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Enhancing productive capacity through services
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**Enhancing productive capacity through services;
Focus on Africa's trade and integration agenda**

by

Ms. Trudi Hartzenberg
Executive Director
Trade Law Centre
South Africa



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Trudi Hartzenberg
Trade Law Centre (tralac)
trudi@tralac.org

Overview

- Brief update on Africa's trade and integration agenda
- Where does 'enhancing productive capacity fit in?
- Brief review of trade and industrial policy development
- Update on the African Continental Free Trade Area (AfCFTA)

Update on Africa's integration agenda (1)

- From regional economic communities (SADC, EAC....ECOWAS) to *continental integration* – African Continental Free Trade Area (AfCFTA)
- Scope of integration – progress from trade in goods to a comprehensive agenda (**services**, investment, competition policy, intellectual property rights)
- Sensitive issues: tariffs, rules of origin (trade in goods)
- Predominance of cooperation models rather than binding commitments for investment, competition and intellectual property

Update on Africa's integration agenda (2)

Where does 'enhancing productive capacity' fit in?

From the outset: emphasis in RECs on i) *industrial development and diversification* (included in founding Treaties) and more recently, emphasis on regional industrial development, ii) *agricultural development*

But no comprehensive focus on enhancing productive capacity (across economy)

Example: SADC: Protocol on Industry - diversification of regional economies through **industrial** development and value addition as one of the prerequisites of deeper integration and poverty eradication in the **SADC** region.

Enhancing productive capacity - services nexus: some missing links

- Despite the now-recognized role of services in employment, contribution to GDP, trade, investment ... the role of services in enhancing productive capacity is perhaps not yet part of the broad policy discourse
- Limited discussion about servicification of production, services supporting *competitiveness* in manufacturing and agriculture, the role of services in *trade facilitation* (also important for regional value chain development)

At national level.... Industrial policy

Industrial policy still narrowly interpreted - strong focus on core/traditional manufacturing

National policy discourse has not yet fully embrace all of the following as key elements of industrial policy

- Connectivity: infrastructure, ICT, competition in key services sectors
- Business facilitation (improving ease of doing business) easing regulatory compliance burden (red tape elimination)
- Trade facilitation – essential role for services (finance, transport, communication...)
- Science and technology policy (supporting innovation, R&D)
- Regional and multilateral cooperation – enhanced market access , corridor development, harmonization of regulation
- Services sector development *per se*

At national level... trade policy

- Trade policy - still strong focus on goods
- Many countries (including South Africa) do not have a comprehensive trade policy strategy for services
- Connections between trade in goods and trade in services strategies are not well developed (tariffs on goods necessary for specific services sector development eg ICT)
- Investment, competition, intellectual property, environmental, labour and other issues – still new on the agenda or absent

Update on the AfCFTA

- A very ambitious initiative – comprehensive (21st century) agenda
- Phase 1: Trade in Goods and Trade in Services
- Phase 2: Investment, Competition, and Intellectual Property Rights

Impressive progress has been made - Where do we stand?

- On 29 April - the threshold for entry into force was reached (22 Member States have deposited their instruments of ratification with the depositary) – for phase 1
- **But:** negotiations still ongoing (tariffs, RoO, sector commitments for priority services sectors) Question – when will it be possible to trade under the AfCFTA?
- Phase 2 negotiations will start in the second half of 2019 (emphasis on cooperation)

Services in the AfCFTA – contributing to enhancing productive capacity

- Priority sectors - Transport, Communication, Finance, Tourism and Business services – list includes key infrastructure services that are essential to enhance productive capacity (to have economy-wide impact)
- Sector commitments are still to be negotiated, and frameworks for regulatory cooperation developed – there is scope for impacting regional value chain development, addressing services capacity deficits in some countries (supporting intra-regional and global trade in services across modes of supply)

Concluding remarks

- Enhancing productive capacity – imperative for Africa, but not yet a core focus (still strong focus on traditional approaches to industrial policy, for example)
- Role of services – economy-wide impact on productive capacity, productivity enhancement, in FDI (important for diversification), trade facilitation, and on development (essential social and economic services – education, health care, transport..)
- AfCFTA update: services negotiations and phase 2 still to be completed – opportunity to explore synergies in this agenda with other important initiatives (AIDA, PIDA, Air transport market ‘open skies’ development.....)