

## SYSTEMIC ISSUE

# Situating services liberalisation and integration for Africa's growth and development?

David Primack

*Despite widespread recognition of the importance of services trade, there remains a disconnect between stated priorities and actions on the ground. Even more so with the current momentum of growth and development in Africa, this calls for a shift in approach, to re-orient efforts to ensure that services trade liberalisation and regional services integration are adequately situated as tools towards more fundamental development objectives.*

Services are essential to the functioning of the modern economy and inextricable from any efforts to enhance growth, promote development and reduce poverty. They can affect growth and development in various ways: creating incomes and employment, contributing to consumer welfare, helping the investment climate and promoting economic diversification (in both goods and services). In 2010, services contributed between 30 and 70 percent of GDP in Sub-Saharan countries (World Development Indicators, 2011), however Africa's share in global (commercial) services trade was a mere two percent. As the continent continues its drive for prosperity, the sector will take on even greater significance, calling for a more holistic approach to leveraging services trade for development. This will require a shift in emphasis to better situate services trade liberalisation and regional services integration as tools towards more fundamental development objectives.

## **Second-class citizen?**

Despite widespread consensus on the promise of services trade, there remains a disconnect between the oft-stated importance and the attention received on the ground. Public and private sector representatives can be quick to highlight the need for enhanced efforts to expand the services sector, but when it comes to setting priorities (e.g. policy, regulations, incentives, spending), services all too often end up on the cutting room floor (tourism, banking and ICT being perhaps the most consistent exceptions).

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## **The challenge of a holistic approach**

In many ways, the absence of a holistic approach to service sector development is unsurprising. Services touch virtually every facet of the economy, covering over 160 sub-sectors, each with its own economic and legal peculiarities. The responsibility for developing this myriad of sectors also lies with disparate government bodies. Sectoral approaches, pursued in SSA on transport, tourism, and ICT are surely essential parts of the successful equation, but pursuing these on the basis of a holistic perspective is key.

Such pursuits are compounded by a systematic shortage of available and high-quality data for rigorous analysis, alongside a dynamism often associated with rapid technological developments and iterative regulatory evolutions.

## **A shift in emphasis**

The last decade has seen an intensive focus on services negotiations in SSA (under the WTO and to varying degrees the EPAs). More recently, services negotiations have picked up significant steam in the context of regional integration, such as the EAC Common

# 7.2%

Services growth rate in Sub-Saharan Africa (excluding South Africa) from 1998 to 2007.

Source: *The World Bank*

Market Protocol and on-going processes in COMESA, SADC, and UEMOA, as well as others envisaged in CEMAC and ECOWAS. Similar negotiations are also expected under the COMESA-EAC-SADC Tripartite FTA negotiations, as well as those for a Continental FTA (under the AU).

ILEAP's experience in Africa responding to requests for advisory support and capacity building on trade in services suggests however the need for a concrete shift in emphasis and approach. This view is driven by the fact that services trade liberalisation and regional services integration – while being essential processes with the potential to deliver significant benefits – have increasingly come to be seen as objectives to be pursued in their own right. Moreover, by generally adopting only GATS-based approaches, the outcomes produced have tended to hold little commercial relevance for operators on the ground.

By contrast, a more holistic, ground-up approach could more appropriately situate services trade liberalisation and regional services integration as tools intended to serve broader growth and development objectives, including that of service sector development. This calls for a re-framing of the debate on the manner in which liberalisation and integration can serve such broader objectives, in particular as a means to further unlocking the vast potential of services to contribute to growth and importantly, to more fairly distributing its rewards.

### **Engaging more stakeholders in a higher quality debate**

An essential ingredient for securing the needed shift lies in engaging more and diverse stakeholders in an evidence-based debate. One key target is the public sector. An oft-cited phenomenon in services negotiations is the 'silo effect', whereby Ministries of Trade or Commerce are faulted for undertaking inadequate inter-departmental dialogue, notably with their sectoral and regulatory counterparts. Conversely, the same has been said of developing sectoral policies, where key trade dimensions may be unaccounted for.

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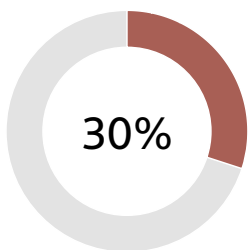
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Arguably of greater importance is the need to promote a stronger voice for non-state actors, in particular for private sector services firms and consumers (ostensibly the two main beneficiaries), as well as civil society more broadly, academia, parliamentarians, and the media. This calls for more advocacy and better evidence, including data generation, regulatory analysis, and case studies to promote learning, as well as capacity building to enable stakeholders to engage critically. A concerted outreach effort within the public sphere (at an accessible level) is also essential for generating the ownership necessary to underpin challenging decision-making.

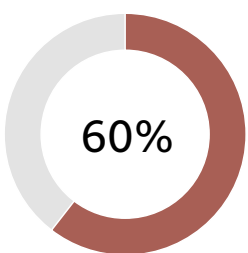
### **Process matters**

The process by which services trade liberalisation and regional services integration occurs is important for securing the needed shift in emphasis. Under ideal circumstances, there is a natural evolution in articulating interests and objectives, starting with a national development plan. With stakeholder input, this can inform a general trade policy, which serves for the development of a services trade policy (differentiated from general sectoral policy) and services export strategy. This provides technical officials the basis for identifying offensive and defensive trade interests. Based on the relevant forum or negotiating partner in question, they can evaluate the merits of proceeding, including institutional/regulatory readiness, potential competitive-effects in the market, and assess the value in pursuing further market opening.

In reality however, political economy considerations often drive the trade agenda, with the possibility that SSA countries (amongst others) sign up to services agreements without an



Share of services in the GDP for African oil exporting countries.



Share of services in the GDP for African non oil exporting countries

Source: The World Bank

adequate appreciation of opportunities or risks. This is exacerbated by simultaneous and often over-lapping processes.

Recognising the above factors at play, steps can be considered for maximising the potential impact that services trade liberalisation and regional services integration can have for supporting service sector development.

Notably, a well-planned and facilitated preparatory process can deliver benefits in its own right; independent of what commitments might emerge. It can provide a space for essential national/regional discussions about economic and regulatory reforms, the design of strategies for overcoming services supply side constraints, and opportunities and challenges to remove barriers in external markets. It can also help to catalyse a service sector constituency, which may more constructively contribute to relevant policy, negotiation, and sector promotion debates. Lastly, it can help to raise awareness about the importance of services and their role in building the economy. The Caribbean preparations undertaken for EPA services negotiations can offer some useful lessons for SSA.

#### **Translating words to action – developing service sector trade strategies**

The development of the services sector does not happen by accident. For trade in services to effectively play its role in development, there is a need to better channel both technical and financial resources to overcoming services supply capacity gaps, improving regulatory frameworks, enhancing institutional capacities and reducing barriers to services trade. Spending on education (in a manner that matches skills with market needs) is imperative, as is promoting technological upgrading and ensuring readily accessible trade finance for micro and small African services firms.

The needed resources can come from various sources – not only donors, but also those of regional economic communities, national governments and the private sector directly. Aid-for-trade has a clear role that also needs strengthening.

#### **Conclusion**

With such potential afoot in SSA, there is a need to re-orient the role of services trade liberalisation and regional services integration as tools towards a broader development end. Doing so will draw on scarce technical and financial resources, however it is vital to pursue if services trade is going to be a driving force in unlocking Africa's longer-term growth and development potential.



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