Chapter 2

Trade in services: A niche for export diversification in Africa

African exports remain concentrated in a narrow range of commodities, with, however, some level of export diversification in a few African countries during the past decade. The role of services in enhancing the diversity and quality of manufactured goods and in facilitating this process at the regional level becomes clearer when the linkages of services as inputs in the production and export of manufactured goods and commodities are considered. This chapter examines the level of services development and trade in Africa to assess its impact on diversification. The latter is premised on the assumption that the higher the development of the services sector as reflected by diversity and quality of the traded services, the better the access to competitive key services inputs by domestic firms (Hoekman and Shingal, 2020).

Although the role of services in trade and development is well established for most regions, little research has been done to underscore its importance in contributing to trade and development of Africa. Services play a critical role in global and regional value chains and international trade. They represent the main source of value added in total trade, as they contribute to the physical and digital connectivity of all sectors within and across economies (Roy, 2017). Moreover, many services are major inputs to production across economic sectors and represent key value chains in most economies globally (Deardorff, 2001; Hoekman and Shingal, 2020; Hollweg and Sáez, 2019; UNCTAD, 2017c). The development of trade in services enhances inclusive growth by reducing poverty and inequality and fosters the achievement of Agenda 2063 and the Sustainable Development Goals. Services promote the efficient allocation of resources and greater economies of scale, increase consumer welfare and decrease youth unemployment, creating welfare gains for society (World Trade Organization, 2019). Moreover, development of the services sector will be important to diminish the vulnerability of developing economies through inclusive productivity growth, since it encourages intellectual property-based innovation, technology transfer and know-how.

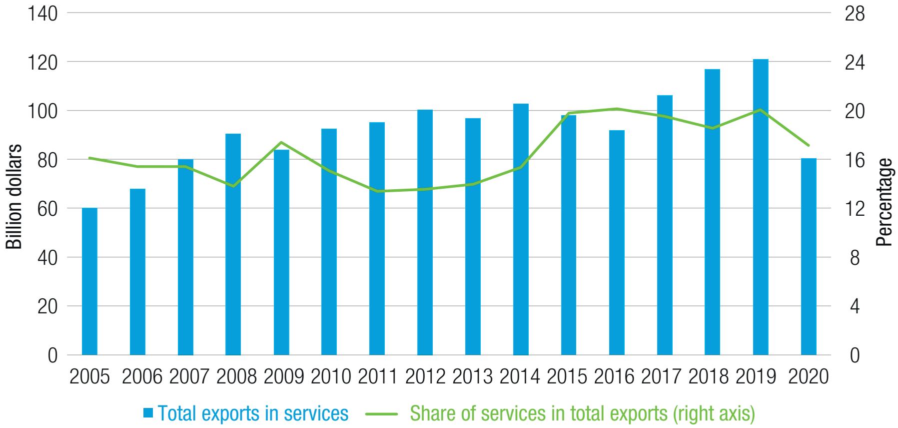
2.1 African services and exports

There is limited literature on the diversification of trade in services in Africa. Keller (2019) finds that trade in services has suffered from disruption. Based on data from 2018, the author states that the continent accounts for only 2 per cent of global services exports and African services exports are largely dominated by travel (42 per cent). In comparison, high-income countries rely mostly on high-knowledge intensive services, such as financial, business, insurance or intellectual property services. According to Hoekman (2017), however, there are already substantial levels of trade in services in Africa, where such trade is dynamic and regionally focused but there is a need for diversification in the sector. Contributing to this research strand, this section provides an in-depth analysis of static and dynamic exports diversification in services in African countries.

Africa doubled its services exports from 2005 to 2019, reaching $124 billion in 2019, and accounting for 17 per cent of total exports on average during the same period (Figure 19). The sharp drop in services exports in 2020 (to $82.7 billion) was primarily due to the restrictive measures put in place to contain the spread of COVID-19 pandemic, which affected all sectors of the economy, mainly transport and travel. While the share of services in total exports has followed a similar upward trend between 2005 and 2019, increasing by 4.1 percentage points, there are troughs worth noting in 2008, 2010–2011

Figure 19

Services exports in Africa, 2005–2020



Source: UNCTAD calculations, based on data from the UNCTADstat database.

and 2016–2018, which can be partly explained by the impact of the 2008–2009 global financial crisis and the 2014-2016 energy crisis, which resulted in commodity price shocks and contributed to declines in global trade. At the disaggregated level, there are some disparities in the share of services in total exports across African countries. Only eight countries export more services than goods: Cabo Verde, Central African Republic, Comoros, Ethiopia, the Gambia, Mauritius, Sao Tome and Principe, and Seychelles.

African services exports are concentrated in two traditional services sectors – travel and transport – representing more than two thirds of total trade in services (Figure 20).[23] In this report, services sectors are clustered into 12 categories, grouped as traditional,

Exports in services are concentrated in traditional services

[23] Based on the two-digit level of the 2010 Extended Balance of Payments Services Classification.

high knowledge intensive and non-market sectors. Traditional services include transport, travel, and maintenance and repair services. High knowledge-intensive services are defined as services activities and operations that are heavily reliant on professional and high skill knowledge. They include manufacturing and repair services; construction; insurance and pension services; financial services; telecommunications, computers and information services; personal, cultural and recreational services; charges for use of intellectual property; and other business services. Government goods and services are non-market services and include public administration services, community services and health and education services. In Ethiopia, where services account for 59 per cent of total exports, transport and travel services are the leading segment. Transport services are dominated by the national air transport company, Ethiopian Airlines, which contributed to 5.7 per cent of GDP in 2020 and provides direct and indirect employment to about 1.1 million persons (International Air Transport Association, 2020). In Cabo Verde, where the share of services in total exports (90 per cent) is the highest in Africa, trade in services contributed to 55.6 per cent of GDP in 2019 (see https://databank.worldbank.org/reports.aspx?source=world-development-indicators (accessed 1 May 2022)). These services consist of travel (including tourism and related services), which represented more than 55 per cent of total exports in services from 2015 to 2019.

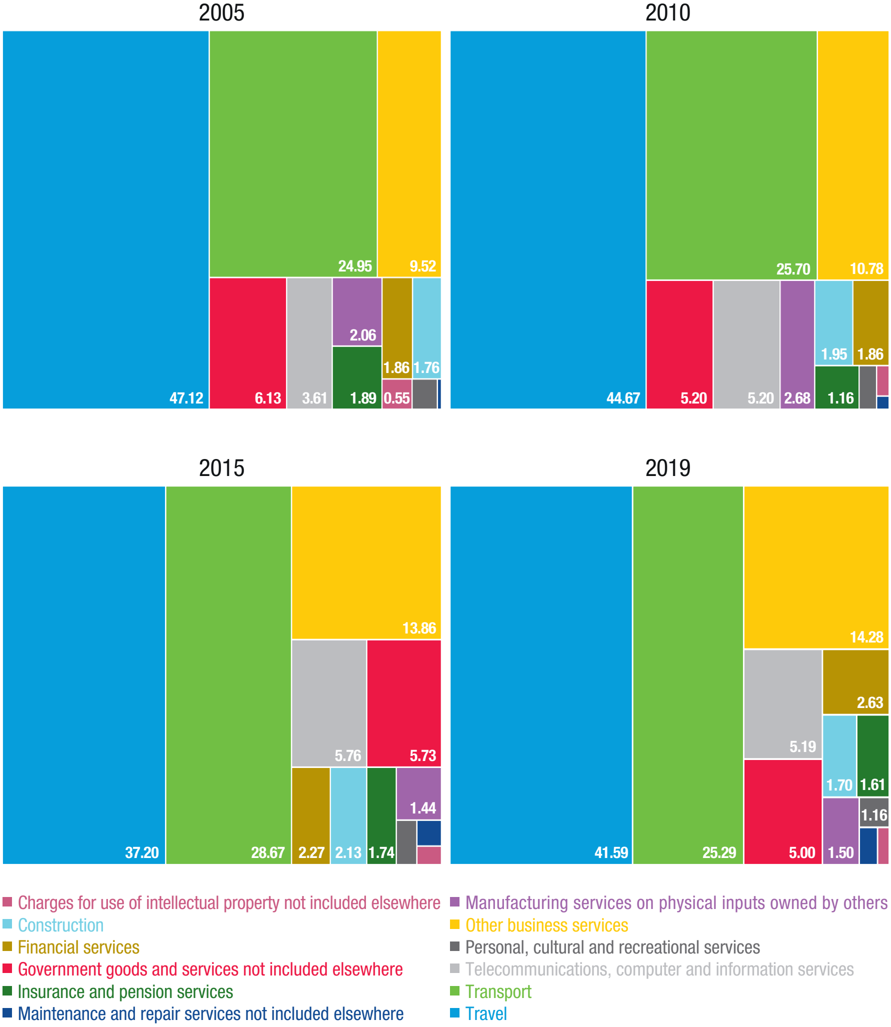
UNCTAD (2021b) found that African services exports within the region and with the rest of the world are largely made up of traditional services (about 70 per cent). High knowledge-intensive services, which include eight of the 12 services categories, represent only 20 per cent of total services exports in Africa. According to Dihel and Goswami (2016), traditional services dominate trade in services in Africa because of the fragmentation of trade in professional, education and health services stemming from restrictive policies. These include nationality requirements, regulatory heterogeneity for licensing, qualification and educational qualification requirements, and the high cost of travel and visas. Sáez et al. (2015) show that trade barriers, regulatory requirements and immigration policies limiting the movement of persons across national borders discourage trade in professional services.

African countries with a small share of services in total exports are mostly fuel or mining commodity-dependent countries. For example, in the Democratic Republic of the Congo and Libya, the share of total services exports is less than 1 per cent. In Algeria, Angola, Chad, the Congo, Côte d’Ivoire, Equatorial Guinea, Eswatini, Gabon, Guinea, Lesotho, Liberia, Mauritania, Namibia, Nigeria and Zimbabwe, exports in services account for less than one tenth of total exports. Among those countries, Eswatini and Lesotho are non-commodity dependent, while Côte d’Ivoire is an agricultural commodity-dependent

Figure 20

Share of services sectors in total services exports, 2005–2019

(Percentage)



Source: UNCTAD calculations, based on data from the Balanced Trade in Services database of the Organisation for Economic Co-operation and Development and the World Trade Organization.

country. Estimates show that in more than half of all African countries, the share of services in total exports is less than 15 per cent. To provide a better understanding of the small share of services in overall trade or the high concentration of low knowledge-intensive services sectors in services exports, this section will focus on the diversification of services exports.

Assessing the diversification of services exports in Africa

Given the modest share of services in overall trade or the high concentration of low knowledge-intensive services sectors in the services exports of Africa that may be acting as barriers to the effective utilization of services as inputs to manufacturing or agriculture sectors, this section will be devoted to the dynamics of services sectors and their potential role for export diversification in Africa. The literature has used several indicators to measure such diversification. These indicators include the share of the top three services sectors in total exports in services, the Theil index, the Herfindahl–Hirschman index, the Gini index, the export market diversification index and the diversification index of Hausmann and Hidalgo (2011). In this report, the shares of the top three services sector and the Theil index are used to measure the diversification of services exports in African countries. Such diversification can be assessed by using two methods. The first is a static assessment, which determines whether the exports in services in a country are diversified or concentrated, based on the most recent year for which disaggregated data of trade in services are available. The second is a dynamic assessment, which considers the evolution of the distribution of services categories in trade in services and establishes whether a country is moving towards diversification or disruption.

Static assessment

In the static assessment approach, trade in services is considered diversified when the share of the top three services sectors is less than 70 per cent, and concentrated when greater than 90 per cent. Table 2 provides the static and dynamic assessments of diversification in African countries from 2005 to 2019. In five countries (Burkina Faso, Kenya, Malawi, Senegal and Sierra Leone), the top three services sectors represent less than 70 per cent of total exports in services. As mentioned previously, exports in services remain dominated by travel and transport in most African countries, except in a few countries such as Malawi, where the primary services sector is telecommunications, representing one fourth of total exports in services. Figure 21, illustrating the share of the services sectors in total exports in services, shows that at least six services are significantly represented in the distribution thereof in these countries.

Table 2

Static and dynamic diversification status of African countries, 2005–2019

Diversification status as per dynamic assessment	Trend in variation (share of high knowledge-intensive services)	Countries	Diversification status as per static assessment, 2019	Variation in Theil index	Variation in top three services sectors	Variation in exports in high knowledge-intensive services	Variation in share of high knowledge-intensive services
				(percentage)			
Diversified (Theil Index decreased by more than 20 per cent)	Increasing	Sierra Leone	Diversified	-62.2	-33.5	> 200	37.4
		Burkina Faso	Diversified	-61.6	-35.3	> 200	29.9
		Malawi	Diversified	-51.0	-30.4	> 200	47.9
		Kenya	Diversified	-47.2	-31.4	> 200	27.7
		Nigeria	Top three services sectors[a]	-45.2	-19.8	> 200	19.3
		Namibia	Top three services sectors[a]	-44.1	-8.9	> 200	20.9
		Guinea	Top three services sectors[a]	-36.7	-20.8	> 200	65.3
		Rwanda	Top three services sectors[a]	-22.8	-10.2	> 200	7.1
		Uganda	Top three services sectors[a]	-21.8	-9.1	> 200	0.2
		Eswatini	Top three services sectors[a]	-44.9	-15.0	-62.4	13.0
Weakly diversified (Theil index decreased by less than 20 per cent)	Increasing	Morocco	Top three services sectors[a]	-17.9	-2.1	130.6	3.1
		South Africa	Top three services sectors[a]	-15.2	-4.8	90.2	9.0
		Cameroon	Top three services sectors[a]	-15.0	5.2	> 200	11.1
		Tunisia	Top three services sectors[a]	-12.2	-4.1	61.8	5.8
		Botswana	Top three services sectors[a]	-9.6	-2.3	45.8	7.7
		Niger	Top three services sectors[a]	-8.0	-1.9	> 200	5.2
		Togo	Top three services sectors[a]	-6.5	5.8	> 200	9.2
		Zimbabwe	Top three services sectors[a]	-6.4	-4.9	100.9	4.5
		Burundi	Concentrated	-12.5	-4.5	> 200	7.5
		Equatorial Guinea	Concentrated	-9.9	-6.0	> 200	30.0
		Djibouti	Concentrated	-9.0	-0.4	> 200	4.7
		Zambia	Concentrated	-4.0	-2.2	> 200	10.6
		Benin	Concentrated	-0.7	6.9	155.5	4.6
	No variation	*Eritrea*	*Top three services sectors*[a]	*-1.4*	*-1.8*	*> 200*	*0.0*
		Chad	*Top three services sectors*[a]	*0.0*	*0.0*[b]	*> 200*	*0.0*
	Decreasing	***Senegal***	***Diversified***	***-7.2***	***2.0***	***77.1***	***-1.9***
		Guinea-Bissau	***Top three services sectors***[a]	***-13.2***	***-5.7***	***> 200***	***-5.9***
		Congo	***Top three services sectors***[a]	***-3.2***	***-5.4***	***-94.0***	***-51.3***
		Sudan	***Concentrated***	***-9.4***	***3.6***	***> 200***	***-0.7***

Table 2

Static and dynamic diversification status of African countries, 2005–2019 *(cont.)*

Diversification status as per dynamic assessment	Trend in variation (share of high knowledge-intensive services)	Countries	Diversification status as per static assessment, 2019	Variation in Theil index	Variation in top three services sectors	Variation in exports in high knowledge-intensive services	Variation in share of high knowledge-intensive services
				(percentage)			
Disrupted (Theil index increased)	Increasing	Mauritius	Top three services sectors[a]	0.1	-4.8	121.5	4.6
		Algeria	Top three services sectors[a]	11.0	-1.1	55.5	11.7
		Lesotho	Concentrated	0.2	4.4	26.4	5.5
		Seychelles	Concentrated	2.4	4.4	> 200	26.2
		Ghana	Concentrated	10.1	2.3	> 200	72.3
		Mali	Concentrated	14.1	13.1	> 200	12.8
		Liberia	Concentrated	18.1	1.3	177.1	79.7
		Libya	Concentrated	20.3	11.0	16.0	51.5
	No variation	*Gabon*	*Concentrated*	*57.6*	*30.8*	*182.7*	*0.0*
		Central African Republic	*Concentrated*	*0.0*[c]	*0.0*	*> 200*	*0.0*
	Decreasing	***Mauritania***	***Top three services sectors***[a]	***3.7***	***4.4***	***78.4***	***-13.8***
		Egypt	***Top three services sectors***[a]	***11.8***	***-0.6***	***-4.7***	***-8.6***
		Côte d'Ivoire	***Top three services sectors***[a]	***72.0***	***33.1***	***-45.0***	***-29.7***
		Sao Tome and Principe	***Concentrated***	***1.9***	***5.2***	***80.3***	***-11.7***
		Gambia	***Concentrated***	***6.4***	***-0.8***	***60.2***	***-4.2***
		United Republic of Tanzania	***Concentrated***	***13.2***	***8.8***	***96.3***	***-5.3***
		Comoros	***Concentrated***	***15.5***	***4.2***	***104.3***	***-4.0***
		Madagascar	***Concentrated***	***15.9***	***10.3***	***99.2***	***-7.0***
		Cabo Verde	***Concentrated***	***25.9***	***4.5***	***61.0***	***-4.4***
		Ethiopia	***Concentrated***	***59.2***	***10.8***	***86.6***	***-9.2***
		Democratic Republic of the Congo	***Concentrated***	***1.3***	***11.8***	***-89.5***	***-25.2***
		Angola	***Concentrated***	***62.8***	***9.7***	***-39.5***	***-32.2***
		Mozambique	***Concentrated***	***71.6***	***16.9***	***-25.2***	***-20.4***

Source: UNCTAD calculations, based on data from the Balanced Trade in Services database of the Organisation for Economic Co-operation and Development and the World Trade Organization.

Notes: Owing to insufficient data, Somalia and South Sudan are not represented. The assessment does not go beyond 2019, as it is the most recent year for which disaggregated data of trade in services are available for all African countries.

[a] 70–90 per cent of total exports in services.

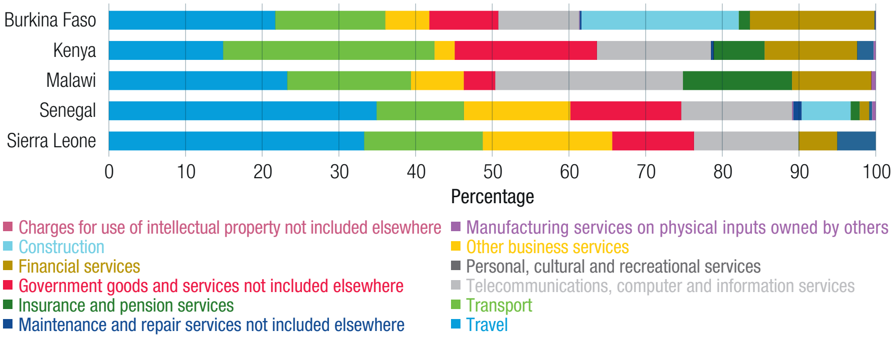
[b] -0.000012.

[c] 0.000011.

Figure 21

Share of services sectors in total exports in services in diversified services-export countries, 2019

(Percentage)



Source: UNCTAD, based on data from the Balanced Trade in Services database of the Organisation for Economic Co-operation and Development and the World Trade Organization.
Note: Top three services sectors share less than 70 per cent of total exports in services.

In 24 African countries, only three sectors represent more than 90 per cent of total services exports in 2019.[24] In Gabon and Ghana, for instance, research and development, professional and management consulting, and technical and trade-related services[25] dominate services exports, representing 81 per cent of Ghanaian services exports and 58 per cent of Gabonese services exports. Similarly, in Liberia and Libya, exports in services are concentrated in high knowledge-intensive services, such as insurance and pension services. In Burundi and the Central African Republic, government services, which are non-merchant services, accounted for 77 and 80 per cent of services exports in 2019, respectively. Figure 22, which indicates the share of the services sector in total services exports for those countries whose top three services sectors is greater than 95 per cent, shows how a few sectors dominate African trade in services.

On average, services accounted for only 17 per cent of total exports in Africa between 2005 and 2019. In 2005–2019, the top three services sectors represented

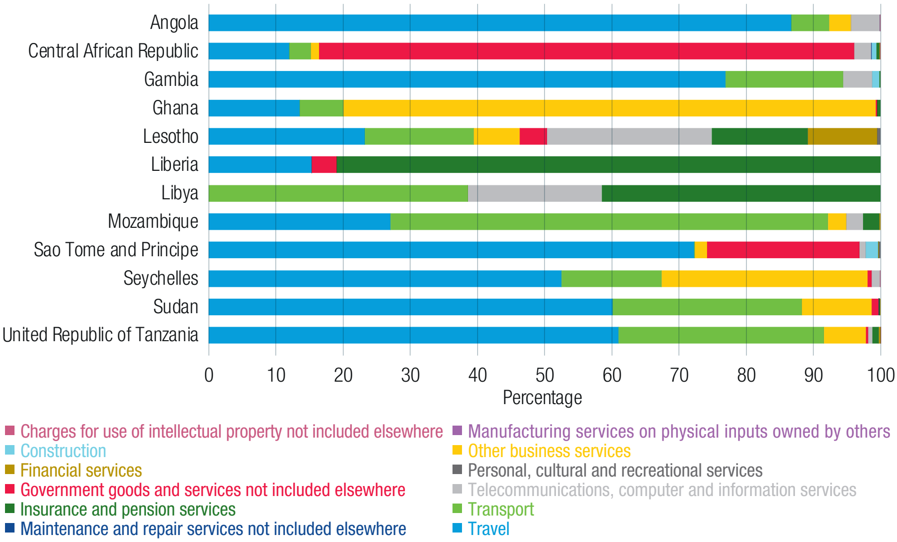
[24] These countries are Angola, Benin, Burundi, Cabo Verde, Central African Republic, Comoros, Democratic Republic of the Congo, Djibouti, Equatorial Guinea, Ethiopia, Gabon, Gambia, Ghana, Lesotho, Liberia, Libya, Madagascar, Mali, Mozambique, Sao Tome and Principe, Seychelles, Sudan, United Republic of Tanzania and Zambia.

[25] This group of services sectors is labelled “other business services” at the two-digit level of the 2010 Extended Balance of Payments Services Classification.

Figure 22

Countries with top three services sectors accounting for more than 95 per cent of exports in services, 2019

(Percentage)



Source: UNCTAD, based on data from the Balanced Trade in Services database of the Organisation for Economic Co-operation and Development and the World Trade Organization.

less than 70 per cent of total exports in services in five countries, namely Burkina Faso, Kenya, Malawi, Senegal and Sierra Leone. See box 9 for an insight into the case of Sierra Leone.

In Angola, the Gambia, Lesotho, Sao Tome and Principe, Seychelles, Sudan and the United Republic of Tanzania, transport alone represented more than 50 per cent of total exports in services. In Ghana and Liberia, high knowledge-intensive services dominate the services sector, accounting for about 80 per cent of their total services exports. These consist of other business services, in particular research and development, professional and management consulting, and technical and trade-related services (Ghana); and insurance and pension services (Liberia). Other countries whose exports in services are concentrated in high knowledge-intensive services sector are Chad (telecommunications, computer and information services), Eswatini (construction), Gabon (other business services – research and development, professional and management consulting, and technical and trade-related services), Guinea (manufacturing services) and Libya (insurance and pension services).

Box 9

Diversification of trade in services in Sierra Leone

Both static and dynamic assessments show that Sierra Leone is among the few African countries where exports in services are diversified. Yet, its exports in services were highly concentrated in the traditional services sectors (travel and transport), representing 97 per cent of total trade in services in 2005. In 2019, these traditional services sectors accounted for 49 per cent of total trade in services. Further, the country made considerable progress in increasing its exports of high knowledge-intensive services, from 3.2 per cent of total exports in services in 2005 to 40 per cent in 2019 (Box figure 9.I). Box figure 9.II shows that exports of high knowledge-intensive services in Sierra Leone were concentrated in telecommunications, computer and information services between 2011 and 2016.

Figure 9.I

Sierra Leone: Composition of exports in services, 2005–2019

(Percentage)

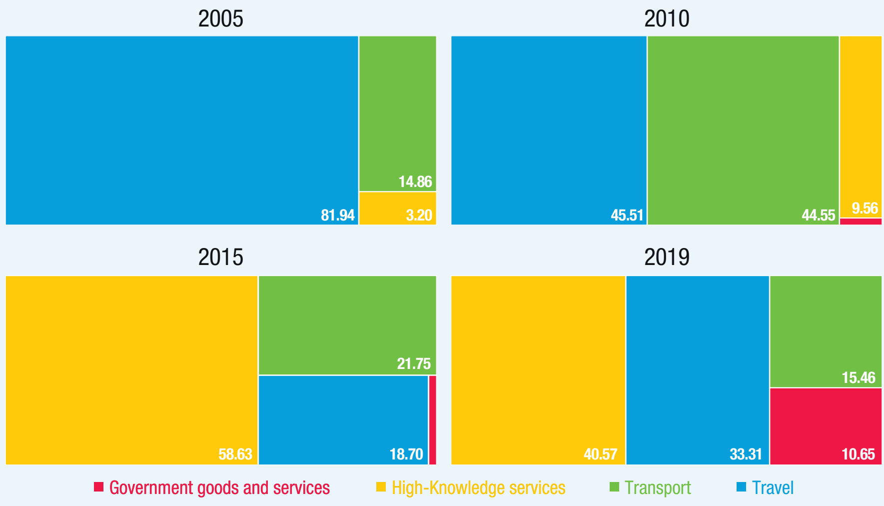


Figure 9.II

Sierra Leone: Exports of high knowledge-intensive services, 2005–2019

Source: UNCTAD, based on data from the Balanced Trade in Services data set of the Organisation for Economic Co-operation and Development and the World Trade Organization.

Sierra Leone experienced a civil conflict from 1991 to 2002, during which its main infrastructures were destroyed. In particular, high knowledge-intensive services, especially telecommunications, computers and information, suffered massive damages and deterioration after the conflict and lacked funding to carry out substantial investments in repairs, maintenance and new developments. However, in 2009, the country implemented a national Information and communications technology (ICT) policy that drew from three main sources: its poverty reduction strategy paper, Vision 2025 and the Millennium Development Goals. The policy was also in line with the ICT policy of the Economic Community of West African States. In addition, the Government carried out two major fibre-optic cable projects: the Sierra Leone Cable Company, as a consortium member of the Africa Coast to Europe submarine fibre optic project, and a national terrestrial fibre optic cable network, which incorporates the Wide Area Network of the Economic Community of West African States.

The aforementioned national ICT policy and various other ICT projects, which were underpinned by private sector inclusion in infrastructure investment and operations, led to successful exports from the telecommunications, computer and information sector during the five years of its implementation (2011–2016). Sierra Leone boasted the largest share of ICT services in total services exports worldwide, ahead of Ireland and Kuwait (2016) and ranked third in supplying digitally deliverable services as a share of all services exports, just behind Ireland and Luxembourg. The telecommunications sector, operated as a monopoly by the state-owned Sierra Leone Telecommunications Company, became one of the most liberalized sectors in the country's economy.

Unfortunately, the country was unable to keep pace with the sustained export momentum of the telecommunications, computer and information sector after the implementation period of the national ICT policy in 2017. Consequently, telecommunications, computer and information sector exports fell from $190.5 million in 2016 to $13.3 million in 2017, leading to a significant drop in exports of high knowledge-intensive services from $211.2 million in 2016 to $45.5 million in 2017 (Box figure 9.II). However, Sierra Leone has in recent years moved towards exporting research and development, professional and management consulting, and technical and trade-related services. Further, the country has experienced a sharp increase in exports of financial services and charges for the use of intellectual property since 2016 (Box figure 9.II). Telecommunications, computer and information sector exports started to take off in 2019. In sum, the country achieved diversification in its exports in services in 2019. In November 2019, Sierra Leone joined the ICT tax systems technical committee of the African Tax Administration Forum, a joint project of the African Tax Administration Forum and the African Development Bank, aiming to develop a guidebook and model framework for efficient ICT systems in Africa.

Sources: Government of Sierra Leone, 2009; Sierra Leone Investment and Export Promotion Agency, 2017; Sierra Leone National Revenue Authority, 2020; UNCTAD, 2019c.

Dynamic assessment

The status of African countries' dynamic diversification, as presented in table 2, is based on the variation of the Theil index from 2005 to 2019. The services exports of a specific country are categorized as diversified if the variation in the Theil index is negative and higher than 20 per cent; weakly diversified if the variation is negative and lower than 20 per cent; and disrupted if the variation is positive. The table also provides the variation in the share of high knowledge-intensive services in total services exports. Based on the dynamic assessment, the following African countries are considered diversified: Burkina Faso, Eswatini, Guinea, Kenya, Malawi, Namibia, Nigeria, Rwanda, Sierra Leone and Uganda. In these countries, exports in services are diversifying, while the share of high knowledge-intensive services in exports in services has increased. Except for Eswatini, exports of high knowledge-intensive services have more than tripled in these countries.

Nineteen countries experienced weak diversification in services exports during the period. Among these countries, the share of high knowledge-intensive services exports decreased in the Congo, Guinea-Bissau, Senegal and the Sudan. The report also finds that 23 countries experienced a disruption in services exports, and according to the Theil index, exports in services in these countries were less diversified in 2019 than in 2005. Services exports in most of these countries revolved around two or three services sectors in 2019. Although exports in services were disrupted in Algeria, Ghana, Lesotho, Liberia, Libya, Mali, Mauritius and Seychelles, on the whole, the share and values of high knowledge-intensive services in exports in services grew from 2005 to 2019. Exports of these services tripled in the Central African Republic and Gabon but their share in services exports did not vary during the same period. However, the share of high knowledge-intensive services in exports decreased in Angola, Cabo Verde, Comoros, the Democratic Republic of the Congo, Côte d'Ivoire, Egypt, Ethiopia, the Gambia, Madagascar, Mauritania, Mozambique, Sao Tome and Principe, and the United Republic of Tanzania.

With regard to services exports diversification, the results would be insignificantly different if the variation in the share of the top three services sectors were used instead of the variation in the Theil index, resulting in a change of diversification status for nine countries.

Among the 19 countries with weak diversification of export services based on the Theil index, five countries (Benin, Cameroon, Senegal, the Sudan and Togo) experienced increased concentration of exports in services (using the top three services sectors). Further, among the 23 countries that experienced a disruption in export services (based on the Theil index), the top three sectors assessment found that exports in services became less concentrated in Algeria, Egypt, the Gambia and Mauritius in 2019, compared with 2015.

Among the five countries where the static assessment shows diversification in services exports in 2019 (Burkina Faso, Kenya, Malawi, Senegal and Sierra Leone), the only country that did not experience a considerable increase in the diversification of services exports between 2005 and 2019 was Senegal. Also, while Benin, Burundi, Djibouti, Equatorial Guinea and Zambia experienced weak diversification of export services, the static assessment shows that their exports in 2019 remained concentrated in two or three services sectors. Angola, the Democratic Republic of the Congo, Côte d'Ivoire, Egypt, Eswatini, Mozambique and the Republic of the Congo are the only African countries in which the values of exports in high knowledge-intensive services decreased.

In 2005–2019, dynamic assessments determined that the share of high knowledge-intensive services in exports increased in 31 African countries, including the 10 diversified ones, namely Burkina Faso, Eswatini, Guinea, Kenya, Malawi, Namibia, Nigeria, Rwanda, Sierra Leone and Uganda (Table 4). However, few countries have a relatively significant share of financial services in their total services exports. In Burkina Faso, Kenya and Malawi, financial services in 2019 accounted for 16 per cent, 12 per cent and 10 per cent of total exports in services, respectively.

2.2 The lead role of the private sector in leveraging services-driven diversification

Services do not only represent a final consumption and subsequent services value chains; they also serve as key inputs in the production of many goods and are an extensive component of regional and global value chains. For instance, goods such as the iPod or iPhone have more to do with services activities (conception, design, retail and distribution, research and development, software development, engineering, marketing, transport and packaging) and little to do with merchandise components (Drake-Brockman and Stephenson, 2012).

The private sector is the cornerstone of most economies on the continent. SMEs in particular have an increasing potential in facilitating trade in services and hence, the development of value chains in Africa. They represent about 90 per cent of enterprises in the region and employ about 60 per cent of the workforce (International Trade Centre, 2018). Further, SMEs react more rapidly to commercial opportunities than larger enterprises because of more complex decision-making processes and lengthy planning cycle constraints of the latter (Pardo, 2017). In addition, SMEs specializing in knowledge-intensive services are more inclined to engage in innovative business models, such as the international business-to-business model or the business-to-consumers model than their manufacturing counterparts (Drake-Brockman, 2018).

Against this backdrop, this section highlights the potential of SMEs in different areas of trade in services by assessing various business models suitable for Africa and identifying key barriers that could limit the contribution of SMEs to trade in services. Heuser and Mattoo (2017) state that a fair mix of services enhances the exploitation of economies of scale, allowing companies to leverage new business opportunities, customize their production and branding and achieve better performance across the board. This is explored in this section by focusing on the role of SMEs in high value added and growth services sectors, such as tourism and travel, as well as ICT services.

2.2.1 Tourism services

The tourism sector deserves particular attention in the discussion on trade in services because it is one of the most internationalized sectors in the world, linking and integrating several economic sectors. Encompassing travel, accommodation, hospitality and leisure, tourism represents the most comprehensive value chain in the services sector and attracts many SMEs. The sector consists of many integrated large public and private firms and contributes significantly to employment and GDP in developing countries, including in Africa. For instance, Africa in 2012 attracted more than 33.8 million international visitors and generated at least $36 billion in tourism receipts, with a contribution of at least 7.3 per cent to the regional GDP (Dihel and Goswami, 2016).

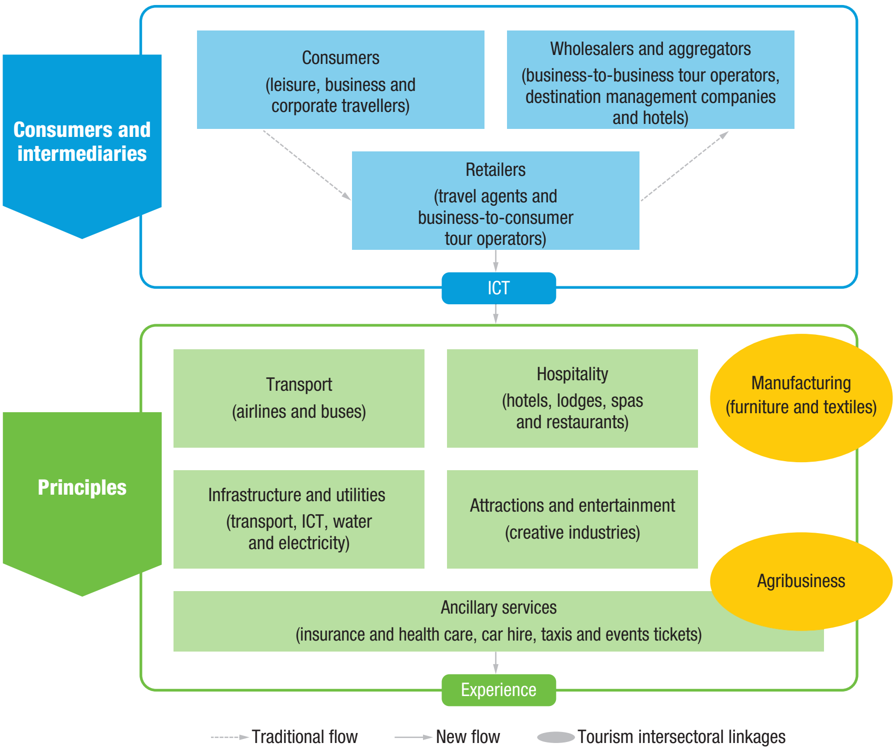
Notwithstanding the presence of many individual businesses and SMEs in areas such as restaurants, accommodation and transport, their full potential to contribute to the transformation and growth of the sector has yet to be exploited. Given the dynamism of the sector, SMEs in Africa generally face keen competition from larger public and private enterprises with many years of experience and working capital. This is mostly a consequence of SMEs' fragmented and uncoordinated operations, which magnifies their small size in terms of capacity to offer comprehensive and high-quality tourism products, regardless of their ability to readily adapt to changing market conditions, compared with large firms. These limitations are further compounded by globalization. While globalization makes it possible to offer competitive options to tourism consumers, it creates pressure on large and small firms in the sector to remain relevant by pushing them to be more innovative in terms of product quality and orientation. This comes with higher embedded costs of the requisite technology, for instance, which undermines the relevance of SMEs in the sector. Such increased operational costs can ultimately drive some SMEs out of the market and deter new ones from entering it. As such, a thorough understanding of the tourism value chain and its linkages with other economic sectors offers a good starting point for SMEs, as they need to have relevant information on the realities of the complexities of the interactions at different levels of the supply chain and even more, a better understanding of domestic and global market and players.

Figure 23 provides an example of the tourism value chain and highlights several opportunities for SMEs in the tourism sector, both as intermediaries (particularly retailers) and as services providers in hospitality and ancillary services, notwithstanding stiffer competition from large enterprises in the principles segment of the value chain. For instance, most of the small businesses in hospitality and ancillary services (for example, taxis) are set up with working capital only, as fixed-asset needs are not excessive.

Non-financial barriers to entry for such businesses are also modest, despite stiff quality controls in most countries. However, many SMEs venture into these businesses, with little, if any, expertise and without an understanding of the market. Owing to a highly competitive market, successful business ventures remain a distant dream for most SMEs. The figure also illustrates the complexities of globalization. Whereas traditional consumers access tourism packages through intermediaries (retailers and aggregators), the growing influence of ICT networks has increased their direct interactions with services providers at relatively low cost, suggesting significant challenges for intermediaries, particularly in regions such as Africa, where the intermediaries' segment of the value chain is poorly developed (Christian and Nathan, 2013).

Figure 23

Tourism value chain



Source: UNCTAD, adapted from the Organisation for Economic Co-operation and Development, 2008.

As highlighted previously, the high demand for overhead capital that comes with globalization has excluded most innovative SMEs, which work primarily as independent entities. Moreover, the very nature of the final product, which encompasses several aspects of the principles segment, dims the odds of growth and/or survival for most SMEs working in isolation in the current multifaceted African tourism sector. In this regard, the literature suggests that viable value-based networks or clusters at different stages of the value chain enhance the odds of survival and growth of SMEs, since they foster innovation, knowledge sharing and competitiveness among the network partners (Morais and Ferreira 2020; Ndou and Passiante, 2005; Omerzel and Kregar, 2016; Organisation for Economic Co-operation and Development, 2008; Zach and Hill, 2017). However, this requires that SMEs identify key actors and gaps at every stage of the value chain, focusing on areas in which they have comparative advantage in expertise and capital.

Different options are open to SMEs, including partnerships within a specific network. Depending on the business scope, SMEs can join well-established global, regional and national networks, have access to relevant information on different destinations and players and be listed on well-established platforms. The key advantage of such a network is increased global visibility of the business concerned without having to make additional investments in technology and marketing. This also allows them access to the pool of information on the global market and players, which heightens the possibility of viable partnerships and integration into the global value chains. Alternatively, SMEs can opt to establish value-based networks within their tourism destinations.

Whatever the case, SMEs have the option of partnering with large companies and other SMEs, either vertically or horizontally on the value chain, with each partner specializing in specific components of the tourism package based on comparative advantage. Vertically, SMEs can partner with firms within the network at different stages of the value chain. The easier method is for them to provide business support to large enterprises in Africa that are already operating in the sector. For example, SMEs operating as tour guides can partner with big hospitality brands (multinational enterprises) so that they can provide a complete package of travel, accommodation and attractions, with each partner ensuring good quality of the relevant components. In this case, hotels that offer tours to their guests could buy the service from or subcontract it to an SME. Either way, the SME is given access to a market that would not ordinarily be feasible.

In addition, SMEs can also opt to integrate horizontally within the network where partnerships can be leveraged with firms at the same stage of the value chain. In this regard, they could, for instance, partner with global (business-to-business) tour operators and cover the business-to-consumer component of the package, whereby they would serve as national tour operators or local tour operators (contracted suppliers of modules). Their focus would remain on the business-to-consumer component, which might include purchasing services from individual providers and assembling them into desired tourism products. On the whole, in such partnerships, a good knowledge of the domestic market and players, as well as creativity and flexibility in meeting customer needs, give local SMEs a competitive advantage over bigger international tour operators within their countries or regions, notwithstanding the financial capabilities and experience in the sector of the latter. This business model is key to enhancing the technical capacity of SMEs for growth, owing to the knowledge and skills transfer involved in the process. Moreover, SMEs have an opportunity to venture into different markets without having to up their investments. By maintaining their brand regardless of the mode of integration, SMEs are offered an opportunity for growth through enhanced competition and economies of scale. Sun International of South Africa is a classic example of the engagement of SMEs at different stages of the tourism value chain within Africa (International Labour Organization, 2017a). While giving access to markets, the Sun International model has helped the SMEs concerned improve their products and enhance their competitiveness. It is worth noting that this arrangement is motivated by the South African government's legislation, which provides incentives to multinational enterprises for procurement from local SMEs (International Labour Organization, 2017b).

Lastly, within the network, another option for SMEs is to work independently, while having access to relevant information that effectively guides their business options and enhancing their competitiveness at different stages of the value chain. This might include some level of horizontal and vertical integration, such as buying services from other providers at different stages of the value chain to enhance the quality of their service. This is the case of inbound tour operators which combine services from different providers into one package and sell it directly to their customers. However, this might require more working capital to invest in technology and other packages they would not ordinarily invest in if they partnered with big firms. Depending on the nature and value of the network and the partnerships formed, SMEs have access to valuable information and markets without the need for complex technological investments, suggesting increased potential for growth through enhanced efficiency gains and economies of scale. However, the success of such networks and clusters is contingent on a high level of professionalism, industry knowledge, cohesion and continued innovation (Organisation for Economic Co-operation and Development, 2008), which might not be feasible for most SMEs in Africa, particularly those that are largely subsistence driven, with limited levels of education and working capital. Moreover, survival within these networks is highly dependent on strong ICT systems, which remains a challenge for most African countries (African Development Bank, 2021). Closing these gaps will be key to leveraging the potential role of SMEs in developing the intermediary sector of the value chain, which remains the weakest component of the tourism value chain in Africa (Christian and Nathan, 2013).

Intersectoral linkages in tourism

Tourism is one of the most robust value chains in the services sector, offering golden opportunities for SMEs. It also has viable backward and forward linkages with key economic and market sectors, including agribusinesses and manufacturing, which suggests that the sector has the potential to contribute to the region's export diversification. Further, tourism is one of the biggest consumers of agricultural products, both in their raw and processed forms. To some extent, tourism is also a good outlet for some manufacturing firms, particularly textiles and furniture, which are highlighted by anecdotal evidence as having seen increased participation of SMEs in Africa. Hotels and restaurants are the most relevant segments for effective tourism–agriculture and light manufacturing linkages, as expenditures on food and beverages are estimated to account for about one third of tourist expenditures at destination (UNCTAD, 2015). However, overdependence on imported supplies weakens these linkages (UNCTAD, 2014). While such overdependence could signify that preferences are driven by the quality of local products, it could to a large extent also be a function of coordination for such value chains. Leveraging technology that can ensure a consistent flow of information between farmers, agro-industries and the relevant tourism segments – thereby reducing supply chain inefficiencies that come with the informal route of operationalizing these linkages – could be a chain breaker with vast opportunities for SMEs (see Twiga Foods model in chapter 3).

The reliability of local supply could be another important factor influencing the tourism sector's preference for imported inputs. Several factors of production such as the seasonality of agriculture in Africa and its low technological intake, along with factors influencing market access, have an impact on the quality and reliability of the supply of agriproducts from the local market. Welteji and Zerihun (2018) show that the non-commercial (subsistence) orientation of the agricultural sector undermines tourism–agriculture linkages in the Bale Mountains of Ethiopia. In most African countries, subsistence agriculture is often characterized by increased seasonality, as it is largely rain fed, which is not consistent with tourism demand patterns. Strengthening these gaps through government-targeted programmes is important to reinforce the supply base in terms of quality and consistent yearly flow of output. On the other hand, the role of SMEs in innovatively linking the two components of supply and demand is vital. As mentioned previously, technology-based platforms will be key to ensuring efficiency in the supply chain through better transparency and reduced information asymmetries. While indirectly contributing to the productivity of agribusiness in this regard, SMEs can further enhance the relevance of their role in the sector by being among the suppliers of different components in the value chain.

Business and communication services are an important driver of export diversification, growth and structural transformation in Africa

2.2.2 Information and communications technology

One of the key services sectors that is central to the growth and development of all economic sectors, including the services sector, is ICT. On one hand, through its embedded technology component, ICT directly affects the quality (complexity) of products and facilitates product differentiation and customization, with positive impacts on the variety of firms' outputs. On the other hand, its embedded digital platforms and applications are increasingly having a positive impact on information asymmetries and greater market access for both large and small firms. Jointly, these effects translate into improved efficiency at different stages of the value chains – and most importantly – reduced costs and enhanced productivity and competitiveness of firms across sectors. Within the services sector, ICT plays an important role in developing and linking various components of the respective value chains, boosting competitiveness through improved quality and diversity of products and easing access to relevant market information. Moreover, ICT is necessary to facilitate valuable networks to enable mentoring, skills development and information sharing, which are key to the growth and development of the services sector (Manyika and Roxburgh, 2011).

In general, ICT remains a potential driver of fundamental structural transformation in Africa, growing at an average of 40 per cent between 2015 and 2020 (International Trade Centre, 2020). Notably, this unprecedented growth is largely driven by the telecommunications sector, which has witnessed a surge in mobile penetration across countries. However, inefficiencies in broadband penetration remain apparent at 17.4 per cent, below the 39 per cent average of the developing countries and less than 25 per cent of that of the developed countries (87 per cent) (World Trade Organization, 2016). As such, only 10 per cent of the African population have access to the Internet (International Trade Centre, 2020), suggesting fundamental limitations in the utilization of associated ICT services in improving the quality and diversity of products by most African firms, notwithstanding ICT sector growth.

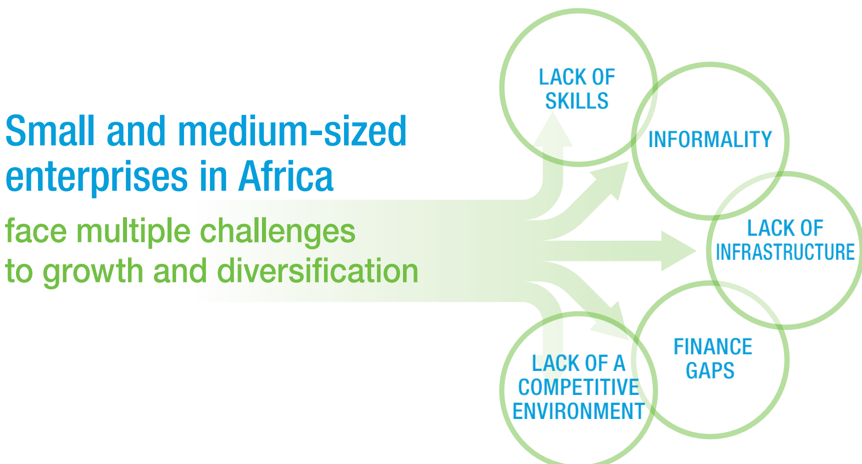
As a high technology-intensive sector requiring massive amounts of start-up capital, ICT in Africa is mainly driven by a handful of multinational enterprises and large public enterprises, notwithstanding a large pool of SMEs that are active in the sector (International Trade Centre, 2020). The participation of SMEs in the sector and their contribution thereto are to a great extent undermined by constraints arising from infrastructure and institutional shortfalls that mostly account for their high capital and operational costs. Further, an unconducive policy and regulatory environment has fostered monopolistic behaviours in the sector, with significant negative implications for the productive contribution of SMEs. However, if their competitiveness and growth are not encouraged, empirical research alludes to dim prospects of sustained growth in the long term (Ewing et al., 2011). Compared with large public and multinational enterprises, SMEs in the sector are perceived to be more adaptive to market forces and highly innovative in terms of their products (Matt et al., 2016). These key features are essential to the sector's sustainability and its enhanced potential in effectively supporting the participation of Africa in the high-end value chains through the improved quality and diversity of manufacturing products. Accordingly, this section assesses the potential of SMEs in effectively contributing to the pivotal role of ICT in the trade and integration of Africa. The focus will be on existing market potential, particularly as it pertains to ICT outsourcing. This will be done within the context of business models currently being utilized in the ICT sector globally, while assessing their adaptability for African SMEs.

Outsourcing information and communications technology

The growing importance of trade in value added in regional and global trade has heightened the impetus for ICT outsourcing, as there is a need for firms to improve the quality and diversity of their products with potentially no requisite in-house expertise to run and maintain this complex, rapidly changing technology. There is an increased demand for ICT services worldwide, in particular in developing countries, where the demand for complex technology to support socioeconomic development is even higher. Driven by the need to cut costs, while enhancing their productivity in meeting this growing demand in a complex global setting, ICT outsourcing is becoming increasingly an important component of ICT management for most firms in the sector, particularly large ones. Through outsourcing, firms can focus on their core competencies, while having good access to skills lacking in-house and to expertise at lower cost (Lacity et al., 2009). As a result, most firms – including those dealing with automotive and consumer products, ICT, manufacturing, banking and finance – outsource at least 30 per cent of their ICT operations. Although China and India have for years been major ICT outsourcing markets for the developed countries, Africa is considered to be a potential new market. This rationale is based on several factors, such as improved infrastructure and rising demand for the latest technology to enhance industrial productivity and competitiveness in a swiftly changing globalized world (Nduwimfura and Zheng, 2015a). While some countries – Egypt, Ethiopia, Kenya, Nigeria, Rwanda and South Africa, for example – are already leveraging this market (Ewing et al., 2011; Johnston et al., 2009; Nduwimfura and Zheng, 2016), there is an untapped outsourcing market with increased potential for the engagement of productive SMEs in these and other countries in the region. Nevertheless, leveraging this market opportunity is contingent on a strong ICT skills base, the availability of relevant ICT infrastructure and an effective regulatory environment that will promote fair participation for both large firms and SMEs. For instance, heightened investments in ICT support infrastructure and a network of innovation hubs and technology parks in countries such as Kenya, Nigeria and Rwanda (Ncube and Ondiege, 2020; Nduwimfura and Zheng, 2015b), have improved broadband penetration and ICT skills, hence enhancing their readiness to productively exploit the ICT outsourcing market.

Depending on the costs involved, different models can be leveraged to raise the participation of SMEs in this potential new market. At the micro level, SMEs can be engaged directly engaged by foreign and domestic outsourcing firms or through networks that connect micro-SMEs and freelancers to potential clients. With regard to the network of micro-SMEs, a good example is found in Tunga, an African–Dutch information technology company model that recognizes the key role of SMEs in ICT, nurtures and develops talent and productively utilizes it for growth, while at the same time equipping SMEs with the relevant skills and potential networks for further growth. In this regard, the company is competitively offering information technology services to companies in Europe and the Americas through outsourcing and remote development by partnering with African talent networks (innovation hubs) (Tunga, 2021a; Tunga, 2021b). The company has established innovation hubs in partnering countries such as Nigeria and Uganda to harness and develop a pool of talented Africans in the areas of their interest (Tunga, 2021b). Through its academy, Tunga offers free electronic training in software development to its talent networks in Africa. Upscaling such outsourcing opportunities could be easily achieved through networks for sharing essential market information.

While SMEs in Africa stand to gain further opportunities in this burgeoning new market, one of the key market drivers is access at lower cost to ICT technical expertise that is not available in-house, suggesting the increased need of SMEs to keep pace with global trends in ICT if they are to effectively leverage this market. This could be a potential limiting factor for effective exploitation of the market for most of these enterprises, particularly if the training institutions in the region do not maintain their programmes up to date. While countries such as South Africa are advanced, and some countries such as Ethiopia are moving in the right direction, gaps are evident in most African countries, as reflected by the limited availability of qualified, skilled people in the region relative to global technology trends (Nduwimfura and Zheng, 2015a), hence, the need of outsourcing models with skills development components such as those of the above-mentioned model. Therefore, it is imperative that a holistic approach be adopted at the macro level for the region to effectively exploit this new growing market. This approach should encompass viable investments in relevant support infrastructure, skills development guided by ICT development global trends and a policy environment that accommodates SME growth.

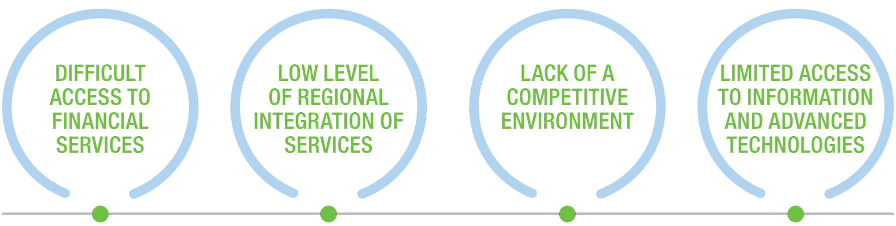


2.3 Expanding services and businesses: Barriers to look for

There are numerous factors affecting the use of services by African firms and the integration of SMEs in the sector. While undermining the sector's growth and development, these barriers further limit progression in other economic sectors, as services play a key role in determining their productivity and competitiveness. In other words, by restricting the flow in services trade, these barriers curb the possibilities of African integration into high-end global value systems, as products have remained concentrated in a few unsophisticated product lines.

Since economic sectors are interrelated, a restriction in one sector hinders the smooth running of many other sectors and reduces the possibility of growth. In addition, barriers to trade in services limit foreign investment. They can imbalance supply and demand in a country, resulting in a deficit of goods and services and an increase in prices. In this regard, this section analyses the direct and indirect barriers to trade in services and economic costs to trade in services in Africa. The analysis of policy barriers to trade in services is more complex than in trade in goods due to the regulatory statutes of services (World Trade Organization, 2019). Direct barriers to trade in services in Africa include the high costs of trade in services, and protectionist policies and measures. Indirect barriers include infrastructure and equipment issues, low levels of digitalization and technology, difficult access to financial services, fuel- and mining-commodity dependence, a low level of regional integration and lack of a competitive environment.

Key barriers to trade in services include:



A major barrier to trade in services is cost. While the cost of exports in services is expected to be lower than the cost of exports in goods because services do not need to be stored, in practice, the opposite is true. The cost of services in exports is higher than the cost of exports in goods, while access to low-cost, high-quality services helps countries participate in local, regional and global value chains and meet social development objectives (UNCTAD, 2021c). In Africa, the high cost of exports in services is multifactorial – poor ICT connectivity, digitalization problems and weak financial sector development, for example.

2.3.1 Infrastructure challenges

Infrastructure gaps persist across all sectors (African Development Bank, 2021). While weak transport infrastructure is widely cited as one of the key drivers of trade costs in Africa, a recent World Bank enterprise survey shows that electricity is the second most important obstacle facing African SMEs (Muriithi, 2017). Moreover, trade in services is limited by a paucity of data on information and technology. While the world has in recent decades experienced a boom in technology, the use of advanced technologies in the economy remains a challenge for many African countries. Many localities in Africa do not have access to stable Internet connections, in addition to multiple power shortages. Instability in Internet connections slows down services and makes technologies in trade in services less efficient. While digitalization is driving trade in high knowledge-intensive services, Africa remains the least digitalized continent on the planet. According to the world development indicators of the World Bank, Africa has the lowest overall logistics performance index worldwide. In 2018, its overall logistics performance index was 2.46 on a scale of 1 to 5, compared with 2.87 globally. The index is above 3.5 in the European Union and North America.

However, with the increased use of digital platforms for sharing relevant information, including on markets globally, poor Internet access limits the networking opportunities of SMEs and their access to markets and therefore, participation in regional and global value chains. The connectivity gap is larger between SMEs and large firms, particularly in the developing countries, where SMEs attain only 22 per cent of the connectivity score of large firms, compared with 64 per cent in the developed countries (World Trade Organization, 2016).

2.3.2 Competitiveness challenges

Policies that aim to protect domestic or infant industries against foreign competition can be significant barriers to trades in services, as they create an uncompetitive business environment embedded with tariffs, subsidies, import quotas and other restrictions or business handicaps. Despite regulations aimed at preventing protectionism, several countries worldwide continue to introduce protectionist policies in specific sectors to safeguard their economy. This practice can bring some benefits to an economy, such as the rapid flow of local goods and services and protection of the local currency. However, some authors, such as Fairbrother (2014) and Poole (2004), find that it can diminish business activity, economic growth and economic welfare. Mwaba (2000) suggests that protectionism may limit the economic growth and development of African countries. According to this author, protectionism prevents the advantages of introducing new goods from contributing to technological progress, domestic production and growth associated with free trade. Fosu (1990), Ghura and Grennes (1993) and Ojo and Oshikoya (1995) also consider that any form of protectionism negatively affects the African economy and trade. Protectionism can occur in both goods and services.

High levels of protectionism and the absence of a competitive environment will then undermine regional integration, which is already low in Africa. According to UNCTAD (2021b), in 2000–2019, Africa recorded the highest level of export dependency, compared with the rest of the world, whilst intra-African exports as a share of total exports stood at the lowest level, compared with other regions, except Oceania. In 2019, extra-African merchandise exports represented 86.6 per cent of total exports in goods from Africa, and extra-African services exports accounted for 91.9 per cent of total exports in services from Africa. This low level of regional integration hampers the development of trade in services. Also, several services are provided by monopoly or exclusive services providers, especially in the freight and logistics services sector. These services are not open to the private sector and are prone to lacking efficient procedures for delivering quality services (UNCTAD, forthcoming-a). These have led to inefficient operations and a higher increase in service charges and have significantly restricted the effective participation of SMEs in the sector.

2.3.3 The cost of increased informality

In many countries in Africa, the informal economy remains pervasive and constitutes a substantial share of the total economy. From 2010–2018, the informal economy accounted for 36 per cent of African GDP (UNCTAD, 2021b). Limited access to finance and cumbersome regulatory and administrative processes are among the key factors contributing to increased informality in the region. Informality has the highest cost of starting a business both in terms of financial capital requirements and the number of days to process the business registrations (International Telecommunication Union, 2016). Informality comes at a cost to most SMEs, as it restricts their financing option sources. For example, without tangible assets to use as collateral for loans, most SMEs are confined to informal financing options. Moreover, they have no access to financial assistance or funding from the authorities or development finance institutions, such as the International Finance Corporation. Although informal trade in services constitutes the biggest component of trade in Africa, it has limited return on SMEs and restricted growth opportunities, notwithstanding its key role in sustaining their livelihoods. Dihel and Goswami (2016) suggest that almost two thirds of the earnings of traders in Lusaka are derived from informal services exports, representing the main source of income. Although the informal sector constitutes an important source of revenue for many citizens on the continent, it does not help SMEs maximize their potential for efficiency. Most of their activities can be categorized as temporary, since they are carried out on a demand basis and their earnings will follow similar trends. Moreover, informality further limits their participation in public tenders, for instance, thus effectively curbing their activities (European Union and Organisation for Economic Co-operation and Development, 2015). Compounded with limited access to finance, these effectively constrain their opportunities for growth.

2.3.4 The need for increased skills in high knowledge-intensive sectors

Successful SME business ventures in high knowledge-intensity services sectors such as ICT require high levels of innovation and skills, and this forms the basis of the business models discussed in the previous section. Whether or not partnerships are leveraged, most SMEs will not effectively exploit opportunities in the different sectors with low qualifications and skills, unless skills development is a component of the leveraged partnership. To succeed in outsourcing partnerships, for example, SMEs must meet a high global standard, which is a challenge for most of these enterprises in Africa due to limitations in education and skills capacities. Indeed, according to recent International Trade Centre data on SMEs, many African enterprises cited international standards and certification requirements as a major constraint to their exporting activities (International Trade Centre, 2018). Without filling that gap, it will be challenging for SMEs to take part in the diversification of trade in services.

2.3.5 The hurdle of access to finance

Across all sectors in Africa, SMEs enjoy limited access to finance (Economic Commission for Africa, 2015). This challenge is observed in both the developing and the developed countries. However, the challenge faced by SMEs in accessing finance is greater in developing countries than in advanced countries. In Asia, for instance, more than half of the requests made by SMEs for trade finance are rejected, compared with only 7 per cent for multinational companies (World Trade Organization, 2016). According to a survey of developed countries conducted by the University School of Information, Communication and Technology of New Delhi, 32 per cent of SMEs in the manufacturing sector and 46 per cent of SMEs in the services sectors find that the process of obtaining finance to engage in cross-border trade is difficult. In the United States, only 10 per cent of large firms in the manufacturing sector, and 17 per cent in the services sector, experienced the same difficulties (World Trade Organization, 2016). Chapter 3 delves deeper into the limited access and high cost of finance by SMEs in Africa. It also looks at the modernization and revitalization of financial services, through digitalization, which can facilitate trade, either in goods or in services. Just like all investors in the services and non-services sectors, SMEs require capital to set up their businesses, as well as a consistent flow of finance to manage daily operational costs.

2.4 Conclusion

This chapter provided a detailed assessment of the potential role of services in enhancing export diversification and economic transformation in Africa. The discussion focused on the dual role of services as a supplier of key intermediate inputs and a source of important independent value chains. Accordingly, the chapter analysed the extent of diversification in the services exports of Africa and the key factors undermining its performance. Further, it assessed the potential of SMEs in contributing to the pivotal role of services in manufacturing growth and competitiveness.

The results further show that traditional services such as travel and transport dominate trade in services, covering more than two thirds of total services trade. Despite the importance in facilitating production and supply linkages with considerable implications concerning the overall competitiveness of firms through net trade costs, traditional services do not have a direct impact on the complexity and diversity of the export basket, which is seen to increase with high knowledge-intensity services such as ICT (Haven and Van Der Marel, 2018). While limited productive capacities in most African countries account for the low utilization of key services inputs, structural barriers undermining the performance of trade in services must also be considered. Key factors in this regard include the high cost of trade in services, protectionism, infrastructure and equipment issues, low levels of digitalization and technology, difficult access to financial services, poor regional integration and a limited competitive environment.

Moreover, complementarities between services and the manufacturing sectors will remain weak in most countries, as traditional services remain dominant in exported value added throughout Africa, with minimal optimism for enhanced complexity and variety of the region's exports to facilitate viable integration into high-end global value chains for most countries in the region. Therefore, African countries should reinforce regional coordination, under the umbrella of the African Continental Free Trade Area, and advance policies and strategies for increasing higher valued added services exports.