

Workshop on trade in services negotiations in the CFTA

The role of services in Africa's economic transformation and trade

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Services support the growth of other sectors and create much-needed jobs

Services are key inputs to other businesses

- Energy, telecommunications, transportation, financial services, construction, legal and accountancy services are essential for firms to be competitive.
- According to the OECD, as much as 30% of value added of the manufacturing sector's exports is accounted for by services inputs.
- Example: evidence shows that Africa's ICT boom has strongly contributed to the continent's growth.
- Health, education, water and sanitation are essential for social development.

Services are labour-intensive:

- Over the past decade, the movement of workers in Africa has been out of agriculture and into services, not manufacturing.
- Over 2000-10, agriculture labour share fell by about 10% while services grew by 8%.
- In the 10 African countries with data for 2010-12, services employed around 50% of the workforce, with peaks such as 65% in Mauritius and 63% in South Africa.
- Services can have a role in Africa's growth not only by supporting local industries but by creating a large number of quality jobs.

Services attract investments and business

Services are a magnet for FDI and private equity in Africa.

- A thriving services sector is essential for attracting investors as it allows them to source the support services they need locally.
- In 2013, 64% of greenfield FDI projects in Africa (over 34,000) were in services. Investments targeted construction, utilities, business services and telecommunications.
- 40% of FDI into Africa in 2012 were in services, compared to 24% in 2011.
- Hotels and restaurants were one of the most promising sectors attracting FDI in Africa over 2013-15.
- Private equity (PE) in Africa is particularly attracted by services: in 2012, the 4 most popular sectors for PE in Africa were reportedly business services, information technology, industrial products and telecom, media and communications.

Services contribute significantly to Africa's GDP.

Services account for more and more of Africa's GDP

- Between 1995 and 2011, services accounted for 62% of growth in GDP p.c. in Africa, compared to 24% for industry and 13% for agriculture
- Currently, all African countries for which data are available export services.
- Africa's exports of services increased from US\$ 55.1 billion in 2004 to US\$ 79.5 billion in 2014.
- The growth of the services sector tends to go hand in hand with GDP growth: in richer economies services tend to account for higher shares of economic activity.
- Africa's growth in services output over 2000-12 was higher than the world average and faster than that of several other regions.

However, Africa remains a small player in services

- The growth of Africa's services should be seen in the context of increasing trade in services globally.
- Africa's share of global services exports actually decreased between 2004 and 2013.
- The 13% share of services in Africa's total exports in 2013 looks low when compared to other regions: in 2013 services accounted for 37% of US's exports, 31% of India's, 26% of Europe's, 17% of China's.
- Nonetheless, the rise of the services sector in Africa is undeniable.

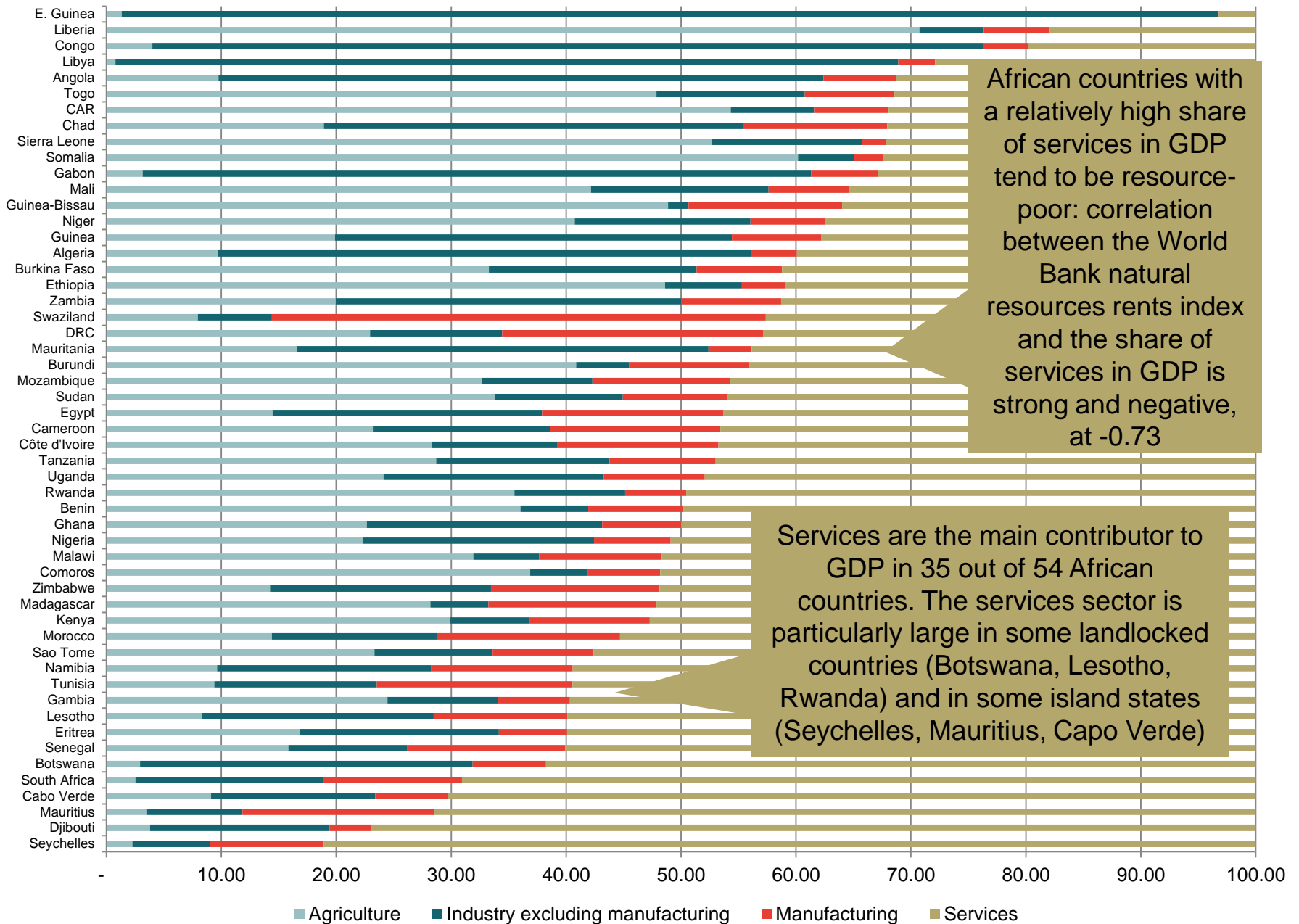
Services growth is strongly correlated with GDP and manufacturing growth across Africa

Growth in services VA is strongly correlated with GDP growth. Only growth in agriculture VA has a stronger correlation with GDP growth in Africa.

Growth in services VA is strongly correlated with growth in GDP p.c. – more than growth in VA in any other sector.

Correlations	Growth in services VA	Growth in industry VA	Growth in manufacturing VA	Growth in agriculture VA
GDP growth	0.86	0.70	0.81	0.90
Growth in GDP p.c.	0.87	0.67	0.80	0.86
Growth in services value added		0.52	0.85	0.68

Growth in services VA is highly correlated with growth in manufacturing VA in Africa: strong synergies between the two sectors.



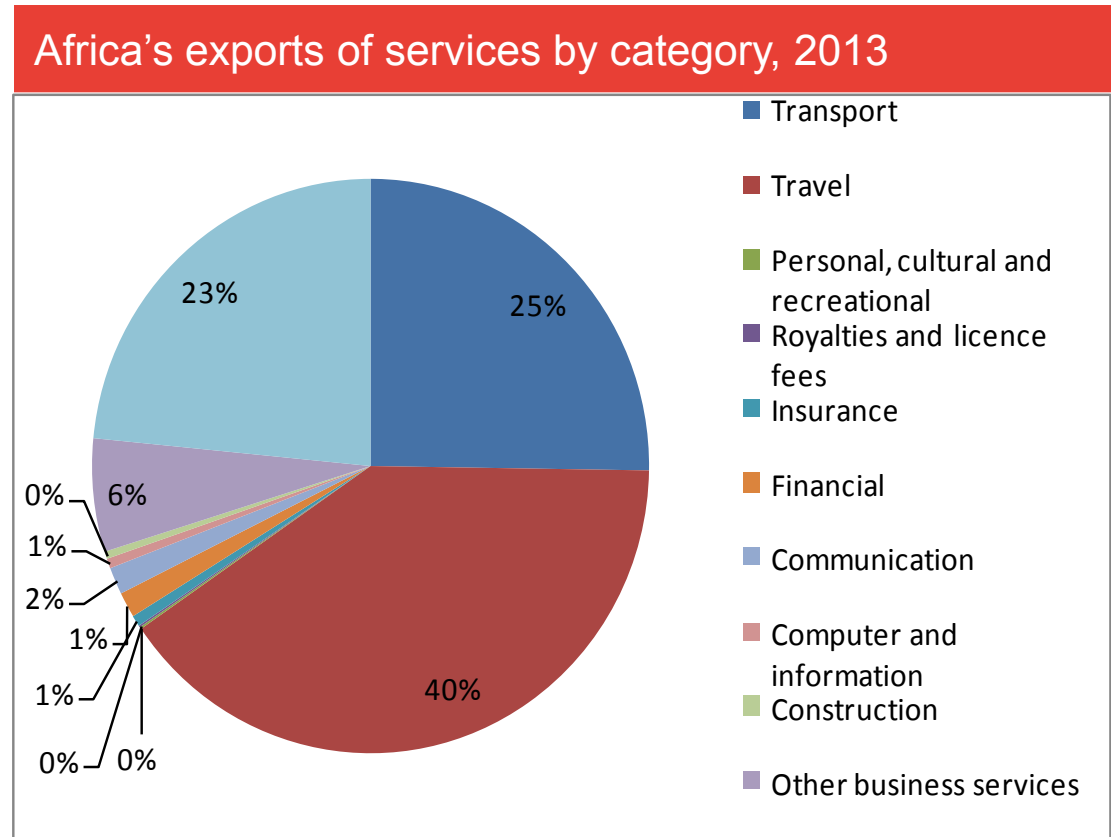
Source: ECA analysis of ASYB 2013 data

But has the growth of services in Africa gone into highly productive ones that support local SMEs?

- India's growth pattern suggests that a shift into high-productivity services, bypassing manufacturing, represents a possible path to sustainable growth, provided that high-value services lead the shift. In 2013, 31% of India's exports were services.
- However, for most African countries, the growth in services is driven by low-productivity activities such as informal and scarcely tradable services (mom & pop services shops) – although the scarcity of data on services sub-sectors makes it difficult to conduct a precise assessment.
- Services exports have gone down as a percentage of Sub-Saharan Africa's GDP between 2009 and 2012, indicating that growth is taking place mostly in services that are not traded.
- Moreover, most service sector jobs in sub-Saharan Africa are informal and tend to go unrecorded.
- African countries need to find ways to guide the shift towards high-productivity and tradable services.

Africa's exports of services are mostly travel and transport: tourism is important for the continent.

- Directly and indirectly, tourism accounts for a large share of Africa's GDP - 10% of GDP in Africa excluding North Africa - and pays the salaries of millions of people.
- The industry is worth about \$170 billion a year. In 2013 more than 36 million people visited Africa, a figure that had been growing by 6% per year.
- Increases in tourism were largely made possible by improved aviation services.



Source: ECA analysis of International Trade Centre data 2013.

- However, tourism remains below potential due to transport bottlenecks, insecurity, low quality of services, lack of investments, expensive aviation and scarce and costly accommodation in capital cities.

Services can foster economic diversification

When Nigeria's national accounts were adjusted, the share of services in Africa's largest economy almost doubled.

- Services contributed to more than 50% of Nigeria's GDP growth over 2010-13.
- This was much more than the contribution from the resources sector, contradicting the stylised fact that Nigeria's economy is mainly driven by oil.
- Over 2009-13, the services sector received 51% of FDI inflows into Nigeria, up from 12% over 2004-08.
- Services are a valid option for economic diversification.

Rwanda aims to transform its economy through its services sector.

- Rwanda is landlocked, resource-poor and with expensive inputs due to tariff and non-tariff barriers in EAC. As a result, manufacturing is a difficult option for the country's transformation.
- Technology and outsourcing enable services to overcome geographical constraints.
- Tourism, finance and I.T. have been driving growth: service exports recorded annual growth rates of over 10% between 2005 and 2012.
- Vision 2020 aims to make services the largest contributor to GDP, overtaking agriculture by 2015.

Adequate policies can ensure that growing services support Africa's SMEs.

Example: Mozambique's financial sector has boomed, but serves predominantly mining mega-projects

- Mozambique's fastest growing sectors in 2013 were mining, propelled by a boost in coal exports, and finance.
- However, major banks are largely positioning themselves to service corporate and investment banking opportunities emanating from the large resource projects and in major firms, rather than SMEs and retail customers.
- This is evident in the divergence between the prime lending rate - the rate at which banks lend to their most creditworthy customers, (i.e. large corporates) - and the average 2-year lending rate.
- Interest rates remain high, at around 8.25% and reach peaks of 20% and over for small debtors.
- The World Bank's 2013-14 Global Competitiveness Report, which ranked Mozambique 137th out of 148 countries, found access to finance to be the most significant constraint to business growth in the country.
- **Adequate policies are needed to ensure that local SMEs benefit from the growth in financial and other business services across the continent.**

Underlying mega-trends in Africa will favour ever more efficient services

A rapidly urbanising continent needs efficient services.

- By 2040, more than 50% of Africans will be city-dwellers and 20 African cities will be mega-cities.
- A rising middle-class will drive demand for high-quality services.
- Many African countries will graduate into middle-income status by 2030: a more stable and prosperous Africa will favour services development.

Africa aims to increase the continent's trade integration over the coming years, facilitating the creation of regional value chains in services.

- Regional and continental trade agreements such as the TFTA and CFTA will make African markets more and more interconnected.
- Services are becoming more and more an integral part of these agreements.
- Other innovations such as a single African aviation market, high-speed railways connecting African capitals and better infrastructure will make it easier for the continent to trade, exchange and pool resources.

Services hubs and regional value chains can help African countries exploit each others' capabilities

- Some policy actions at the regional level can support the development of services value chains in Africa:
 - Facilitation of the movement of skilled workers;
 - Sector regulation that promotes healthy competition, especially in telecoms;
 - Trade policy that does not overprotect the local services sector;
 - Common investment regimes, improvements in technical interoperability, mutual recognition and global standards conformity;
 - Accelerate regional integration in financial services to create larger consumer markets for African banks and promote efficiency in the sector
 - Efficient ICT infrastructure and high ICT compatibility across the region;
 - Hubs of excellence in services, such as software and high-tech parks, that can facilitate the sector's development;
 - Inclusion of services in regional and continental free-trade agreements.
- Some countries, such as Kenya and Rwanda, are already well positioned to become services hubs in their respective regions.