TREATMENT OF TRADE IN SERVICES IN AFRICA

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TREATMENT OF TRADE IN SERVICES IN AFRICA

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ABSTRACT

The services sector has become a critical part of any country's economy, usually representing a higher percentage of GDP than agriculture and manufacturing combined. Africa is not an exception to this rule: according to the World Bank, in 2015 the services sector represented 58 per cent of sub-Saharan Africa's GDP.

However, intra-African trade in services remains untapped: existing bottlenecks, such as infrastructural constraints in transport and communication services; outright restrictions to trade, affecting both market access and national treatment; less than optimal domestic regulations; and ill-adapted regulatory governance represent some of the impediments to benefit from the untapped potential. Low trade complementarity is also an explanation for the low levels of intra-Africa trade.

With this background in mind, the creation of the CFTA is meant to go some way to solve this situation by creating a single market for both trade in goods and services.

THE SITUATION OF INTRA-AFRICAN TRADE IN SERVICES

It has now become commonplace that services and services trade have an increasingly important role in economic growth and development in general, and in Africa in particular. Services are critical inputs into the production of goods and other services, and thus are an important factor of productivity and competitiveness. As noted by Sáez, McKenna and Hoffman (2015), services trade is a critical factor to enable the connections necessary to increase African participation in global value chains and therefore "*enhancing the competitiveness of the service sector* [...] *is now imperative for Africa's continued economic development*".[2]

Over the last few years, the services sector has been steadily growing and has become the largest component of most African countries' economy. Whilst the share of both agriculture and industry in the gross domestic product (GDP) of sub-Saharan Africa[3] has declined between 2000 and 2014 (from 20 to 17 per cent and from 36 to 26 per cent respectively, the services sector's contribution to GDP has increased from 44 per cent to 56 per cent, according to the World Development Indicators database of the World Bank. With Africa's middle class growing rapidly, the importance of the sector is expected to continue increasing, leading both to enhanced service sector exports and increasing wealth.[4]

These aggregate figures mask very different country situations and performances, in terms of the sector's diversification, and in particular regarding the availability of low-cost and high-quality

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[2] Sáez, S., McKenna, M., and Hoffman, B. (2015). Valuing Trade in Services in Africa, in WEF (2015), "The Africa Competitiveness Report", p. 54.
[3] There are no separate and comparable data for North Africa in the World Development Indicators.
[4] Infinite Potentials Consulting: The service sector is responsible for nearly 60 per cent of sub-Saharan Africa's GDP. Available at : http://infinitepotentials.org/wp-content/uploads/IPC-Datashots-Week-40-The-Service-Sector-dominates-Sub-Saharan-Africas-GDP.pdf

service providers, such as telecommunications, transport and distribution services, financial intermediation, and business services, which are crucial factors for the productivity and competitiveness of firms. While the contribution of services to GDP in African LDCs tends to be around or smaller than 50 per cent, some of them have reached a fairly high share of the services sector within their economies, such as Djibouti (79 per cent in 2007), The Gambia (66 per cent), or Lesotho (68 per cent). Among non-LDCs, the highest rates of services' share in GDP were accounted for in 2014 by Cabo Verde (75 per cent), Maldives (77 per cent), and Mauritius (73 per cent). South Africa's services sector contributed 68 per cent to the country's GDP in 2014, after experiencing a 27.2 per cent growth since 2000. Nigeria and Sierra Leone have experienced an even greater contribution of services to GDP, with a recorded growth of 150 and 138 per cent, respectively. Countries with close to, or above average growth are Algeria (30.3 per cent), Bénin (26.2 per cent), Botswana (28.2 per cent), Malawi (23.3 per cent), and Sudan (35.1 per cent). Negative growth has been recorded for Burkina Faso (-6.5 per cent), Chad (-30.4 per cent), Guinea (-4.5 per cent), Kenya (-1.9 per cent), Mali (-4.8 per cent), Niger (-1.6 per cent), Tanzania (-6.4 per cent), and Togo (-12.8 per cent).

Whilst it is difficult to precisely measure intra-African trade in services, due to a general lack of services trade data disaggregated by partner country, according to estimations elaborated by UNECA, the AU and AfDB (2016)[5], intra-African trade in services reached USD 85 billion in 2013, compared with the estimated USD 98 billion in services imports from outside the continent.[6]

In many African countries, services exports are limited to direct service exports, while for others exports of services also include exports incorporated in goods and other services, through their forward linkages.[7] For example, in the more advanced African economies, the contribution of services to manufactured exports is more important than their contribution to the domestic value-added manufacturing.[8]

Impediments to increased intra-African trade in services include infrastructural bottlenecks, such as in transport and communication services; outright restrictions to trade, both in terms of market access and national treatment; less than optimal domestic regulations; and ill-adapted regulatory governance. Overall, African countries have high barriers to trade in services. According to ARIA VII, Africa's policies governing trade in services are not seen to be particularly favourable compared with policies in the rest of the world. Ethiopia, Zimbabwe, Egypt, and Congo (DR), appear as Africa's most restrictive countries to trade in services according to the Service Trade Restrictions Database.[9]

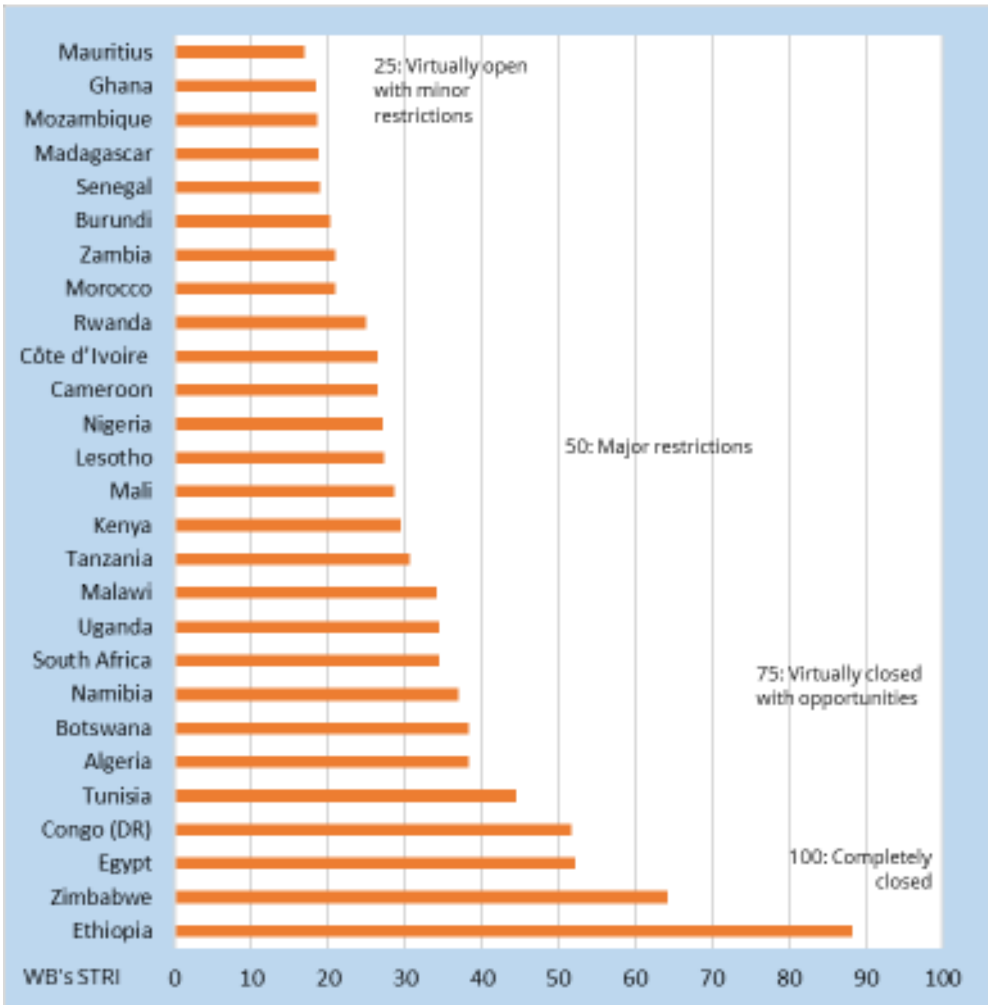
Sectoral studies have also documented restrictions to trade and domestic regulatory barriers that hinder both intra- and extra-African services trade. For example, Dihel, Fernandes and Mattoo (2010) highlighted that certain market entry regulations applied by SADC Member States were

[5] ECA, AU and AfDB (2016). Assessing Regional Integration in Africa VII (ARIA VII), Economic Commission for Africa, African Union and African Development Bank Group
[6] *Id*.
[7] Sáez, McKenna and Hoffman (2015). *Id*. at 44.
[8] *Id*.
[9] World Bank - Service Trade Restrictions Database. Available at: http://iresearch.worldbank.org/servicetrade/home.htm

more trade restrictive than those applied by other emerging economies and OECD countries.[10] Those measures included licensing requirements, quantitative restrictions on the number of suppliers, exclusive rights granted to locals, as well as regulations on the operations of firms, such as restrictions on prices and fees, advertising, form of business, and inter-professional cooperation.

Restrictions on Mode 4 of the General Agreement on Trade in Services (GATS), i.e. movement of natural persons, remain widespread among African countries, despite some regional liberalisation measures taken in the framework of certain African RECs, such as the East African Community (EAC) and Economic Community of West African States (ECOWAS), which have facilitated the movement of their nationals within their own Member States. Mode 4 liberalisation is also foreseen in other RECs, but implementation has proved to be a challenge, as the average ratification rate for free movement of persons' protocols remains at 60 per cent.[11]

Figure 1 - Services Trade Restrictions



[10] See Dihel, N., Fernandes, A. M., and Mattoo, A. (2010). Towards a Regional Integration of Professional Services in Southern Africa, World Bank Africa Trade Policy Notes, Note #10, November.
[11] ECA, AU and AfDB (2016). *Id*.

Against this background, the creation of a Continental Free Trade Area (CFTA) is meant to solve the situation by creating a single market for both trade in goods and services. Some movement has already been seen with the creation of a pan-African passport.[12]

Given the aforementioned diversity in the treatment of services across Africa, CFTA negotiations need to be gradual, providing for variable geometry, and building on the liberalisation commitments agreed under the umbrella of the various RECs. Additional commitments made under the GATS, the Economic Partnership Agreements (EPAs), and other international frameworks should be taken into account also.

The achievement of a continental single market for services requires that the negotiations on trade in services carried out within the context of the CFTA negotiations, to be focused upon the reduction and eventual elimination of any trade restrictive elements. Regulatory reforms need to be undertaken to ensure effective contestability of services markets, by establishing independent and accountable regulators, and achieving mutual recognition agreements whenever possible, especially in professional services, as well as others.

THE TREATMENT OF SERVICES IN AFRICAN RECS[13]

All current RECs recognised by the African Union, contain some form of services agreement, ranging from cooperation in some sectors to comprehensive trade liberalisation. The cooperation agreements tend to focus on harmonisation of regulations, technical standards and development issues in specific sectors, whereas the comprehensive trade liberalisation agreements (mostly modelled on GATS) focus on trade rules in terms of market access and national treatment, covering all services sectors, and sector specific liberalisation commitments, as inscribed in the schedules of specific commitments.

Under the Community of Sahel-Saharan States (CEN-SAD), Members agreed to remove all restrictions hampering the integration of Member States, through the adoption of necessary measures to ensure free movement of persons and services amongst them.

In COMESA, Member States adopted regulations providing for progressive trade in services liberalisation. Currently, COMESA's Member States are negotiating the schedules of commitments in seven priority sectors, namely: business, communication, construction, energy-related, finance, tourism, and transport services.

As part of their common market, EAC's Member States are meant to achieve the free movement of services through a process of gradual liberalisation. The schedules of commitments were agreed in seven priority sectors: business, communication, distribution, education, finance, transport, and tourism. Despite not having a deadline for the elaboration of liberalisation commitments, restriction and limitations to market access and national treatment should be ultimately removed. On domestic regulation, EAC Members have signed mutual recognition

[12] See UN – Africa Renewal: Pan-Africa passport to open up borders. Available at: http://www.un.org/africarenewal/magazine/august-2016/pan-africa-passport-open-borders

[13] For further information, see: UNCTAD (2015) Building the African Continental Free Trade Area: Some Suggestions on the Way Forward. UNCTAD (2015) Africa Continental Free Trade Area: Liberalising Trade in Services for Trade Facilitation.

agreements in accounting and architectural services, whilst negotiations for similar agreements in other professional services are underway.

Members of ECOWAS agreed on the free movement of persons and the right of establishment in 1976, which has evolved to allow up to 90 days visa free movement for ECOWAS nationals and residents. In parallel, harmonisation of regulations in telecommunications and transport was achieved. The sub-regional West African Economic and Monetary Union (WAEMU/UEMOA), comprising eight members of ECOWAS, has agreed to further liberalise trade in services in the context of a common market.

The Economic Community of Central African States (ECCAS) has a cooperation agreement in the sectors of communication, transport, energy, education and training, and tourism. Despite not having an agreement binding its Members to achieve trade in services liberalisation, the ECCAS Treaty provides for the free movement of persons and the right of establishment. The Economic and Monetary Community of Central Africa (CEMAC), a sub-group of ECCAS, has undertaken deeper liberalisation in air transport and telecommunication services.

One of the objectives of the Inter-Governmental Authority on Development (IGAD), an international organisation created in 1996 to supersede the Intergovernmental Authority on Drought and Development (IGADD), founded in 1986, is to harmonise policies with regard to transport and communications, and to promote free movement of services and people and the establishment of residence.

SADC's Member States signed a Protocol on Trade in Services, which is largely modelled on GATS, providing for progressive liberalisation of trade in services. Currently, SADC's Member States are negotiating liberalisation commitments in six priority sectors, namely: communication, construction, energy-related, finance, transport, and tourism services. Negotiations in the five remaining sectors, as well as mutual recognition agreements will be addressed in subsequent rounds of negotiation, planned to start within three years of concluding the current round.

Additionally, SADC Members have signed several Protocols on transport, communication and meteorology; education and training; health; information, sports and culture, tourism development; and the facilitation of movement of persons. While the sectorial protocols provide for regulatory and standards harmonisation; the protocol on the facilitation of the movement of persons provides for gradually liberalisation of immigration to allow visa-free movement (up to 90 days), as well as temporary and permanent residence.

The Southern Africa Customs Union (SACU), considered as a SADC sub-region in the context of the CFTA, does not have an agreement on trade in services. However, in April 2013, the 4th Summit of SACU Heads of State and Government endorsed trade in services as one of their priority areas. Preparations are underway to define the scope and the legal nature of the services work programme.

CONCLUSIONS

The CFTA represents a massive opportunity for service-oriented economies in Africa, such as Mauritius, where the services sector represents 73 per cent of the country's GDP: the competitiveness of local firms is increasingly determined by access to low-cost and high-quality producer services, thus enlarging the availability, affordability and quality of services. These elements are critical for economic growth and poverty reduction in all African countries. Services trade is a critical factor to enable the connections necessary to increase African participation in global value chains.

The liberalisation of imports of foreign services and foreign direct investment (FDI) in services, exerts beneficial competitive pressure and increases efficiency in the provision of services in the domestic economy, not least by providing access to new technologies and spreading knowledge across local firms. Liberalisation of trade in services also helps improve the production and export of both goods and services.[14]

ABBREVIATIONS

AfDB African Development Bank
ARIA Assessing Regional Integration in Africa
AU African Union
CEMAC Economic and Monetary Community of Central Africa
CEN-SAD Community of Sahel-Saharan States
CFTA Continental Free Trade Area
COMESA Common Market for Eastern and Southern Africa
EAC East African Community
ECCAS Economic Community of Central African States
ECOWAS Economic Community of West African States
EPA Economic Partnership Agreement
FDI Foreign Direct Investment
GATS General Agreement on Trade in Services
GDP Gross Domestic Product
IGAD Inter-Governmental Authority on Development
IGADD Intergovernmental Authority on Drought and Development
LDC Least-Developed Country
OECD Organisation Economic Cooperation and Development
REC Regional Economic Community
SACU Southern Africa Customs Union
SADC Southern Africa Development Community
STRI Services Trade Restrictiveness Index
UNECA United Nations Economic Commission for Africa
USD United States Dollar
WAEMU West African Economic and Monetary Union
WB World Bank
WDI World Development Indicators

[14] See Brenton, P. and Isik, G. ed. (2012): De-Fragmenting Africa - Deepening Regional Trade Integration in Goods and Services, World Bank.

HOW CAN WE HELP?

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International Economics can help facilitate internal discussions on strategy by providing technical insights, developing dashboards of key performance measurements, and giving advice to executive boards on building resilience to possible disruptions related to exogenous trade shocks, such as Brexit or Donald Trump's Presidency. We work closely with our clients to brainstorm and identify challenges and opportunities based on our professional experience.

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