries is essential (Cheng and Kwan 2000). The significance of understanding intra-national location decisions is increasingly recognised, however, by *sub-national* or local governments (Cheshire and Gordon 1996; Wei et al. 2008). It has been observed that in many parts of the world sub-national agencies or levels of government are extremely active in seeking to attract new investment, including foreign investors (Charlton 2003; Festervand 2004; Markusen and Nesse 2007). Indeed, in the wake of the increased powers of localities in an era of administrative decentralisation, deregulation and global competition, places “can better exploit their location and structural advantages for interacting with global capital” (Wei et al. 2008, p. 1). One element of growing inter-urban competition is the establishment of local agencies to attract investment, promoting the uniqueness of places and also by offering investment incentives to influence the location decisions of investors. An increasing number of sub-national agencies in North America, Western Europe and especially developing Asia are engaged in vigorous competition for FDI (Charlton 2003; Marton and Wu 2006; Wei et al. 2006; Markusen and Nesse 2007).

Historically, states and cities in the USA and Western Europe have competed aggressively for new investment by offering a variety of incentives (Head et al. 1999; Barrios et al. 2003; Markusen and Nesse 2007). Beginning in 1992, China's open door policy and decentralisation of powers from central to local governments opened up the country and resulted in FDI flows (Canfei 2006). With a push for growth it is apparent that "Chinese cities stress the infusion of FDI and the globalisation of economic activities" (Wei et al. 2006, p. 232). Chinese cities have been "actively implementing policies to attract more foreign investment and to promote global city formation, and are increasingly competing with each other over policies, resources and opportunities" (Wei et al. 2006, p. 233). Overall, since the early 1990s Wei et al (2006, p. 232) recognise that many Chinese cities "have implemented aggressive measures to attract foreign investment, and major cities have announced aggressive measures to build themselves into global cities and move up in the global urban hierarchy, with the establishment of thousands of development zones targeting FDI". Shanghai is the most successful Chinese city in attracting FDI, especially with the opening of the Pudong New Area (Marton and Wu 2006; Wei et al. 2006).

Cheng and Kwan (2000) assert that the US and Chinese cases of inward FDI represent the two most important examples of FDI in the world. Not surprisingly, therefore, scholarship on the location decisions made at national level by foreign investors is currently dominated by studies on the USA and China, the two leading destinations for FDI over the past two decades (Glickman 1988; Bagchi-Sen 1991; Coughlin et al. 1991; Kotabe 1993; Head et al. 1995; Head and Ries 1996; Head et al. 1999; Cheng and Kwan 2000; Shaver and Flyer 2000; Canfei 2003, 2006; Friedman et al. 2006; Marton and Wu 2006; Hong et al. 2008; Wei et al. 2008). Beyond the location decisions made by foreign investors into the USA and China, there is a parallel smaller literature which deals with the Western European experience (Guimaraes et al. 2000; Hubert and Pain 2002; Barrios et al. 2003).

Collectively the findings of this body of research on the location decisions made at intra-national level by foreign investors (particularly within China and the USA) point to a number of common themes. The must crucial finding is to confirm the overriding significance of *agglomeration economies* and of *the attractions of clusters* for foreign investors. Blackbourn (1982) emphasized that the most common location decision made by a foreign investor—particular concerned with access to domestic markets—is to locate in the core economic region of a host country. The issue of agglomeration was identified as the most significant theme in the location of foreign FDI in China according to a spatial dynamic panel data analysis undertaken by Hong et al. (2008). The theme of agglomeration is highlighted also in Chinese research by Cheng and Kwan (2000) and Canfei (2003, 2006). The important study by Canfei (2003) points to the conclusion that scale economies derived from the clustering of FDI activities, combined with better access to domestic and international markets, guide foreign manufacturers' location choice in China. In addition, this research highlights that industrial clustering appears to be the most important agglomeration force (Canfei 2003). Under the China's open door policy the "attractive cities" for FDI are determined by those with good infrastructure and an established industrial base which means that agglomeration factors are present (Head and Ries 1996; Wei et al. 2006).

Beyond the literature on inward investment in China, research in the USA and Western Europe further confirms the centrality of agglomeration and clustering in influencing location decisions made by foreign investors. In a study of Japanese manufacturing investments in the USA, it was concluded that "industry-level agglomeration benefits play an important role in location decisions" (Head et al. 1995, p. 223). In Portugal, it was disclosed that agglomeration is a "decisive factor" in location choice for new foreign investment in the country (Guimaraes et al. 2000). Barrios et al. (2003, p. 4) also point to 'strong support' from the experience of both foreign investment in Ireland and France "that agglomeration economies are important for attracting new plants".

Explanations for the importance of agglomeration economies in influencing location decisions made by foreign investors are put forward by Canfei (2003). At its foundation are the links among firms, institutions and infrastructure within any region that give rise to localisation economies that are external to individual firms. Industrial concentration is driven by the emergence of markets for specialised skilled labour, the development of subsidiary trade, suppliers of intermediate inputs and the easy flow of information between enterprises. Accordingly, the development of a diverse base of industries stimulates geographical concentration in a cumulative causation process as the relative attractiveness of existing industrial centres is reinforced (Barrios et al. 2003, p. 1). Self-reinforcing agglomeration, Head et al. (1999, p. 198) argue, has critical policy implications for US states which are competing for new foreign investments. It is evident that the locality that moves first in offering a subsidy or removing a tax may attract new investment and that the resulting increase in the stock of firms "will make it more attractive than it was ever before, even if other states subsequently match the policy change" (Head et al. 1999, pp. 198–199).

A significant policy finding from studies of foreign investment is that FDI has favoured spatial clusters with firms engaged in related activities because of the mutual benefit from shared access to localised support facilities, shared services, distribution networks, customised demand patterns and specialised factor inputs (Canfei 2003, p. 351). Overwhelmingly the evidence suggests that foreign investors are attracted to clusters of economic activities and to closely related activities (Head and Ries 1996; Guimaraes et al. 2000; Canfei 2003). A useful point made by Shaver and Flyer (2000) in terms of agglomeration of foreign investors in the USA, however, is that firms may differ in the net benefits that they accrue from geographical clustering. Those firms with the best technologies, suppliers and distributors will gain little and even competitively suffer when their technologies, employees and access 'spill over' to competitors. Conversely, firms with the weakest technologies, human capital and training programmes have little to lose and a great deal to gain from clustering (Shaver and Flyer 2000).

As compared with manufacturing, limited attention has been accorded to analysis of the location of FDI in non-manufacturing activities. In the USA, Bagchi-Sen (1991) examines the location of FDI in finance, insurance and real estate. It is demonstrated that the spatial distribution of non-manufacturing activities in the USA is “quite distinct” from that of FDI in manufacturing (Bagchi-Sen 1991, p. 188). The theme of agglomeration is reinforced as it is disclosed that foreign service firms prefer existing agglomerations of domestic producer services in order to establish a market niche as well as to gain economies of scale (Bagchi-Sen 1991, p. 195).

Another significant observation drawn from the Chinese experience is that foreign investors appear to benefit from locating in existing clusters of foreign investors. In particular, in the category of ‘transitional economies’ and in countries of the developing world more generally, foreign investors encounter serious operational hazards and business uncertainties. These disadvantages confronting foreign investors, to a large extent, can be mitigated by the positive agglomeration benefits that derive from the clustering of economic activities and the location of related production facilities (Canfei 2003). It is contended that due to a lack of local knowledge, foreign investors are expected to counter a so-called “disadvantage of alien status” in host countries. Foreign investors from a particular country are more likely to exchange business information and experience of doing business in host economies with each other as their strong business connections, shared language and culture may facilitate closer relationships. What results from this information exchange is that potential investors from a particular country may adopt a ‘follow the leader’ location choice and select a particular location by following pioneer investors from their own country.

This phenomenon of the clustering of investors from the same country in close proximity to each other is observed not only in transitional economies. In the USA, by virtue of having a large base of established Japanese manufacturing activity the states of Kentucky, Tennessee and Georgia are much better placed to attract new Japanese investment than more industrialised states such as Massachusetts (Head et al. 1999, p. 199). Inter-firm linkages within Japanese business groups encourage members to locate facilities nearby to each other such that Japanese automobile component part suppliers are most likely to locate in close proximity to Japanese automobile assemblers (Canfei 2003) Accordingly, a detailed investigation of Japanese manufacturing investment in the USA concluded that, other things being equal, Japanese investors “appear to prefer states chosen by preceding investors” (Head et al. 1999, p. 216). Behind this phenomenon is the fact that members of Japanese corporate groups overcome their lack of local experience by grouping together in order to share information about market trends, recruitment and suppliers (Canfei 2003).

In accounting for location decision-making by foreign investors, the factors of agglomeration and clustering are thus of paramount importance. Nevertheless, another phenomenon that is observed in interpreting location patterns of foreign investors is a ‘country of origin’ effect (Blackbourn 1982). What is meant is that the spatial patterns of FDI may vary due to differences in the locational preferences of investors from particular countries. In China, for example, the two driving motivations for foreign investors are to access relatively cheap factors of production, especially labour, or to gain access to the country's huge domestic market. Although these motivations may not necessarily be mutually exclusive, it is generally agreed that ethnic Chinese investors from Hong Kong and Taiwan are engaged in the activity of labour-intensive export-oriented manufacturing. Such investors use their advantages of language, culture, ethnic links and social networks in choosing locations for production. By contrast, investors from the USA or Western Europe possess strong ownership-specific advantages and are often capital and technology intensive enterprises which seek access to China's domestic market. As a result of these cultural and geographical differences between investors the patterns of US/Western European investors show differences in clustering within China to those of Hong Kong/Taiwanese investors, i.e. a 'country of origin' effect.

One of the most controversial issues concerning the location of foreign investors within countries is the influence of investment incentives. In their investigation of the determinants of FDI in China, Cheng and Kwan (2000) observed that large regional markets, good infrastructure and "preferential policy treatment" (including special investment incentives) can exert a positive impact on location choice. Likewise, the examination of the location of foreign branch plants in the USA by Friedman et al. (2006) disclosed that state promotional activities designed to attract investors can be a significant factor in affecting location decisions. The works of Head et al. (1999) and Barrios et al. (2003) offer more cautious assessments on the role of investment incentives in location decision-making. It is suggested that whilst low taxes and other incentives are correlated with the location of foreign investment the impact and economic significance of incentives is considered to be modest. Likewise, the core message from European research is that agglomeration economies are of central significance and that policy incentives play only a small role in impacting upon location decisions. From Chinese experience, the observation is made that investors from different countries respond differently to economic incentives, not least because of the potentially different motivations that drive investment (such as access to domestic markets or platform for export production) into a particular country (Canfei 2003).

Understanding Location Preferences in South Africa

The findings from the above review of the international literature on decision-making by foreign investors provide signals for understanding locational preferences of foreign investors in South Africa. Of special importance is the significance of agglomeration economies, deriving from existing clusters of both manufacturing and non-manufacturing activities, as critical forces in guiding the location choices of foreign investors. It must be appreciated that, as compared with other locations in South Africa and Africa as a whole, the city of Johannesburg offers the most diversified mix of financial and manufacturing activity, which is combined with access to the domestic market and a platform for accessing regional African markets (Rogerson 2005; City of Johannesburg 2008a).

The Existing State of Foreign Investment in Johannesburg

Currently, there is no existing national data base on the location of foreign investors in South Africa which might facilitate the type of detailed analysis of the patterns and factors influencing foreign investment that have been undertaken variously in the USA, China, Ireland or Portugal. Nevertheless, a profile of the trends and existing state of foreign investment in Johannesburg can be drawn from two sets of information. First, is the recently completed *Foreign Investor Data Base* which has been prepared for the Economic Development Department of the City of Johannesburg (City of Johannesburg 2008b). This CD data base contains a listing of approximately 600 firms, the majority of which are established investors in Johannesburg, some with investments going back over a half century. The second listing contains data on new investments in Johannesburg for the period 2003–August 2008 (City of Johannesburg 2008c). In total, this second listing provides details of 85 new foreign investments recorded in the city during this 5-year period. The discussion in this section draws from an analysis of these two listings of foreign investment in Johannesburg.

At the outset, a caution must be sounded as to the accuracy of the city's data base on foreign investors (City of Johannesburg 2008b). The CD data base, which contains a list of approximately 600 established investors, was cross-checked against the 2008 Johannesburg telephone directory and other business directories in order to confirm physical address and contact details. As a result of this analysis, nearly 200 firms were excluded from the list of actual investors as they operate outside Johannesburg, mainly in the adjoining municipality of Ekurhuleni. This refined historical list of established investors was reduced to a total of 409 enterprises which were confirmed as operating within Johannesburg, variously either by their listed physical address or details in the 2008 Johannesburg telephone directory.[1] In light of certain shortcomings, the historical investor data base is used to provide only a broad picture of foreign investors in the City of Johannesburg in terms of the numbers of different investors from different countries.

The data in Table 1 reflect the numbers of different enterprises from different countries which have operations in Johannesburg. Table 1 provides an overall picture of the ranking and significance of different countries in terms of numbers of investors operating in the city. In total, 26 different source countries of investors are recorded with the most significant individual sources of investment headed by the USA, Germany, UK, France, Japan, Belgium, Netherlands, Switzerland and Italy. In total these nine countries account for 359 of the total 409 investors or 89% of the total. The leading three investor nations, the USA, Germany and UK account for half of all different foreign investors in Johannesburg. The most important single investor, the USA, accounts for 21% of the total of different investors in Johannesburg. Outside of Europe or North America, the numbers of investors in Johannesburg is relatively small and headed by Japan and India. In total, investors from outside of Europe or North America account for only 14% of the total count of historical investors found in the city of Johannesburg, as based upon the information in the city's foreign investor data base (Table 1).

As already emphasized, the city investor data base contains a listing of firms, many of which are long term historical investors in Johannesburg. A profile of recent trends in foreign investment in the city can be gleaned from a second listing of new

[1] Although the inclusion of firms which are based outside Johannesburg was the major shortcoming of the city’s foreign investor data base, the analysis revealed other problems which required attention, including duplicate entries of firms, inconsistent listing of foreign airlines and certain missing entries. The data base is also inconsistent in terms of information that is provided for such firm. As the listing is inconsistent in terms of providing data on size of investment, no detailed analysis of that issue can be undertaken. Equally, the data base is inconsistent regarding information on the nature of the investor in terms of what economic sector they are involved with and more importantly of full details of the Johannesburg operation.

Table 1 Historical investment in Johannesburg by country of investment

Country of investment	Number of different investors
USA	86
Germany	73
UK	46
France	35
Japan	33
Belgium	21
Netherlands	19
Switzerland	19
Italy	17
Denmark	9
Canada	8
Austria	6
India	6
Finland	6
Malaysia	4
Sweden	4
Australia	3
Korea	3
Taiwan	2
China	2
Israel	2
Ireland	1
Bermuda	1
Luxembourg	1
Turkey	1
Norway	1
Total countries	26
Total Firms	409

Source: Based on City of Johannesburg 2008b

foreign investments made in Johannesburg during the period from 2003 to August 2008 (City of Johannesburg 2008c). In comparison to the historical data base, this new listing is useful for analytical purposes because it provides more consistent information on each investment. Details are provided on the location of the company headquarter office of investors, date of investment and certain information on the size of investment.

For the period 2003–August 2008, a total of 85 different foreign investments are recorded in Johannesburg with the largest number of jobs created by one individual investment from China. In terms of value of capital investment, however, the largest individual investment is that made by the UK Barclays banking group into ABSA Bank. Table 2 provides information on the dates when these investments occurred in the city. It discloses a variable pattern of investment across the five and a half year period covered by the data with 2006 standing out as the best year and 2008 potentially also as good year for recorded new foreign investment in the city.

Table 2 Recent investment in Johannesburg 2003–2008: numbers of investments

Year	Number of investments
2003	11
2004	7
2005	13
2006	23
2007	14
2008 (January to August)	17

Source: City of Johannesburg 2008c

The country source of investments is shown on Table 3, which indicates that during the period 2003–2008 the two leading sources of investment were the USA and UK which together accounted for 53% of the number of different new investments. Several trends are observable from Table 3. First, is the rise of India as a significant source of new investment, which is a reflection of the wider recent international trend towards South–South FDI flows (UNCTAD 2007). Second, is the remarkable range of 22 different countries that are represented in the flow of FDI into Johannesburg during the period 2003–2008. Indeed, these years mark the first investments made in the city from investors from the following countries: Russia, Saudi Arabia, Singapore, Spain, United Arab Emirates, and Zimbabwe. During the period 2003–2008, a most remarkable omission is any new investment from Germany, the second most significant historical investor in the city.

During the period 2003–2008 there has occurred considerable diversification in the country sources of new foreign investment into Johannesburg. Moreover, the findings from Table 3 as compared with the historical listing of established enterprises (Table 1) reveal an emerging 'new order' in terms of sources of foreign investment in Johannesburg. The growth of investment from the South is the most distinctive feature with the rise of India alongside new flows of investment from China and the Middle East.

One advantage of the second investor base is the addition of information concerning numbers of jobs created by each investment. In total, information on employment creation is available for 80 of the 85 investments made by foreign investors[2]. The data discloses a total of 8,461 jobs created by the new FDI projects or an average of 105 jobs by each investment. The numbers of jobs created varied considerably from over 1,000 jobs in the cases of a Chinese manufacturer of consumer electronics and a Swedish manufacturer of automobile parts to only six and two jobs, respectively, for a Swedish supplier of computer software and by the Qatar based news organisation, Al Jazeera. Table 4 shows that the majority of investments made by recent foreign investors yield less than 100 direct jobs per investment.

Figure 1 maps information on the numbers of jobs created by recent foreign investors by source countries in Johannesburg for the period 2003–2008 (August). It is revealed that during this period the largest numbers of jobs created by new foreign investors were from American, British, Chinese, Swedish and Indian investors. In terms of sector of investment, the 2003–2008 data show that the largest job creation

[2] For the other five investments, the investment was too recent for job data to be available.

Table 3 Recent Investment in Johannesburg 2003–2008: country source of investments

Country of investment	Number of different investors
USA	25
UK	20
India	8
France	4
Japan	4
Sweden	3
China	3
Italy	2
Canada	2
Belgium	2
Australia	1
Austria	1
Denmark	1
Netherlands	1
Qatar	1
Russia	1
Singapore	1
Spain	1
Saudi Arabia	1
Switzerland	1
United Arab Emirates	1
Zimbabwe	1
Total countries	22
Total investors	85

Source: City of Johannesburg 2008b

by foreign investors in Johannesburg has been in manufacturing activities (such as consumer electronics, auto supplies, metals), tourism (hotels), call centres, and financial services (especially banking). It must be understood that the largest number of investments made by foreign investors into Johannesburg during the period 2003–2008 were by first time investors into the city. Only a small segment of the investments listed for the period 2003–2008 were by established investors in

Table 4 Recent investment in Johannesburg 2003–2008: number of jobs created per investment

Number of jobs	Number of projects
Less than 20	21
21–50	18
51–100	16
101–250	19
251–500	4
501–1,000	0
Over 1,000	2

No information on five project investments because of their recent status. Source: City of Johannesburg 2008c

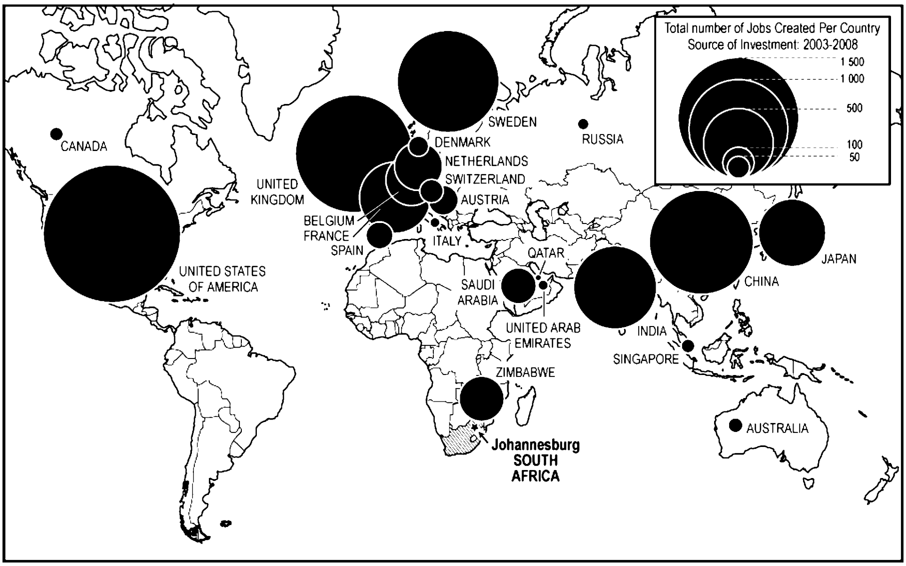

Fig. 1 Jobs created by New Foreign Investment Projects in Johannesburg by country of origin (Source: City of Johannesburg 2008c). Note: No information on jobs created in five investor projects—two USA and one each from China, Italy and UK

Johannesburg or, in other words, by firms which were captured and listed in the city's historical investor data base.

Figure 2 adjusts for the duplications between the two lists of historical and recent investors and combines them together to provide an overall picture of the country

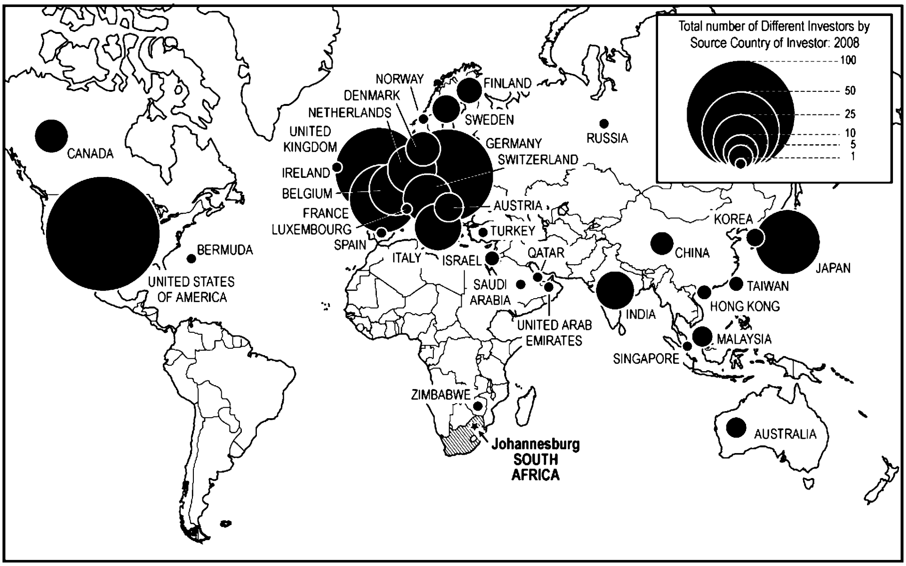

Fig. 2 Numbers of different investors in Johannesburg, by country of origin, 2008 (Source: calculated from City of Johannesburg 2008b and 2008c)

Table 5 Leading Sectors for FDI in Johannesburg by number of projects and value of projects

Number of projects	Value of projects
Financial services	Financial services
Business services	Hotels and tourism
Software and IT services	Metals
Communications	Transportation
Metals	Alternative/Renewable energy
Hotels and tourism	Automotive OEM

Source: City of Johannesburg 2008a, p. 14

source of investors in Johannesburg. The global geography of foreign investors into Johannesburg is dominated by enterprises from the USA, Germany and the UK which are the leading source countries for individual investors. In total it is estimated by 2008 that these three countries account for 51% of all of the different individual foreign investors in Johannesburg. Although foreign investors from 34 different countries are represented in Johannesburg, the top ten investor countries—USA, Germany, UK, France, Japan, Belgium, Netherlands, Switzerland, Italy and India—account for almost 85% of all individual investments. Although no comprehensive data is available on total investment per country it is considered that the UK is the largest source of investment in Johannesburg as a consequence of recent investments made by Barclays Bank and Vodafone.

The information gleaned from these two data bases can be supplemented from a useful profile provided in City of Johannesburg (2008a) of the most important sectors for FDI as ranked in terms of both numbers of FDI projects and value of FDI projects. Table 5 provides the best available information on the sectoral profile of FDI in Johannesburg. It is shown that the pattern of foreign investment is concentrated in services, the most significant driver of the city's economy (Rogerson 2005). Of note is the significance of the financial sector, business services and IT as well as the tourism sector.

Why Invest in Johannesburg?

In unpacking the reasons for foreign investors to select Johannesburg for business operations, interviews were undertaken during September–November 2008 with a sample of 100 foreign investors across a range of issues concerning Johannesburg as an investment destination. The sample of interviewees was drawn from the City of Johannesburg's (2008a) foreign investor data base and investors from 18 different countries were interviewed.

As is shown on Table 6 the reasons given for foreign investors to select Johannesburg as an investment destination overwhelmingly reflect the advantages accruing from clustering and agglomeration. In common with the international experience of location decision-making by foreign investors Johannesburg is a preferred choice for business operation both in South Africa and the broader southern African region because of several factors which relate to the city's position as economic hub, financial centre and core market of southern Africa. Two thirds of all survey respondents gave as their major reason for locating their businesses in Johannesburg one of a group of issues relating to market access, supplier access and the city's role as dominant economic and finance centre of the region. At least four interviews simply elaborated that

Table 6 Johannesburg investment survey: key reason for investment in the city

Reason	No. of responses
Economic hub/Market access/Supplier access	66
Centrality	17
Long-established in the city	9
Specific reasons linked to proximity of OR Tambo airport	8
Nationally represented with major HQ/office in Johannesburg	5
Major logistics centre	4
Most ‘logical place to be’	4
Takeover of a South African company already based in Johannesburg	2
Had previous successful businesses in Johannesburg	1
Close to affiliates from home country	1
Johannesburg stock exchange	1
Available skilled support services	1
Available labour	1
Expansion of broadband	1

Source: Survey

Table 7 The agglomeration advantages of investing in Johannesburg: selected survey responses

Country	Response
Japan	“Johannesburg is where most work is”
Japan	“Suppliers and clients are here”
India	“Johannesburg is where everything happens”
India	“Our demand is driven by Johannesburg-based businesses”
France	“Market and decision-makers are in Johannesburg”
France	“Johannesburg is where major retailers are”
Denmark	“All major clients are here”
Finland	“It is the economic centre of South Africa”
Sweden	“Close to major business and major construction/infrastructure projects”
Germany	“Johannesburg is the activity hub”
Germany	“Financial Centre of Africa”
Germany	“It is the easiest place to organise plant and equipment from”
USA	“Johannesburg is the most logical place to locate due to the volume of business activity”
USA	“Everything happens in Johannesburg first and quickest”
USA	“More doctors here—we are suppliers of to health care practitioners”
USA	“Chosen by headquarters as the place to be for business in Southern Africa”
UK	“Where all major banks are located”
UK	“Manufacturing and supply centre”
Korea	“Centre of construction activity”
Malaysia	“Centre of trading in South Africa”

Source: Survey

Table 8 Johannesburg investment survey: advantages of locating in the city

Key advantage	No. of responses
Market considerations	71
Access to OR Tambo Airport	21
Banking/Finance infrastructure	18
Business environment/Networking	16
Central location	16
Logistics	11
Headquarter offices in the city	10
Skilled labour	7
Resources for expansion	4
More money in Johannesburg	4
IT technology	3
Good physical infrastructure	3
Internationally known city	3
Good legal services	1
Weather	1
Always here	1

Source: Survey

Table 9 Johannesburg investment survey: the factor of market advantages—selected survey responses

Country	Response
Japan	"Johannesburg is a financial powerhouse"
Japan	"Clients and business partners are here"
France	"Market is here"
France	"Centre for business"
Denmark	"It is where all the other big businesses are"
Denmark	"Big for business—fast pace of industry"
Hong Kong	"Demand in Johannesburg—a good place to grow from"
Germany	"Client base is in city"
Germany	"Johannesburg is the business centre and point of growth"
Germany	"Johannesburg is the capital of new technologies"
UK	"Central to all banks"
Sweden	"Johannesburg is the centre of South Africa's engineering environment"
Netherlands	"Big business and wealthy individuals"
Switzerland	"Big business—established in a strong market"
USA	"Strong stock exchange"
USA	"Large companies in Johannesburg and relatively good IT infrastructure. Centre for financial services"

Source: Survey

Johannesburg was the ‘most logical place to be’ for operating a business in South Africa. The second most important response—for 17% of the sampled enterprises—related to issues of Johannesburg's centrality for market access, its ‘good location’ or central location for doing business in Africa. The third most common response (9%) related to the fact that many businesses have long roots in the city, with two investors in Johannesburg for at least 50 years. It must be noted that for 8% of the sample, a key advantage of a Johannesburg was proximity to South Africa's major international airport. This advantage was for easy access for senior corporate personnel for flights to the source country (especially Japan) as well as speciality import of necessary supplies.

Table 7 elaborates on the agglomeration advantages of Johannesburg by offering a selection of the responses made by investors from 11 of the 18 different countries captured by the survey. Johannesburg's market advantages are emphasized across a range of different businesses based in the sectors of finance, manufacturing, trading and construction. It is shown that the reasons for companies to locate in Johannesburg relate to access to both South African and wider African markets as well as to the relative ease of doing business in the city due to the existence of dense business networks or cluster of suppliers.

The responses given by investors to the question ‘What are the advantages of Johannesburg as a business location?’ provide further detail as to the reasons why the city is a competitive destination for foreign investment. The major findings are presented on Table 8 and disclose a more nuanced picture of Johannesburg as an investment destination. As a whole, market considerations emerge as the prime consideration with Johannesburg the largest and most lucrative market in South Africa and the wider region of Southern Africa. Table 9 provides added detail of the critical dimensions of Johannesburg as the major market centre of the region, which is the most compelling advantage of the city for foreign investors of all nationalities.

Market considerations often were linked to aspects of the city's positive business environment and general infrastructural advantages (Table 9). Illustratively, survey respondents drew attention to several different aspects of the Johannesburg business environment. Many interviewees emphasized the ‘ease of doing business in the city’ or logistical issues and others stressed the city's human resource advantages. Further, the existence of South Africa's major cluster of headquarter offices and business decision-makers in Johannesburg was an additional positive advantage of the city to investors. Another significant theme highlighted by the survey responses was the strength of the city's financial services sector. The following selected comments reflect the voices of investors and their identification of positive aspects of the operational business environment of Johannesburg.

- “Legal services easily available” (Japan).
- “Infrastructure good for Africa” (Japan).
- “Business easier to control from Johannesburg” (Japan).
- “Networking locally is easier, networking internationally is easier” (Denmark).
- “Networking with other companies and competitors” (China).
- “Focussed business environment” (Germany).
- “Manufacturing skills are here” (UK).
- “Good work ethic—people want to work” (Korea).
- “Warehousing facilities are here” (Malaysia).

- “Allows ease of communication with support services and project coordinators” (Netherlands).
- “Technologies in Johannesburg allow for easy access back to overseas headquarters” (USA).
- “Good broadcasting resources and many creative individuals” (USA).
- “Good banking system and exciting working environment” (USA).
- “Relatively good IT infrastructure” (USA).
- “Well-organized business environment” (Italy).

Finally, in terms of the advantages of Johannesburg as an investment destination in Southern Africa, attention must be drawn to the particular significance of the city's proximity to South Africa's international air gateway, the OR Tambo International Airport. Investors from several countries stressed the positive advantage of locating their business in a city that either had direct flight linkages or the best international connections back to the source country of investment. The importance of such linkages for the travel of high level corporate personnel was especially highlighted by Asian investors. In addition to facilitating business contact for other investors proximity to the international airport is important in terms of freight and logistics for the export/import of goods.

Conclusion

For national government and urban policy-makers, understanding the factors influencing the location decision-making by foreign investors is of critical importance. The international literature on the intra-national location of foreign investment points to the overwhelming significance of agglomeration and clustering as powerful influences upon location decisions. It is evident from the findings of the investor survey that such factors provide a strong foundation for interpreting the attractiveness of Johannesburg as a locational base for foreign investment in South Africa and the wider region of southern Africa. Although foreign investors from 34 different countries are represented in Johannesburg, the USA, Germany and the UK account for over half of all foreign investor enterprises. UK investors have the largest volume of capital commitments in the city. Changes are evident in the flow of foreign investment as disclosed by the growth of investment in Johannesburg from new source countries especially from India, China and the Middle East. The industry pattern of foreign investment is reinforcing Johannesburg's competitiveness in the sectors of financial services, business services, IT and increasingly tourism.

Overall, the reasons given by foreign investors for selecting Johannesburg as an investment destination, to a large extent, reflect the international experience of location decision-making by foreign investors as agglomeration and clustering issues are dominant. The city of Johannesburg is a preferred choice for foreign investors’ business operations both in South Africa and the broader southern African region because of several interrelated factors which relate to the city's position as economic hub, financial centre and core market of southern Africa. For many investors Johannesburg is the only logical choice for a foreign (or domestic) investor concerned with supplying the South African market. Although the cities of Cape Town and Durban may be preferred destinations because of quality of life considerations, these cities do not represent serious competition to Johannesburg for the locational choices of the majority of foreign investors in South Africa.

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