



Tourism in the City of Johannesburg

During the last few decades, tourism has become an important economic and social activity in the national and global economies and its role needs to be supported at all levels of government, including CoJ. Both domestic and international tourism remained important to the CoJ economy in terms of revenue and foreign exchange earnings, and generation of employment and business opportunities. Data showed that tourism spend in CoJ was expected to reach R27 billion in 2012, making Johannesburg the second most visited destination city in Africa, according to the MasterCard Global Destination Cities Index of that year.

³ See Glaeser, E.L., 2005. *The Skilled City*.

Crime

The relationship between crime and economic growth is emerging as an important area of inquiry among academics, policy makers and politicians, stemming from fraudulent borrowing (classified as a financial crime) during the 2008/2009 global financial crisis. This is important for South Africa as it is usually perceived as a high crime country, and more efforts are required both at the city and national levels to fight crime.

Although declining over time (2000–2011), the CoJ recorded the highest number (more than 15 000) of robberies with aggravating circumstances by metro in 2011. Some studies³ have confirmed that high murder areas are often associated with low economic growth. In terms of regional disparities, Region D (Soweto) and Region F (inner city/southern Jo'burg) experienced a high number of murders, relative to other regions, while Region B (Randburg/Rosebank) reported the lowest number of murder crimes between 2000 and 2011. The implication of high crime rates is that resources meant to strengthen economic growth and development are diverted to crime prevention measures and infrastructure. ■

Author: Dr Selma Karuaihe, senior research manager, Economic Performance and Development programme, HSRC.

The full report, The City of Johannesburg (CoJ) Economic

Overview: 2013 A review of the state of the City's economy and other key indicators, by Selma Karuaihe et al is available on <http://bit.ly/13KRrj9>

THE EFFECT OF DISTANCE AND COMMUNICATIONS COSTS ON INTRA-AFRICAN TRADE

Evans Mupela looks at the cross-sectional patterns of export intensity on the continent in relation to distance and costs of information communications technology (ICT)¹, and finds that both play a significant role in the realisation of higher trade intensity among African countries.

Communications costs are an important aspect of the barriers to trade, often referred to as trade costs. These are the costs that must be overcome to actualise trade transactions. In other words, all the costs incurred in getting goods to the final users other than the costs involved in producing the goods themselves.

The higher these costs, the more difficult it is to carry out a trade transaction and the smaller the volume of trade.

Barriers to trade such as transport costs, exchange rates, freight charges and border-related trade barriers have been studied in the past, but less so the impact of the cost of information gathering and the transmission of messages. These have often been neglected or have been subsumed under transport costs or border-related trade barriers.

To model these costs separately is important, as the share of services in world trade has increased

¹ Hereafter referred to as communications costs.

dramatically over the last two decades and advances in communications have made distance seem less important in the setup of trade transactions. The purpose of the study, *Communication costs and trade in sub-Saharan Africa: a gravity approach*, was to investigate whether high communications costs between countries had a negative impact on the volume of trade among sub-Saharan African countries.

Intra-African trade suffers from poor international transport infrastructure and high communication costs.



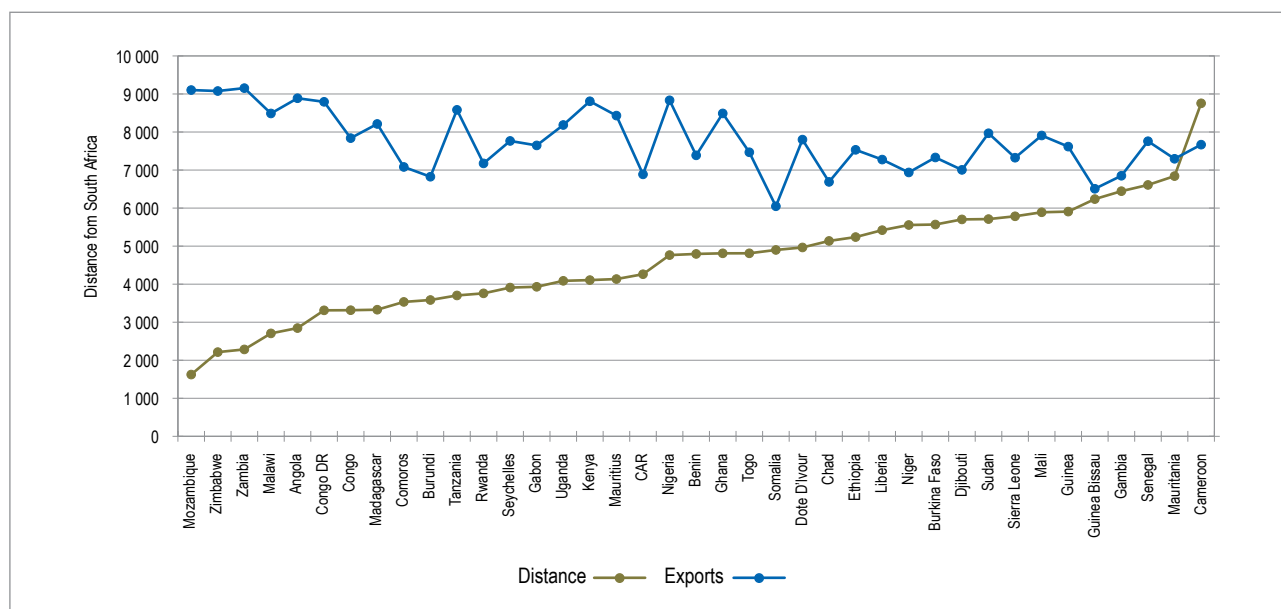
Methods

The study used a gravity setup to empirically test the hypothesis that high communications costs in this region had a negative impact on the volume of trade between African countries.

The gravity model of trade in international economics predicts bilateral trade flows based on the economic sizes (often using GDP measurements) and distance between two countries. This model predicts that trade will be more frequent between countries that are closer to each other than with those further away. The gravity tendency is likely to weaken when trade with bigger economies outside Africa is taken into account, for example when former colonial ties result in trade relations with distant countries.

Intra-African trade suffers from poor international transport infrastructure and high communication costs. It has recently been shown that communication costs in Africa are several times higher than those in South Asia (Figure 1).

Figure 1: South Africa



The study focused on the effects among countries in sub-Saharan Africa to eliminate as far as possible the effects of former colonial ties.

The methods used, therefore, involved isolating communications costs and looking at the cost of gathering, transmitting and receiving information across international barriers through international telephone and internet services.

These were represented by the costs of broadband and international phone calls, which are the communications costs that are likely to affect international trade.

International calling rates were measured in US dollars per minute while internet bandwidth was measured in dollars per megabit per second (Mbps), which represented the variable cost aspect of communication.

Megabit is widely used when referring to data transfer rates of computer networks or telecommunications systems. Network transfer rates and download speeds often use the megabit as the amount transferred per time unit, e.g. a 100 Mbps (megabit per second) fast-ethernet connection, or a 10 Mbps internet access service, whereas the sizes of data units (files) transferred over these networks are often measured in megabytes. To achieve a transfer rate of one megabyte per second, one needs a network connection with a transfer rate of eight megabits per second.

(Source: www.wikipedia.org)

Results

The results showed that distance and communication costs mattered for trade in sub-Saharan Africa. The overall result seemed to be that distance affected export intensity negatively as did the cost of fixed and mobile lines and broadband communication in both coastal and landlocked countries.

Figure 2 shows strong gravity tendencies for trade among sub-Saharan countries². The figure shows that the total volume of trade from South Africa and Zambia decreased with distance from the exporting country.

This trend was replicated to varying degrees in other countries.

Figure 2: Zambia

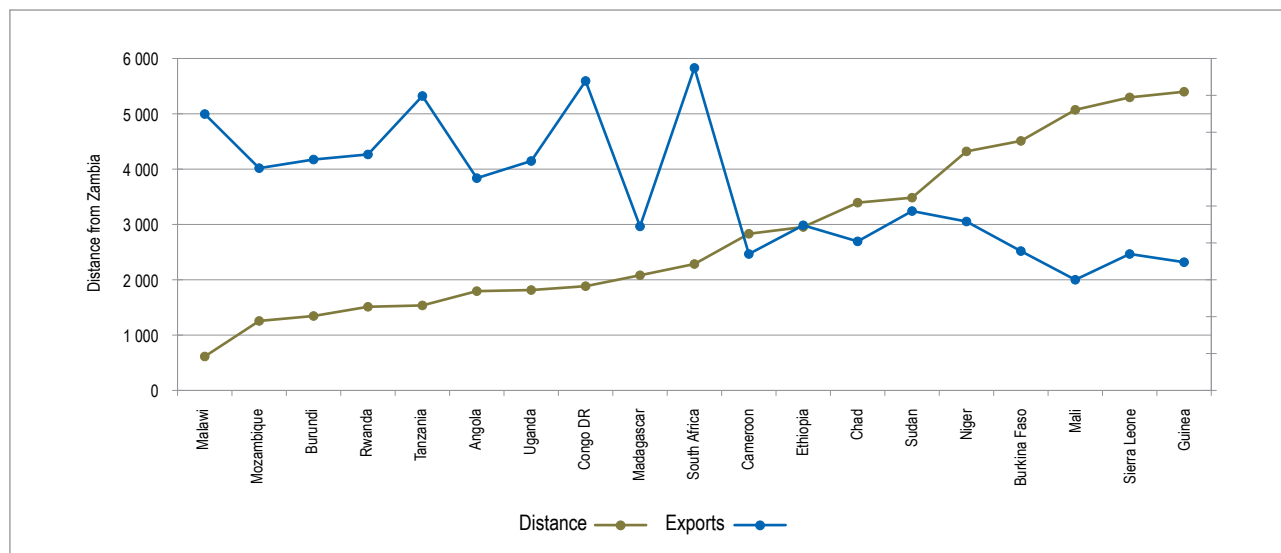


Figure 3

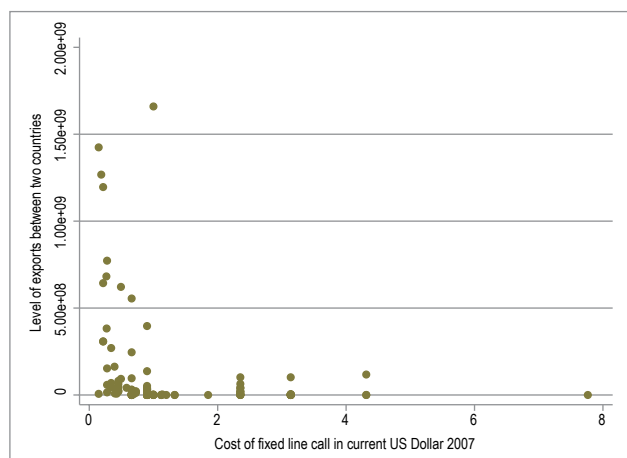


Figure 3 shows the scatter plot for the sub-Sahara region. Exports were generally very low in countries with high calling rates per minute. The scatter plot shows a clear pattern of high bilateral call charges and low exports, and a general trend of low bilateral calling charges and high exports. Although there are a lot of countries in the low cost/low export area of the plot, there is not a single country in the high cost/high export area. This pattern is consistent with the regression results in the study.

In conclusion

By adding variables representing the cost of international connectivity to a traditional gravity equation, we find that international communication costs have a significant negative

effect on the volume of trade in sub-Saharan Africa. This implies that efforts aimed at reducing the cost of international communications in Africa may contribute to the reduction of trade friction between countries in this region and an increase in export intensity among these countries.

International communication costs have a significant negative effect on the volume of trade.



Affordable international connectivity coupled with good transport infrastructure would have a positive impact on the total volumes of trade between African countries, especially where there are great distances between countries.

Given present market conditions, the indirect effect of the existing infrastructure of satellites and optical fibre gateways has a negative influence on trade, as it results in high international calling rates and high broadband connectivity costs. This study provides a foundation for arguments for local African investments in both technologies and the development of policies that will reduce international communications costs across the board in Africa. ■

Author: Dr Evans Mupela, post-doctoral research fellow in the Economic Performance and Development research programme, HSRC.

² Gravity tendency refers to the tendency of countries to trade less and less with countries that are further away from them geographically.