



United Nations
Economic Commission for Africa



Services trade and African integration

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Structure of the presentation

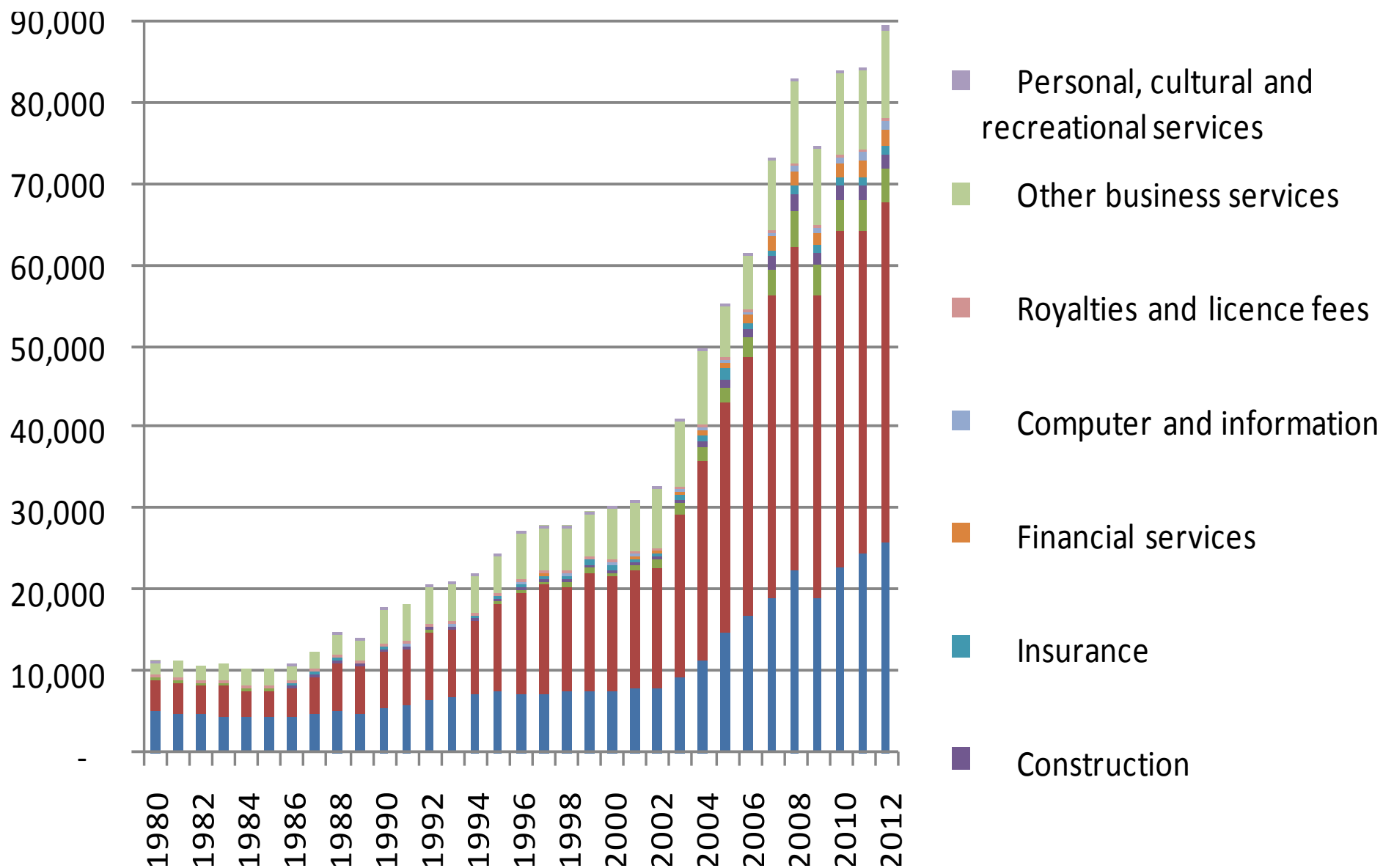
1. Trends in services in Africa
2. Benefits of a strong services sector
3. Barriers to African services trade
4. Policy recommendations

Services' role in Africa's economy

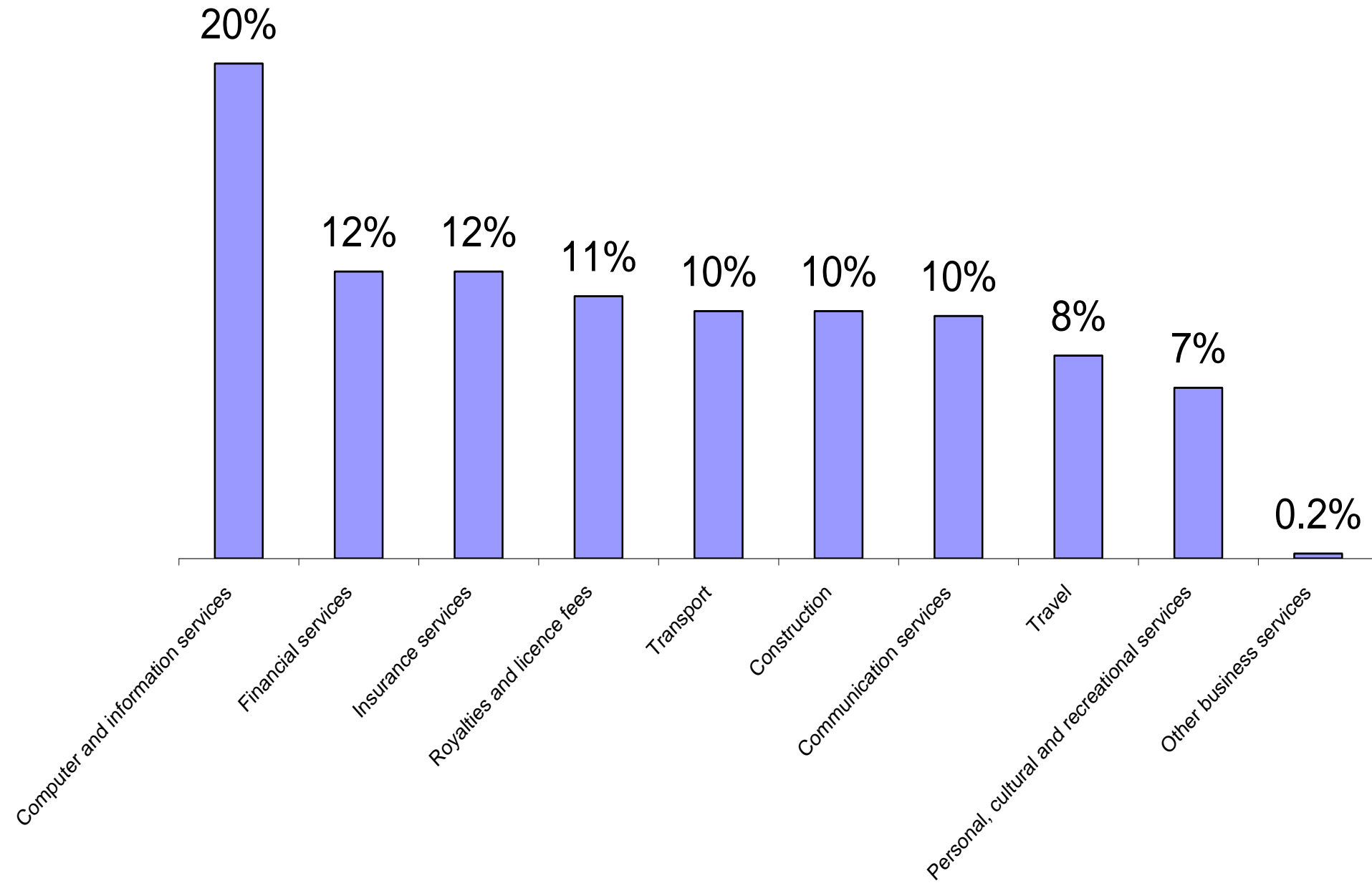
Services make an important contribution to GDP in Africa.

- Services are:
 - over 50 % of African output
 - fastest growing sector in Africa by far
- Accounted for 70% of the number of investment projects in Africa in 2012, including ICT (14%) and finance (13%)

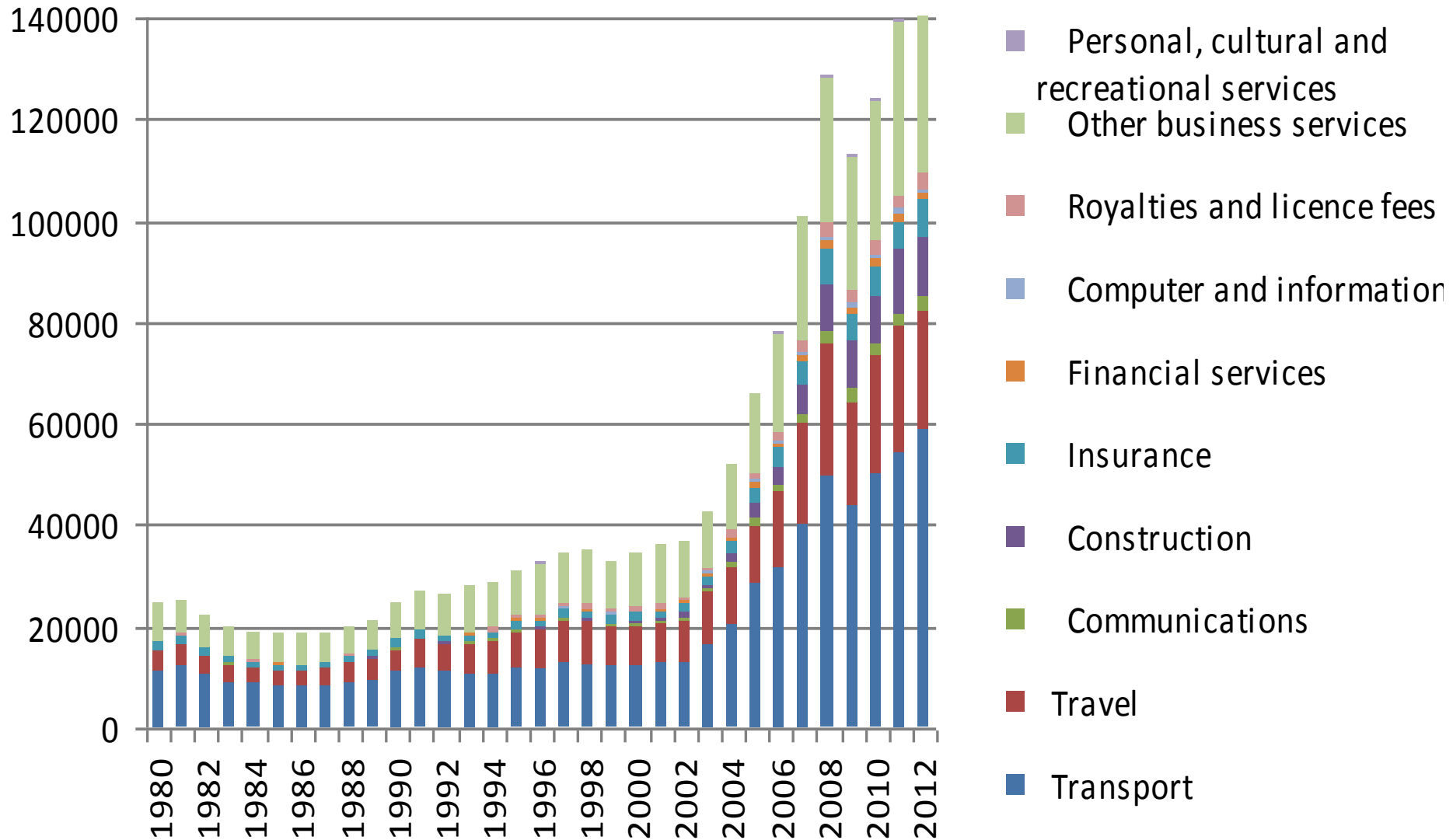
Africa's exports of services, 1980-2012, \$million



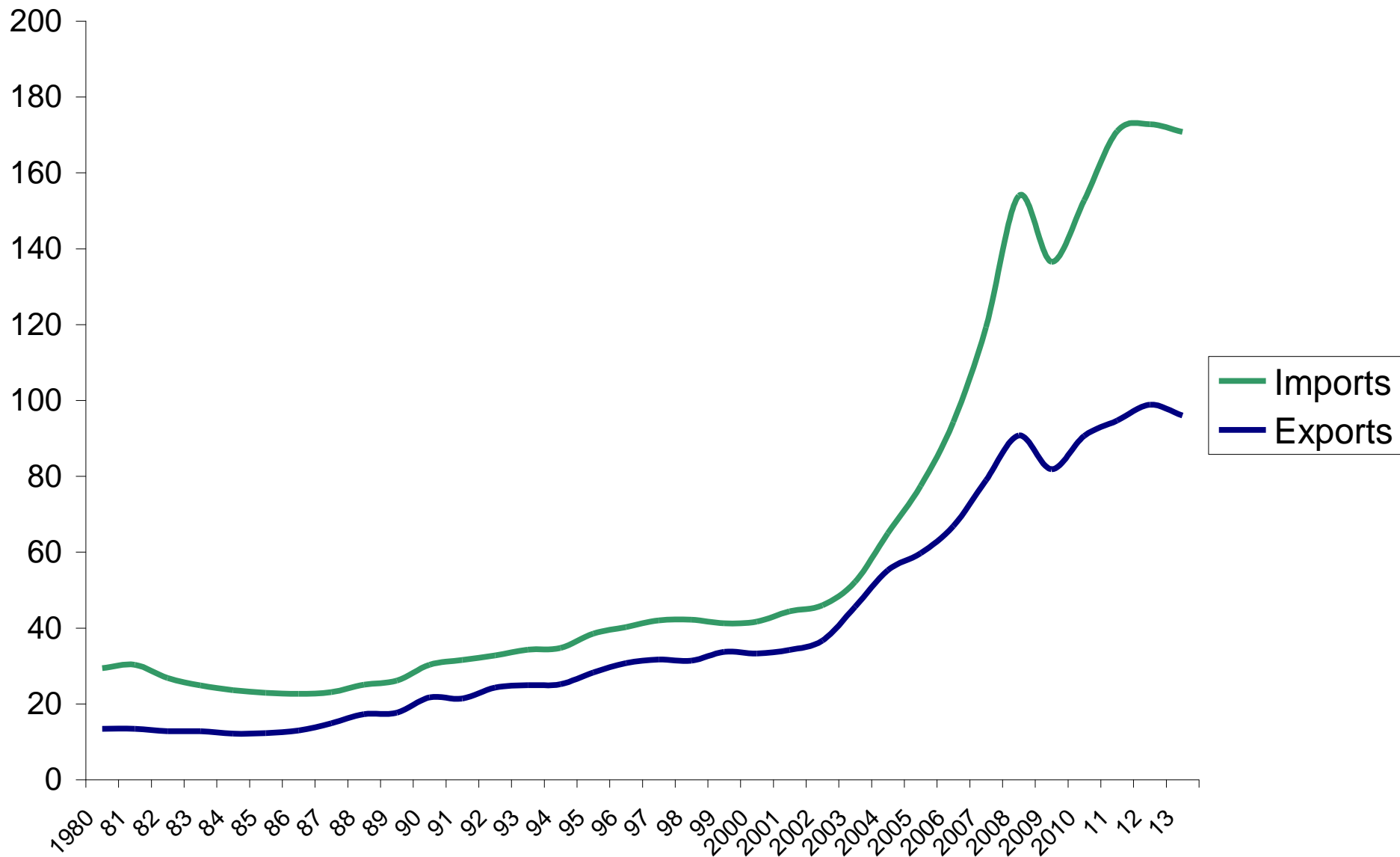
Growth in African service sectors 2000-13



Africa's imports of services, 1980-2012, \$million



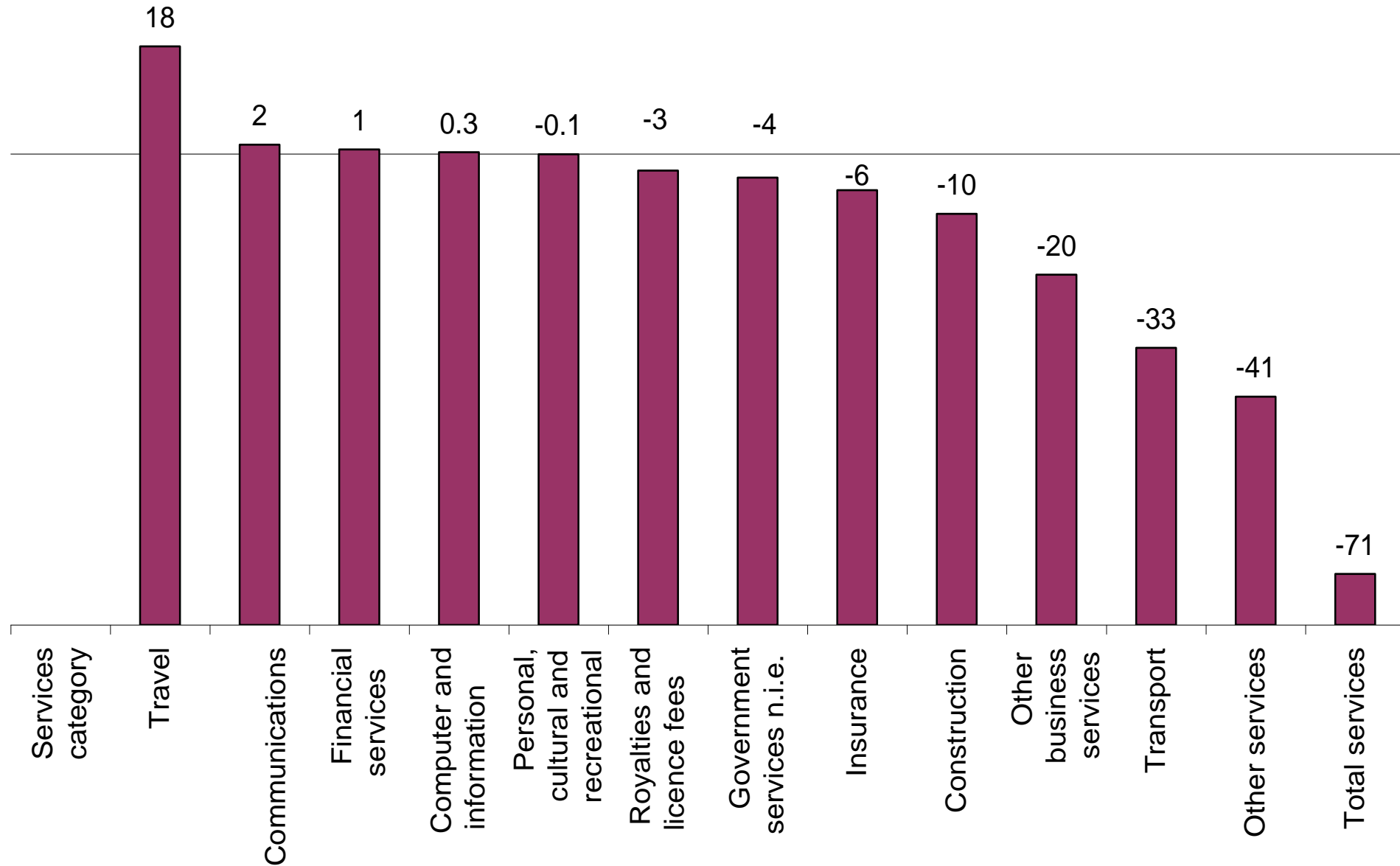
Africa's services imports and exports, 1980-2013, \$billion



Services are crucial for Africa's participation in GVCs

- Services hub and value chains on the continent can improve Africa's competitiveness and participation in Global Value Chains (GVCs)
- Trade integrated regions are more attractive to lead firms in GVCs
- GVCs participation can boost regional value chains as happened in East and Southeast Asia (Valensisi and Lisinge, 2014)
- African regions most integrated in GVC also show highest Regional Value Chains (RVC) integration

Africa's trade balance in services, 2012



Potential for intra-African services trade

Currently a net importer

- Net imports of \$75bn in 2013
- Includes \$38bn net imports in transport
- Total services imports \$170bn
- \$75bn to \$170bn that could be captured by African services firms?
- Success stories of liberalization > trade: mobile phone sector, banking

Potential for intra-African services trade

Regional value chains in services

- Intra-African trade in services can increase business competitiveness (specialization, economies of scale)
- Botswana, Kenya, Morocco, Rwanda and Tunisia already services hubs in their region.
- Includes IT services (e.g. Kenya), finance, education (e.g. South Africa, Tunisia), health, construction

Barriers to intra-African services trade

- Free movement
- Essential for delivery of services on-site (mode IV)
- Facilitated through REC free movement of persons protocols but only 60% ratification (in 8 AU RECs)
- Transport (e.g.)
- REC-level frameworks harmonizing transport regulation
- COMESA, EAC, ECOWAS, SADC have strong intra-regional transport facilitation
- Challenges:
 - e.g. ECOWAS ISRT: incomplete implementation, lack of regionally accepted guarantee
 - Weakness in hard infrastructure
 - Air transport – insufficient implementation of Yamoussoukro

Source: Valensisi and Lisinge, 2014

Restrictions on intra-African services trade

Transport (contd)

- Few African countries signed 1975 Geneva Customs Convention, except North Africa
- Regulatory reform and trade in services agreements (e.g. CFTA) could boost intra-African transport trade
- Source: Valensisi and Lisinge, 2014

Efforts to address

- COMESA Regulations on Trade in Services, EAC agreement to liberalize, ECOWAS Treaty provisions on cross-border capital flows
- Implementation? E.g. transport challenges in East Africa (lack of harmonization)

Infrastructure services are key for facilitating intra-African trade

- Trade in goods must go through transport system
- BUT African transport networks of poor quality causing trade high costs
- Import of standard container takes average 35 days and costs > \$2,700
- Export takes around 30 days and costs ~ \$2,000
- Intra-African trade costs often higher than those with rest of world
- (source: Valensisi and Lisinge, 'Trade Facilitation from an African Perspective', 2014)

Transport services

- Intra-African trade costs 330% of ad-valorem equivalent (Ibid)
- Very high inland transport costs for African LLDCs (in some cases 70% of total cost) (Ibid)
- Literature unanimous that lower trade costs boost trade performance (Ibid)

Policy recommendations for intra-African services trade

- Improving transport infrastructure
- Establish a national production network (business environment) to include more countries and SMEs: Increase linkages to other areas of the economy
- Reduce costs of trading
- Policymakers need to improve incentives for the emerging services sector to support local firms and not only large FDI or companies in the mining sector

Policy recommendations (contd)

- National policies have to be complemented by strong regional policies:
- Competitive logistics and convergence in regulatory policies

Policy recommendations (contd)

- Liberalisation of trade in services can help African businesses to benefit from each other's expertise and increase their competitiveness.
- But liberalization not always good
- Which policies are successful seem to vary by sector
- Forthcoming ECA-AUC research on **infrastructure services** examines hundreds of different policies
- Industrial policy often depends on right institutions

Examples from research

Successful policies in infrastructure services

- Min number of national board directors required (but NOT resident)
- Obligation to inform of reason for licence rejection

Further recommendations

Banking

- Consistent licensing criteria for domestic/foreign banks
- No min % of national board directors required

Aviation

- License required
- License criteria publicly available
- Nationality requirement for board of directors

Telecoms (fixed and mobile)

- First-come, first serve licensing
- Obligation to inform applicants within required timeframe
- Right to appeal regulatory decisions
- Spectrum use publicly available (mobile)
- No foreign controlling stake in domestic mobile firms

Maritime auxiliary services

- Acquisition of public/private entities allowed
- Greenfield branch or subsidiary allowed
- Joint ventures allowed
- Licensing through public tender
- Domestic or foreign ships
- No maximum time for licence decision

Shipping

- License required & criteria publicly available
- Nationality requirement for directors
- No max number of days before decision

Rail freight

- License criteria

Conclusion

- Services largest sector in Africa's economy and increasing its share
- Potential for great intra-African trade in services
- Services trade also promotes trade in goods
- >promotes efficiency (specialization and economies of scale), supporting
 - Industrialization, which can develop regional value chains
 - (contd on next slide)

Conclusion (contd)

- Access to global value chains, which can boost regional integration (as in East and Southeast Asia)
- More efficient trade-supporting services within Africa (e.g. transport, communications, trade finance) can boost intra-African trade
- Regulatory reform needed to capture potential though some success already
- However, cautious approach to liberalization – sector-by-sector, policy by policy

Conclusion (contd)

Thank you for your attention!

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