Implementing the Twin Initiatives of the Continental Free Trade Area Negotiations and the Programme on Boosting Intra-African Trade to Create a Competitive African Services Sector

by

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1. Services contribution to growth and development in African countries

Services are no longer just a non-tradable sector. Within less than two decades, the technological advances in information and communications technology have basically removed the concept (and reality) of a non-tradable service. Services have therefore become a transformational force in the global economy, accounting for the majority of GDP and employment in most countries, including in African countries. Indeed they now constitute an important source of innovation and productivity growth. In terms of value added, services continue to climb in importance in national economies. More than two-thirds of all new investment flows are directed into the services sector.

In 30 African countries, services contribute 50% real GDP growth, and are the main drivers of investment and employment, playing an increasing role in manufacturing, mining and agricultural sectors. Services account for an average of one third (1/3) of total employment in Africa; in some countries contributing as much as 70% of total employment. In countries such as Côte d’Ivoire, Madagascar, Mali, Seychelles and Swaziland the services sector contributed more than 100% to real GDP growth. Several countries in Africa are now giving more prominence to creative and cultural industries and these efforts are being seen in the strong growth of e.g. film industries, art and sport in several African countries, signaling great opportunities for the future.

Despite these promising trends, services trade for Africa is still not very significant in global terms. Africa is a marginal player in global services exports and imports, with only 11 countries showing a net services exporter position in recent years. African exports of services increased from 10% in 1980 to 21% in 2015, with the highest increase in the last decade as recorded by UNCTAD. The sectors experiencing the highest increase tend to be construction, travel, telecommunications and computer services. Africa’s share of global exports was only 2%, compared with 3.6% for developing countries in the Americas and 24.3% for developing countries in Asia. In terms of trade balances for selected African countries, major oil producing countries ran the largest services trade deficits, while most tourism exporting countries tended to enjoy positive services trade balances, e.g. Mauritius, Cape Verde, Seychelles. Thus Africa’s role in services trade is still at a very low level and a tremendous potential exists here for future growth both at continental level and between Africa and the rest of the world. However, there is a need for increased data collection at both the national and regional level to obtain a fuller picture of the trends in intra-African trade.

2. The Continental Free Trade Area and the Programme for Boosting Intra-African Trade
In January 2012 the AU Heads of State and Government adopted the decision to create the Continental Free Trade Area (CFTA), with an indicative date of end of 2017 for the conclusion of the agreements. The AU Assembly decided that trade in services should form part of the first phase of the negotiations. The CFTA is viewed as a stepping stone that will lead to an African Common Market (ACM) and an African Economic Community (AEC). A major aim of this ambitious effort is the expansion of intra-African trade by lowering the trade barriers to goods and services, as well as the movement of people throughout the continent. At the same time as the CFTA was launched, the AU Assembly adopted the Action Plan for Boosting Intra-African Trade (BIAT). In promulgating the BIAT, the AU Heads of State and Government made the following recommendations:

i) “Partners are called upon to assist Regional Economic Communities (RECs) in developing regional frameworks for services trade liberalization;

ii) The AUC and RECs should assist Member States in strengthening domestic regulations in specific service sectors in preparation for regional and continental liberalization;

iii) The AUC and Partners should assist RECs/Member States to mainstream services into regional and national export strategies with a focus on sectors with potential to enhance intra-African trade in services;

iv) RECs and Member States should improve services trade statistics to aid policy analysis and formulation.”

The two initiatives - the CFTA and the BIAT Programme - should be seen as two sides of the same coin. If the CFTA is concluded and implemented, it is estimated that it would increase intra-African trade and contribute USD $35 billion per year to Africa’s GDP. But trade agreements in themselves cannot deliver on the ultimate objective of promoting and encouraging inclusive and sustainable growth. They are one component of the toolkit for achieving sustainable growth. They must be backed up with services sector development strategies, services policy frameworks and the required sectoral regulation (at regional and national level). Thus the relationship between the CFTA and the BIAT is critical in ensuring overall coordination of sector policy development to achieve a competitive services sector in Africa.

For instance, in the area of financial services, across regions in Africa, banks are taking a pan-African approach, proliferating and providing mobile money services which cross borders – of course, as goods, services and persons move across the continent, financial services must follow. Financial services are very likely to be part of the priority sectors chosen for the negotiations of the Agreement on Trade in Services under the CFTA, as they are a key infrastructure service. Given the current developments in the banking and insurance sector, it will be important that financial sector development strategies complement what emerges from the Agreement on Trade in Service, in order to shape the sector in a way that drives inclusive and sustainable development outcomes to ensure a single continent-wide market for financial services. Of course, domestic regulation and sector strategies at the national level can also feed from the regional level sector strategies.

The African Ministers of Trade in their meeting in Niamey from 15th to 16th June 2017 have approved the modalities for negotiations on trade in services which would include a framework trade in services agreement plus a broad regulatory framework on services, in recognition of the importance of
regulation for delivering actual gains in trade in services. Negotiations on trade in services will continue throughout the year.

3. Importance of Services Sector Policies and Regulation

Regulations in the services arena come in several varieties and they range from qualification and licensing requirements and procedures in professional services, to pro-competitive regulation in telecommunications, energy and other network services to prudential requirements in financial services, and universal access requirements in health and education services. Services policies and regulation can address critical market failures such as monopolies and oligopolies, information asymmetries, universal access targets for public goods, and policy goals like environmental protection. However, such domestic regulation, while necessary for sector growth, in many cases may become barriers to market access in services without necessarily being discriminatory. And while trade agreements may enshrine the right of governments to regulate, such regulations are not applied in a vacuum, and must be carefully designed to coincide with commitments and obligations under trade agreements. Transparent regulations, regulatory governance and the necessary institutional framework are thus key to services liberalisation if actual gains are to be attained from market access, and if real value-added can be achieved in services trade. Market access negotiations for trade in services under the CFTA will therefore have to include regulatory disciplines and regulatory governance if the continent is to achieve tangible outcomes.

Regulatory audits are also a key tool for governments to be able to enter negotiations fully informed, carrying out regulatory assessment and identifying any necessary reforms. They entail the description of measures, the specific aspect of the economy potentially affected, the nature of the measure(s), the modes of supply affected and the impact of the measure(s), among other things. Regulatory audits therefore will be an obvious step in the CFTA services negotiation process.

The AU Commission has produced a compendium of 5 case studies of successful services exports in Africa. Titled: Services Exports for Growth and Development: Case Studies from Africa, the publication highlights air transport services in Ethiopia, banking services in Nigeria, business processing outsourcing/ICT services in Senegal, cultural services in Burkina Faso and higher education services in Uganda. The case studies examine some possible best practices in services exports from the suppliers’ point of view, with a review of the role of policy and other factors that may have shaped the success of these industries. The countries and sectors were selected on the basis of their service sector performance. In some cases (e.g. cultural services in Burkina Faso) non-traditional service sectors were selected, particularly where the private sector’s role in exploring foreign market access was a critical success factor. In some cases, public-private partnerships were important to the growth of the particular services sector.

Overall, the studies found that: a) an appropriate and enabling domestic regulatory framework was one of the key factors necessary for engagement in services exports; b) regulatory policies that create neutrality of incentives as between the various forms of trading systems (four modes of supply) and that do not favour one mode of service supply over another have been able to generate services exports in complimentary modes; c) more appropriate government regulations were able to either lay the basis for services export growth or to help initial advantages to grow; and d) different types of services sectors
have needed and benefited from different types of policies, and that the key is to fashion the appropriate regulatory framework for the needs of the service sector in question. Overall the studies point to the fact that the services sector has the potential to become a major driver of sustained economic growth and structural transformation in Africa.

This publication is designed to contribute to the literature on trade in services in Africa, helping to plug gaps in data and analysis; it is also intended to catalyse further research on services sector exports among African countries. Furthermore, it is hoped that policy makers can find in it lessons learned for effective strategies for stimulating services sector exports, and the design of appropriate regulatory frameworks.

4. A Draft Services Development Programme

In order to implement and build on the relationship between the CFTA and the BIAT in contributing to Africa’s growth and transformation, the AUC Department of Trade and Industry (DTI) is developing a Services Development Programme with the strategic objective of creating a competitive services sector and developing other traditional and non-traditional services sectors to boost intra-African trade.

The Services Development Programme is intended to have a five year time frame and will encompass all of the actors that would be involved in carrying out activities on services within the continent, including trade officials and services negotiators in the AU Member States, officials in the various Regional Economic Communities (RECs) and private sector stakeholders in the form of services firms and services coalitions.

The content of the Programme would be focused on steps that would assist with the liberalisation of services by AU Member States, either unilaterally, through the RECs or in the CFTA negotiations, as well as with the strengthening of regulatory frameworks for key services sectors. The Programme would help strengthen the capacity of AUC-DTI officials to assist negotiators and policy makers. It will promote the engagement of the private sector as an active voice in the discussion and design of services policy, and in the negotiations on services at both the regional and continental level. To better coordinate the work on services, the Services Development Programme outlines steps to be taken that would allow the AU DTI to liaise more effectively with the RECs and sets out a proposed communication strategy for services to improve available information and knowledge in this area.

The Six Pillars of the Programme are proposed as:

(a) Design of Sector Specific Strategies and regulatory frameworks for identified priority sectors
(b) Compilation of a regulatory audit and strengthening of regulatory frameworks for services in AU Member States, together with the mapping of regulatory institutions
(c) Identification of capacity building activities for AU Officials in services work
(d) Enhancement of private sector involvement in policy making and trade liberalisation
(e) Development of an information and communication strategy for AUC DTI
(f) Identification of channels to improve coordination between AUC-DTI and RECs on the work of services.
Within each pillar a series of steps and programme activities will be promulgated at the continental, regional and national level. The Programme can be customised for a regional or national services development. The AUC-DTI looks forward to the assistance of its partners in further refining and implementing the Programme.