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AFRICAN CONTINENTAL FREE TRADE AREA: Some Issues in Liberalizing Trade in Services

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New York and Geneva 2016

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The views expressed in this publication reflect solely the views of the author.

This is an unedited publication.

Acknowledgements

This study was prepared for UNCTAD by Ms. Emily Mburu-Ndoria under the framework of a Development Account Project 1213 AR on "Strengthening Capacities of African Countries in Boosting Intra-African Trade". It was supervised by Mr. Bonapas Onguglo, Senior Economic Affairs Officer, UNCTAD, and Mr. Ahmed Mutkhar, Economic Affairs Officer, UNCTAD. It was also reviewed by Mr. Joseph Kodzo Banini, consultant with UNCTAD.

UNCTAD/WEB/DITC/2016/6

CONTENT

Figures

Tables

INTRODUCTION

The 18th Ordinary African Union Summit held in January 2012 in Addis Ababa, Ethiopia, endorsed an Action Plan for Boosting Intra-African Trade and a roadmap for the establishment of a Continental Free Trade Area (CFTA), to be operationalized by an indicative date of 2017. There is an aspiration and commitment to pursue services liberalization to booster trade in services as part of the CFTA goal of boosting overall intra-Africa trade. The African Union has also agreed to conduct negotiations on trade in goods and in services in the first phase of the CFTA negotiations. So services liberalization and the development of services supply capacity and services trade are central to the formation of an integrated African market.

The services sector contribution to development is undeniable. The services sector is the world's largest employer, and produces 70 percent of global gross domestic product (GDP). Services however account for only one-fifth of global trade, leaving trade in services only about an eighth as intensive as trade in merchandise (Ghemawat, 2011). For this reason, trade in services is a relatively unexplored sector compared to trade in goods. However, it is easily illustrated that the channels through which merchandise trade benefits economies extend effectively to trade in services especially since services make up a far greater part of the world economy than goods. Infrastructure services such as transport of goods by road, air, railway and ships, is the underpinning enabler for greater integration.[1] The movement of people requires good transport infrastructure, but also spurs the development of connecting roads and railways simply through their movement or "lobbying with their feet". Ghemawat suggests the liberalization of services could potentially push the resulting gains past five percent of global GDP.

The push to booster intra-African trade continentally is occurring at an opportune time for Africa. According to Gernetzky (2012), Africa's population could reach 2.7 billion people with 1 billion people in the middle class bracket by 2060. This would then triple Africa's economically active population providing a basis for stable and consistent high levels of economic growth. As such, Africa's demographic configuration, embodying a young, growing population, represents an important structural factor that has impacted the region's economic prospects positively and, if well managed, promises to shape the economy for the foreseeable future.

Along with a youthful population and growing middle class, the prospect of rapid urbanization across the African continent is also spurring demand for modern goods and services while building a more sophisticated skills base, which is all part of the "demographic dividend". On this front, Africa already represents a substantial consumer population. As more Africans flock to the cities and disposable incomes rise, the demand for modern goods and services, such as telecommunications and banking services, has accelerated. The demographic structure suggests that this "dividend" will continue to make a substantial contribution to Africa's economic progress. Global businesses – whether based in Asia, Europe or the Americas – as well as home-grown African firms, will strive to meet this demand. An integrated African market in goods and services can provide major opportunities to maximize production, consumption and trade.

The formation of the CFTA and its implementation will present another catalyst to sustaining African economic growth potential. It can provide the necessary sustaining energy to boost trade, raise economic growth and foster development that is inclusive and sustainable and help Africa to reach common goals established under Africa's Agenda 2063 and the United Nations 2030 Agenda for Sustainable Development and the Sustainable Development Goals.

Africa's rising integration – within Africa and between Africa and the rest of the world – is a fundamental part of understanding Africa's full potential and realising its true economic prospects. Africa may be the least globalised region of all, but the region has started opening up to the rest of the world. This increased economic openness and integration over the past ten years has contributed toward Africa's economic rise. Over the past decade Africa has increasingly opened up the spread of exports to international markets. According to Visa Report (2013), export volumes have grown at an average of 8.8 percent per year since 2000, as compared to the world average of 3.7 percent. This reflects rising global demand for African products and services.

Moreover, given that Africa's export growth exceeded economic growth – albeit modestly – over the period, it follows that exports have become a relatively more important component of the region's economy since 2000 – indicative of the importance of economic openness as a component of sustained economic growth. Africa's economic growth and the region's rising competitiveness is evidenced further by the increased trade diversification and sophistication that has come about following important reforms during the 1990s and early 2000s, and subsequent relations with new trade partners who are also the new drivers of global economic growth.

This report is designed to inform and assist African trade policy makers, negotiators and regulators, as well as concerned stakeholders in the business sector, academia and civil society about the development potential of services sector and services trade development in Africa, and suggestions on how to negotiate a services trade agreement in the context of the CFTA so as to boost African services supply capacity and intra-African services trade growth. Chapter I examines the broader role contribution of services and services trade, including through integration into global and regional value chains, in promoting economic growth and development. Chapter II focuses on the contribution of services to development in Africa and efforts undertaken at intra-African level in terms of trade agreements to unlock the potential of services trade. Chapter III discusses the various services negotiation modalities and approaches that African countries can consider in development a continental services agreement under the CFTA. Finally the conclusion highlights some suggestions on a CFTA Services Agreement.

CHAPTER 1: THE SERVICES ECONOMY AND SERVICES TRADE

The services economy and services trade is a potential key driver of economic growth and structure transformation for African countries, including in boosting manufacturing capacities.[2] The formation of a CFTA services agreement would be a catalyst for harnessing the potential development impact of services economy and intra-African as well as extra-African services trade. The services negotiations could build on the autonomous liberalization and the acquis in the regional economic communities. Given the novelty and complexity of services, support in building up institutional, human and regulatory capacities of African countries to enhance their readiness and preparedness to commence negotiations is necessary and, even more important in terms of follow up implementation of agreed commitments.

In developing a framework for liberalizing trade in services and related policies and strategies to develop competitive services sectors, it would be useful to consider the broader contribution of services and services trade to development and poverty alleviation, including through integration into global and regional value chains, in promoting economic growth and development, and in widening access to basic services. This overview is provided in this chapter.

1.1. The "services economy"

With globalization the world economy is becoming predominantly a "services economy" both at the domestic and international levels. According to the World Bank, the services sector accounts for 72 per cent of GDP in high-income countries, 53 per cent in middle-income countries and 46 per cent in low-income countries. Furthermore, there is evidence showing that a stronger correlation exists between services growth and GDP than is the case for manufacturing growth and GDP and thereby, making services a key driver of growth in most economies. On average, services account for more than 74 per cent of employment in high income countries. Moreover, developing countries are seen to be shifting towards services even at lower levels of per capita income than was the case in the traditional development trajectory. This provides an additional avenue for development latecomers to accelerate growth using services as an engine instead of relying only on the traditional way of first developing a manufacturing sector.

As agriculture became the foundation for the rise of the industrial sector in the 19th century, the 20th century saw manufacturing giving rise to emergence of the modern services economy in which research and development (R&D), marketing, financial activities, education, health, waste management and other services constituted more than two-thirds of all global economic activities. The notion of a distinct tertiary service sector as distinguished in traditional economic theory (agriculture, industrial and services) overlooks the spectacular increase of service functions within the traditional productive sectors where services, technology and human capital are the engines of growth substituting for and supplanting both manufacturing and traditional agriculture. In the 21st century, services are now instrumental in coordinating dispersed production systems, especially infrastructure services and logistics services such as telecommunications, internet, express parcel delivery, air cargo, trade-related finance, and customs clearance.

Technology has, in most cases, greatly reduced costs associated with manufacturing while somewhat increasing the cost of services associated with both production and utilization. In the case of manufacturing, which was also dependant on the agricultural and natural resources sector, the service economy depends on the manufacture of products and tools needed for service delivery. There is no service without products any more than there can be products without services. Continuous development of people in terms of higher levels of knowledge and skill becomes the most essential strategy to support continuous growth of the service economy and upgrading in the value chain.

On-going processes of globalization, extension of market mechanisms in terms of outsourcing and offshoring, foreign direct investment, global marketing, business regulation and international development activities are all enhancing and transforming the services component in virtually all nations around the world. Services of all types and descriptions can thus be found in all places in contemporary economies and societies. Services are crucial in knitting production systems together across economies, and making various modes of intermediation in the economy and society work. Increasingly, services fuels consumption spurs innovation and contributes to growth. Currently, not only have services become pervasive, dynamic and even predominant among economic activities, but also the linkage between technologies and services has spawned what could be called the "new economy" which is trading in tasks. This entails various components of the value chain distributed in different economies and linked together by key services.

The “new economy” implies important changes in the way services like insurance are produced, intermediated and consumed. Services, including various forms of insurance, basic telecommunication services or other traditional stand-alone services which are increasingly becoming functions (banking, energy services) are essential infrastructure for the “new economy” rather than consumed on a discretionary basis. In fact, the core of this change in the conception of services has been the emergence of the internet and changing role of intermediation.

Changes in production and consumption of services serve as an integral part of an increasingly integrated manufacturing processes and as well as an open and wide-ranging financial marketplace. As services supplied and used over the internet-are taking place but changes in the intermediation of services are perhaps the most readily apparent. The intermediating role of the internet in its various forms as e-commerce, e-business, e-government and even e-culture are today the primary manifestations of the “new economy”.

1.2. Characteristics of trade in services

Services exports are different from goods exports. They thus require a different approach in terms of their promotion and development. In order to develop an effective strategy for dealing with the services sector, it is important to keep in mind the main characteristics of the services business as indicated in Table 1 below.

Table 1: Elements of international business in services

a) Situation-based: exporting services involves the performance of solutions to international customer problems, which are dynamic in nature, since building services export capacity is about developing international relationships, a culture of customer focus and client confidence as well as aptitudes to recognise emerging opportunities and respond rapidly with new solutions.
b) Clients-oriented: services exporters tend to have clients rather than geographic markets with clients often taking them into different geographic destinations.
c) Relationships: clients often require a long term relationship, and lack of tangibility in services means that services exports cannot be examined on the spot for quality and thus, requires mutual trust be built between buyers and sellers of services.
d) Project-based: services exporters tend to operate in a project-like environment.
e) Innovation-dependent: each export project tends to require a slightly different services offering, which means services firms can rarely find new export markets without innovating, and must promote their capacity to create new services offerings for new international clients.
f) Management of people: each export project is likely to require a slightly different implementing team of talent and ideas that require services firms to often move people around quickly, including across borders.
g) Importance of commercial presence: services exporters may need or be required by the client’s regulatory environment to set up a commercial presence offshore; this process looks like investment rather than export and rarely receives proper official export promotion assistance.

Source: International Trade Centre (ITC), 2012.

1.3. Barriers to trade in services

Most of the services transactions require a physical proximity between the producer of the service and the consumer of the service. While in some transactions the consumer has to move to the location of the producer (tourism, health services), in others the producer has to move to the location of the consumer (services that require foreign direct investment and movement of persons like financial, telecommunication). There are some services that can be transferred across borders in a similar fashion to trade in goods, for example, transfer of software over the Internet.

The proximity between the producers and consumers implies that the production and consumption of services takes place simultaneously. Hence, it is not possible to determine when the service crosses the border in some cases. Thus, it is difficult to apply border measures like tariffs. As a result, most countries follow restrictive policies that are designed to limit the access of foreign services and suppliers of services to the domestic markets. The most common measures are to prohibit competition by foreign services suppliers through imposing entry fees or market share restrictions.
The main types of barriers to trade in services are:

- Quotas, local contents and prohibition of foreign access to service markets which are reserved for domestic suppliers such as nationality, residency or visa requirements;
- Price based instruments such as entry and exit taxes and/or visa fees for movement of natural persons, licensing fees, tariffs on goods related to provision of services, price controls;
- Discriminatory access to information channels and distribution networks for example, in telecommunication, air transport, and tourism;
- Subsidies granted in such as is the case for construction, communications, transport, health or education, which have a trade distortive impact on exports from other countries;
- Lack of access to government procurement orders, for example, in construction services;
- Lack of transparency in government measures, for example, immigration legislation and procedures, and practices of mega firms;
- Technical standards and licensing procedures, for example, in certain professional services, the licensing and standard setting have been used to restrict entry in the industry especially at the global level.

Measuring barriers to services trade is more difficult than goods as the former entails movement of the producers and consumers apart from movement of the service. The WTO provides one avenue for measuring barriers to services trade through commitments made by Member States under the General Agreement on Trade in Services (GATS).

1.4. Policies related to trade in services

Services are now playing a critical role as intermediate processes in the production of goods, contribution to value-addition and the attraction that they provide to foreign direct investment. Therefore, specific policy initiatives are required to improve the efficiency and competitiveness of the services sector. These policies are preconditions for benefiting from liberalization of trade in services. They relate to: (i) human resource and technology capacity building to ensure that professional and quality standards are met; (ii) upgrading of telecommunications infrastructure which would allow the export of labour-intensive services through the cross-border mode of supply; (iii) incentives and financing for service firms to enhance their competitiveness; (iv) pro-competitive policies such as abolishing traditional monopolies or exclusive rights, and adopting measures to discipline anti-competitive behaviour; (v) coherent regulatory framework for goods and services, trade and investment including prudential rules to protect public interests; (vi) progressive external market opening and encouraging foreign direct investment through granting of incentives to work with domestic industries with best international practices, management techniques and high technology; (vii) improving access to market information and presence in major markets; (viii) institutional reforms providing for independent regulatory supervision; (ix) establish service industry associations to ensure members are in touch with potential partners in target markets and to voice the needs of the service industry they represent.

Developing national and regional strategies for raising the profile of services, particularly infrastructural and logistics services, which have been identified as a priority for well-functioning value chains is important so that service exports are seen as vital for economic development. Attention would also need to be given to the use of the knowledge and capacity built up in manufacturing and agricultural sectors to export service-related activities and offer an integrated package of goods and services. In order to diversify markets and take advantage of global trading opportunities, developing country economies would need to strengthen efforts to expand trade and investment opportunities and cooperative arrangements both at the regional and international levels, and take advantage of market opening available in other developing countries.[3]

Taking advantage of opportunities emerging in the development of intermediate services tasks will require a higher degree of awareness at businesses and government level of the factors that might impact on local competitiveness and of how to influence them. In addition, there is need to identify tools required to nurture and promote services industries on the international market. Assessing the potential of services industries is complicated by the limited availability and quality of data, including official and other reliable trade statistics. All of this matters because the services sector is basically dominated by small and medium enterprises (SMEs) in most economies, and making them the most likely beneficiaries from more sustained attention to the sector.

Understanding competitiveness in the services sector requires close consideration at the sector and enterprise levels in relation to the evidence available concerning what makes competitiveness in services different from that in goods. This will require a policy that takes into consideration what services firms have in common, how they behave in the domestic and international market, and why these firms require separate or distinct policy or institutional attention.

Table 2 provides a summary of key elements that influence the competitiveness of services in any given economy. These factors suggest that there are many variables relevant to services competitiveness and therefore, businesses and governments can do a lot to enhance the opportunities for broader participation in global and regional services supply chain activities. However, the required policy mix in terms of public policy tools on how to grow a services industry, train, attract and retain services skill sets, or how to facilitate services innovation, collaboration and customer orientation, is still sketchy. Very little information is available on which enabling infrastructure to provide or which regulatory settings might be considered best practice in ensuring inter-operability across the value chain.

Table 2: Factors that determine international competitiveness in services

Endowments, especially human capital - talent, education, skills, ideas, culture of customer focus.
Investment in intangible assets – corporate intellectual property (IP) such as copyright, business methodologies, brands and patents.
Enabling digital infrastructure – quality of the telecommunications network and the extent of internet penetration.
Quality of institutions – costs and benefits associated with relevant regulatory regimes, degree of transparency and corruption or rule of law.
Efficiency of domestic regulations – constraints imposed by the complexity of the business environment and access to finance, employment laws, human capital costs, burdensomeness of regulatory compliance costs and the flexibility to adjust of rapid change.
Connectedness with the international market – two-way trade and investment openness, quality of export promotion efforts and tool kits and opportunities to connect with supply chains, mutual recognition and interoperability of standards, and the seamlessness of regulation across markets.
Effectiveness of services business stakeholder consultations – involvement of services.
Business groups, providing an active public/private stakeholder consultation mechanisms National strategic policy focus – better services statistics, inter-agency coordination, a vision and roadmap for services development.

Source: ITC, 2012.

Dealing with some of these factors may require a reinforcement of capacity building programmes on services and productivity issues. This calls for greater coordination between government agencies involved in services trade-related matters, services industry coalitions and business associations, and mechanisms for public or private dialogue on services regulations. Since services activities are usually less capital intensive than manufacturing and require less physical infrastructure, this provides an opportunity for countries with limited physical and financial capital. However, services are more skills-intensive than the other sectors of the economy. To this end, knowledge economy infrastructure and an environment that nurtures talent, skills and ideas are important in attracting investment and work onshore.

Moreover, services export success is dependent on innovation that requires an industry-innovation policy which recognizes the relevance of services for competitiveness. Since services activities tend to be project-based, firms need flexibility to be able to move people and ideas around quickly. Virtual teamwork and cross-border collaboration is also important. These highlight the significance of connectivity across the border, requiring policy and institutional focus on telecommunications, aviation, international standards, openness at the border and technical interoperability for developing the exports of services. As more SMEs in services from developing countries are increasingly engaging in global and regional value chains and business-to-business activities, there is need for innovation as well as new promotional and marketing methods to attract supply chain task onshore. Through negotiations leading to opening up of services markets, SMEs will be able to achieve commercial presence offshore which suggests that some could compete on a fly-in-fly-out basis.

In cross-border trade in services, the objective is usually to attract global work on-shore, preferably higher value-added work. The process of attracting global work on-shore into the domestic market seems different from that of attracting a foreign buyer for supply of goods due to the very different manner of offshore delivery. It tends to require that firms or even networked individuals undertake significant business process innovation in order to enter the relevant global supply chains. Given the way in which services firms engage internationally, services export promotion requires a sustained focus on facilitation of movement of people or skills sets both offshore and onshore, and a new focus not only of attracting FDI but also facilitating commercial presence offshore for local services firms that could be done through joint venture arrangements. This may require public efforts for assisting particularly SMEs in order to ensure cross border connectivity at the technical level so as to enable movement up the value chain and meet challenges of the international market. Cross border supply chains require seamless operations such that any disconnect between standards across borders generates a chokepoint which impinges on the operational costs of participating firms. This would make service suppliers uncompetitive in the global offshore and onshore market.

1.5. Integrating into Global and Regional Value Chains

1.5.1: Services and supply chains

The conception of services has been derived from classical economic theory which has tended to see them as invisible and often intangible inputs to other material products, supplied and used frequently on a stand-alone basis rather than horizontally in an integrated fashion. Until recently, the general perception shared by economists has been that services are generally not tradable. However, in the modern global economy, services have become ubiquitous -- they are everywhere. For example, communication services have brought about extraordinary connection to others and the world, transportation services now allow unprecedented mobility, the financial services now assist to manage daily lives and futures, access to social, health and educational services, and a wide variety of services jobs at which the majority of people now work each day. Table 3 provides an illustration of Africa's development in mobile technology.

Table 3: Mobile Technology innovations in Africa

In Africa, the usage and innovations associated with mobile technology are leapfrogging other regions of the world. In the space of just 10 years – from the mid-1990s to 2005 – mobile phone subscribers increased from zero to 88 million. By 2010 there were a remarkable 360 million subscribers in Africa – representing half of the African population. There will be an estimated 900 million mobile phones in Africa by 2015, representing an 85 percent penetration from a mere three percent penetration in 2001. This has been one of the most dramatic leaps of communication connectedness by any measure in world history. Internet connectivity will follow a similar trend on the back of mobile phones over the next few years. Already in countries like Kenya, which has pioneered the mobile technology revolution with four times the penetration of neighbouring Ethiopia, mobile technology has added at least one percent a year to Kenya's GDP growth and one in two Kenyans uses the internet. Mobile phones and internet access are two sides of the same coin in Africa, and are also part of crucial services related to banking and insurance. As with the surge of mobile phones in Kenya, the number of bank account holders has increased from one million to twenty million in ten years, and over one-third of Kenya's GDP now flows through mobile banking solutions. Still much remains to be done to improve Africa's connectivity.

Source: Visa sub-Saharan Africa (2013), Realising potential: connecting Africa

Services are different from agricultural goods, manufactured products or intellectual property, and the production, consumption and intermediation of services of all types are now considered to be the predominant activities within both developed and developing countries as well as a substantially important feature of international trade and investment. Services, currently, can be said to be the engine driving national economies as well as the present day global economy consisting of global value or supply chains. The present globalized, knowledge-based, service economies and financial systems are constantly making it possible to conduct business and commerce more efficiently, and to create and sustain wealth-creating and welfare-supporting activities. This makes services key to structural transformation and inclusive development.

In the 21st century, policy makers are being faced by different challenges than those of the 19th and 20th century. In the latter, trade and industrialization policies were geared towards gaining market access and therefore, having an industrial base was an important requirement for ensuring that a country could export, especially value added products. Policy makers in the 21st century have to now make decisions around which value chain to join, stage of the value chain in which the country is able to compete, the prerequisites to be considered for this to occur, developing policy-mix that would be instrumental in ensuring that the country is part of the value chain and so on. However, as noted by Baldwin (2011) a formal model for joining value chains is not guiding nations but different elements are guiding their efforts.

Trade in the 21st century has moved from the 20th century trade where goods manufactured in one country were sold to customers in another country (where trade was all about demand and selling of goods), to a more complex and sophisticated trade-investment-services nexus. The nexus reflects the intertwining of (i) trade in parts and components, (ii) International movement of investment in production facilities, personnel training, technology, and long-term business relationships; and (iii) services to coordinate the dispersed production, especially infrastructure services such as telecommunications, internet, express parcel delivery, air cargo, trade-related finance, customs clearance, basically logistics services (Baldwin, 2011).

Ultimately, geographical location seems to be an important element in considering where to offshore. Therefore, this calls for a difference in policies regarding joining supply chains depending on proximity to an existing supply chain or a faraway one. It also seems there is a distinction between economies that are considered as headquarter economies and those that are factory economies, with factory economies having many industries and export of manufactured goods that is rapidly growing.

As more trade is organized via off shore outsourcing, integration into global production networks and "upgrading", that is, moving from low value-added to high value-added activities within and across global production networks becomes crucial for employment in developing countries. Table 4 provides an example of the main components of an offshore services value chain. However, the location of high value-added activities and inclusion in GVCs is largely determined by lead companies that govern the chain. GVCs are increasingly demand-driven and lead firms tend to be buyers at the downstream end of the chain. Retail concentration has strengthened the role of global buyers in global production networks. Depending on which products are to be supplied and how, when and where they will be produced, quality standards can work as a potential barrier that pushes out suppliers in developing country who are unable to comply or they can be a springboard to help them upgrade.

Table 4: Offshore services value chain

The three main components of the offshore services value chain are Information Technology Outsourcing (ITO), Business Process Outsourcing (BPO), and Knowledge Process Outsourcing (KPO). Many of the lower-value BPO services can potentially be 'captured' by African firms, including activities such as network management, application integration, payroll, call centres, accounting, document management, logistics, supply chain management, and human resource management. Some of the higher value-added activities within the ITO component, namely services to support IT infrastructure and software as well as IT consulting and software research and development, should also be within range of certain firms. The objective of African firms, once inserted into a GVC, is to upgrade its activity, as firms attempt to 'climb' the value chain for offshore services, much in the same way as they do for global manufacturing value chains. Some African countries have been making strides in capturing activities that are part of the ITO/BPO offshore services value chains. These include Tunisia, Ghana, Senegal, Kenya, and Mauritius, where some of these activities are now being provided as part of the operation of larger firms in other locations. These five countries share some common characteristics, namely a large component of qualified workers, a growing penetration of internet use and broadband availability, stable political regimes, and an attractive business environment. These countries have also encouraged demand-supply side linkages.

Source: Stephenson, Sherry (2012), Global value chains and services: Implications for African countries BRIDGES AFRICA Trade and Sustainable Development News and Analysis on Africa Volume 1, Issue 4.

Supermarkets and retailers are seen to play a key role as lead firms in agro food chains but their power is significantly moderated in mobile telecommunication by the presence of brand manufacturers. However, even in the same sector, lead firms may organize global networks differently. An example in the telecommunications sector is Apple Inc. and Nokia. Apple Inc. outsourced its entire smart phone production to China whereas Nokia keeps a significant portion of its production in-house and in its home country of Finland. Therefore, it is clear that different market niches and geographical markets have distinctive global production networks structures with varying patterns of value creation (Lee et al, 2011). The rise of demand in emerging markets and the resulting shift of the end market from developed countries to emerging markets can offer developing country suppliers distinctive upgrading opportunities in local and regional chains, although dealing with multiple chains and standards can be challenging for them.

It is important to note that while developing countries may succeed in moving up to higher value-added activities, it is not automatic that this will lead to social upgrading such as improvement in workers' rights and entitlements, and enhancement of the quality of their employment. As a result of upgrading, some workers in the global production network might benefit from higher wages and strong labour standards. However, this might not trickle down the chain and in particular, to women. If shifting demand to the South could help suppliers develop higher value added activities like product design, it may generate higher skilled employment.

The key generic competitive factors affecting access of firms to value chains are listed in Table 5 including the associated capacity levers. Consideration of these factors provides for the development of clusters of potentially exporting firms in services sectors being identified as a priority so as to determine local shortcomings and make concerted efforts to improve performance. The table can also be useful in providing an analysis to assist in launching domestic services exporters into global goods and services supply chains.

Table 5: integrated framework for goods and services value chains

Primary Resources	**AN INTEGRATED REGIONAL GOODS SUPPLY CHAIN** ***The Pathway to Market***								**Markets and consumers**
Land Water Oceans Minerals Forests etc	Discovery and innovation	Primary production	Primary processing	Secondary processing	Finished product manufacture	Storage and handling	Freight and logistics	Marketing and distribution	Automotive Chemicals Electronics Pharmaceutical Food etc
SUPPORTED BY REGIONAL VALUE CHAIN COMPONENTS									
Quality assurance frameworks and regimes (e.g. food standards, SPS, mutual recognition of qualifications)									
Innovation development frameworks (e.g. science, R&D, commercialization, multidisciplinary collaboration)									
Business and capability development frameworks (e.g. education, human resource development, knowledge infrastructure)									
Human resources (e.g. availability, mobility, standards, immigration, social security)									
“Border” flows (e.g. customs, tax, profit repatriation, biosecurity, visas, licenses and their scope of business)									
Funding and investment (e.g. venture/private/merchant/public/sovereign)									
Market access (e.g. WTO, regional and bilateral trade and investment agreements, commercial presence, IP)									
Overarching frameworks (e.g. regulatory coherence, transparency and efficiency, cross-border interoperability, recognition)									
Primary services	**AN INTEGRATED REGIONAL SERVICES SUPPLY CHAIN/NETWORK** ***The “Pathway” to Market***								**Markets and customers**
Legal Financial Engineering Architecture Accounting etc.	Diagnostics Imagination Innovation	Planning Design	Evaluation Selection Team formation	Sourcing people movement	Contracting outsourcing	Quality control	Re-engineering	Execution After sales service	Financial Professional, technical, telecoms, IT, audio-visual Transport/ logistics Business services, tourism, health, education, etc.

Source: Asia Pacific Economic Community (APEC) Business Advisory Council, 2011

In developing a national or regional strategy on value chains, there is need to consider the different policies so as to have a policy mix that maximises the opportunities available to all firms in the country and allowing them to participate in global or regional value chains. A number of elements that affect both goods and service have to be taken into account when developing a comprehensive strategy.

A snapshot of competitive factors and capacity levers instrumental in determining the available local capacities is shown in Table 5.

As FDI inflows increase due to value-chain activities, competition issues will also increase caused by the close linkages between competition and investment issues as more foreign firms acquire, merge or there are new entrants into the domestic market. These new entrants will change the market structure and have an impact on the nature and intensity of competition. This will require the establishment of an institution to deal with competition issues in general that ensures and enhances coherency in the regulatory framework at the national level especially as some sector specific regulations such as those in the communication, IP, financial and others sectors already deal with competition issues (Hartzenberg, 2013).

1.5.2: Policy options for enhancing participation in supply chains

The emergence of global and regional value chains and the possibility of activities being separated into tradable tasks offer new opportunities for African countries to specialize in individual tasks for which it is best suited and thereby, facilitate entry into the value chain without the necessity of "capturing" the entire set of value chain operations. This will require an analysis and mapping of the bilateral, regional and global trade agreements that each Africa country is signatory, and identify potential for development of supply chains or joining existing value chains. In addition, each African country will need to enhance and implement its existing legislation on competition and investment to support economic development and ensure coherency in the regulatory environment. African governments will also need to develop a national and regional services strategy that is instrumental in the functioning of a seamless value chain among African countries within the framework of the CFTA.

In order to assist the private sector in joining supply chains, African governments have to prioritize the improvement of the business environment by accelerating institutional transformation, facilitating growth through greater trade expansion and diversification, improving productivity of enterprises, supporting entrepreneurs, and development of SMEs.

African governments need to develop a horizontal industrial policy approach that is economy-wide and takes into account the issues of connectivity, enhancing the ease of doing business, trade facilitation, financial access, focus on innovation, ensuring a stable macro-economic environment and multilateral cooperation. Supporting policies geared towards SMEs should also be considered to improve their participation in value chains. In addition, these policies should be flexibility enough in order to adjust accordingly within set timeframes for implementation together with adequate governance.

In a number of African countries, the services sector constitutes the main economic activity. However, its potential for overall economic development remains untapped. Therefore, African countries should develop a services export strategy which takes into consideration the needs of service suppliers so as to take advantage of available offshoring and on shoring opportunities. The strategy should aim at producing and improving access to and the use of reliable and user-friendly services-related trade intelligence, building awareness around the importance of services as a potential export driver, building and strengthening the capacity of trade support institutions to enable an effective policy framework, benchmarking regulatory practices, and promoting services exports, enhancing the export readiness of services suppliers in response to market opportunities particularly those in global and regional value chains, achieving a higher level of sustainable and inclusive participation in the regional and international services economy, and also addressing skills mismatches and shortages.

In addition, there is also need for intra-agency services coordination at the government agency level, and facilitation of emergence of local services industry champions and organized business groupings for more effective consultations and evidence-based advocacy with government. This is important in promoting public-private dialogue to improve the business environment for services exporters, including the enhancement of transparency and efficiency at the regulatory level. Encouraging the private sector to invest in parts of value chains is crucial to give the right signal to foreign investors of the viability of the African market for promoting FDI injections.

Building regional South-South partnerships in value chains is important for future upgrading of African firms. Value chains led by firms from within Africa, Asia and Latin America, and combined with expanding South-South trade are changing the world trade context by providing avenues for establishing regional value chains. This is important in addressing non-tariff barriers that are experienced at the global level in higher value markets in the chain, and thus providing room for collaboration with buyers, industry leaders, and relevant standard setting organizations.

There is need for African governments to accelerate inclusive growth and development, by fostering a development approach which is based on building dynamic, comparative advantage in the region with an increasing focus on processing industries of natural resources including agro-processing. In this regard, there is need to transform agricultural enterprises from production of primary raw materials to that of value added products, which in some cases, are ready for consumption at the domestic and regional markets.[4] This approach would create more opportunities for enhanced growth, employment and income generation along the entire value chains in agriculture, industry and services. This supply chain approach is crucial in increasing value and improving competitiveness.

Furthermore, a balance between flexibility and employment should be taken into account by developing clear laws and implementation for outsourcing; updating regulation on social security, home-workers, and contract workers and so on; balancing workers' right and chain competitiveness; and effective dialogue platform between business, government and workers' representatives. There is need to match skills demand and supply and this will require collaboration between industry, education and training institutions. This process calls for work placement and the review of curriculum and investment in education, skills and training, including vocational training.

Overall, African governments need to adopt policies that will facilitate cross border trade and be instrumental in joining global or regional supply chains such as in logistics services from transport and freight forwarding through to distribution and retail. Table 5 provides a good framework for identifying chokepoints in the supply chain and finding solutions to have a seamless value chain. These are vital to enabling the economy-wide efficient operation of both the traded goods and services sector and facilitation of African countries into cross-border supply chains.

Furthermore, the 21st century services trade requires the development of information technology-enabled business services that are necessary as intermediary services to the provision of other services. This is crucial for offshoring and on-shoring business services activities, providing the required connectivity with other economies and in determining African countries' participation in global and regional value chains. In addition, developing language skills, customer focus, time zones and telecommunications links would be instrumental in achieving competitiveness and offering new opportunities to African firms in "upgrading" from primary to tertiary industries.

CHAPTER 2: UNLOCKING AFRICA'S SERVICES TRADE AND DEVELOPMENT

2.1: Services Contribution to Development in Africa

In Africa, services are important to sustained development and welfare enhancement by way of widening of access to beneficial service. Services contribute about 47 per cent of GDP and 37 per cent on average in 50 and 32 African countries respectively.[5] Services sectors are thus central to any national development strategy whether commodity or manufactures based, and for moving up global/regional value chains. The services sector has become a driver of growth in Africa in recent years. Africa's services sector propelled more than 50 per cent of real GDP growth in 30 out of 54 countries during 2009 – 2012 and more than 70 per of total real economic growth in 12 countries.[6] It has contributed to high rates of economic growth in Africa over the last decade. Growth in services had been vibrant in Africa, growing at 4.6 per cent per annum during 2009 to 2012, more than twice the world average.

African services export, however, remains low for many countries, averaging 2.6 percent of global services export over the last three decades.[7] African services exports and imports totaled $ 271 billion in 2012. The poor services trade performance has led to a considerable awareness on the need for competitive services sector for sustainable economic development and the appreciation of the benefits of competitive markets for trade in services, including infrastructural services like financial services, telecommunications, transportation, and energy.

African countries have made efforts to address services trade at the national, regional and global levels. Yet Africa's services provision remains suboptimal and is delivered at a high cost because of various regulatory and policy shortcomings. The absence or undersupply of these services raise production costs and have a strong impact on the competitiveness of a country. A policy disconnect on services trade prevails between local, regional and global levels, hampering Africa's opportunities to tap into the benefits of greater services trade. Services sectors must be mobilized to have had an impact on promoting structural transformation in the continent.[8]

Market liberalization requires considerable care to assess the nature, pace and sequencing of regulatory reform and liberalization undertakings in services markets in order to achieve sustainable economic growth of a country. At the same time, the need to ensure that adequate supply of especially basic and essential services at affordable rates is a major development imperative generally as well as in goals of many Governments. Also, despite unilateral liberalization of services sector, attracting significant investments (in particular foreign investment) in these sectors remains a challenge for many African countries.

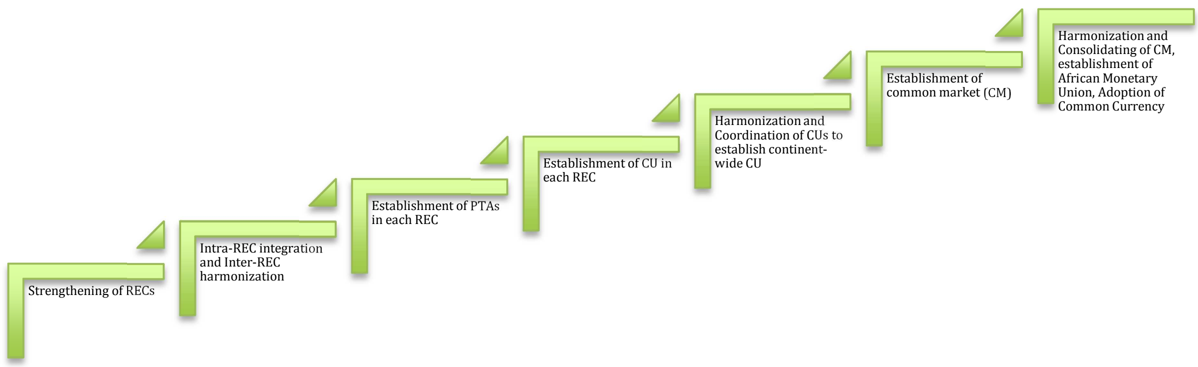
Recognizing the contribution of trade in services, five African Regional Economic Communities (RECs) namely the Common Market for Eastern and Southern Africa (COMESA), East African Community (EAC), Economic Community of West African States (ECOWAS), the West African Economic and Monetary Union (WAEMU), Economic Community of Central African Countries (ECCAS), and Southern African Development Community (SADC), have agreed to undertake services liberalization as part of the regional integration agenda. At the same time, some of the countries are negotiating trade in services liberalization agreements with the European Countries under the Economic Partnership Agreements (EPAs).

The level of services integration and liberalization vary across these regions and the EPA-Services negotiations are yet to be concluded. Notably, the EAC is implementing liberalization commitments in seven sectors (i.e., business, communication, distribution, education, finance, tourism and transport services), and 26 countries have agreed to negotiate a services liberalization chapter under the COMESA-EAC-SADC Free Trade Agreement. At the continental level, the decision to launch the CFTA with an agreement on liberalizing trade in goods and another on liberalizing trade in services at the same time reflects a desire of African countries to set in place the necessary trade regime to exploit potential trade and welfare gains from services.

2.2: Intra-African Trade in Services Agreements

In 1991, African States agreed to establish the African Economic Community under Article 54 of the Abuja Treaty, to be achieved through a six stage process as illustrated in Figure 1. The staged approach envisages building on the existing levels of liberalization already achieved at intra- and inter-regional levels. Ideally, CFTA trade in services liberalization would be an improvement to the liberalization commitments in the RECs. Also, it would be meaningful for CFTA parties to ensure coherence in the liberalization process and offer each other better concessions than those offered to third parties. It is thus important to assess the existing liberalization commitments by African States and to the extent possible the implementation status. In general it can be noted that RECs are making modest but steady progress in services trade and various instruments exist. The level of openness and scope of some of the regional services trade regulation varies across RECs.

Figure 1: African Economic Community Stages



There are eight regional economic communities (RECs) recognized by the African Union (Sauvé and Shingal, 2014). All of them have some form of services agreements ranging from cooperation in some sectors to comprehensive trade liberalization. The cooperation agreements tend to focus on harmonization of regulations, technical standards and development issues in specific sectors. The comprehensive trade in services liberalization agreements (mostly modeled on GATS) focus on trade rules in terms of market access and national treatment aspects covering services sectors and sector specific liberalization commitments as inscribed in the schedules of specific commitments.

The Common Market for Eastern and Southern Africa (COMESA) was established in December 1981. Member countries are Burundi, Comoros, Djibouti, DR Congo, Eritrea, Egypt, Ethiopia, Kenya, Libya, Madagascar, Malawi, Mauritius, Rwanda, Seychelles, Sudan, Swaziland, Uganda, Zambia and Zimbabwe. The COMESA Regulations on trade in services, adopted in 2009, provides for progressive liberalization of trade in services starting with seven priority sectors namely business, communication, construction, energy, finance, and tourism and transport services. Prior to adoption of the services regulations, COMESA members had cooperation agreement in transport and financial services in support of trade in goods.

Currently, member countries are negotiating the schedules of commitments in seven priority sectors. As of 2015, 15 of the 19 member countries have exchange offers in communication, finance, transport, and tourism services. The offers are yet to be adopted and subsequently implemented. Liberalization commitments in the remaining services sector will be handled at a later stage. In addition to trade in services liberalization, members have agreed to visa free movement of persons up to 90 days in every 365 days. Liberalization commitments exist in COMESA on mode 4 commitments providing for elimination of quantities restrictions and economic needs tests (ENT) requirements in categories such as independent and contractual service suppliers by 2015. However, none of the exchanged offers comply with the agreed mode 4 (movement of natural persons supplying services) targets.

The East African Community (EAC) was established in 1999 composed of five members such as Burundi, Kenya, Rwanda, Tanzania and Uganda. The EAC vision is to establish a prosperous, competitive, secure, stable and politically united East Africa. This will comprise of a customs union in the form of a single customs territory; a common market with four freedoms and two rights (namely free movement of services, capital, persons and labour, and right of establishment and of residence); a monetary union with a single currency; and a political federation.

EAC achieved full customs union in 2010, common market was established at the same year and has since launched a monetary union expected to be fully implemented by 2020. As part the common market, members guarantee free movement of services through progressive liberalization and in principle it does not envisage preservation of any market access or national treatment limitation by the member countries. The schedules of commitments were agreed in seven priority sectors such as business, communication, distribution, education, finance, transport, and tourism services. While there is no date/deadline is set, liberalization commitments in the remaining sectors are foreseen in the near future. Also, it is important to note that EAC has signed mutual recognition agreement in accounting and architectural services and negotiations for similar agreements in the remaining professions are underway. Also the common market extends to right of establishment, and movement persons (up to 180 days) on gratis visa as well as free movement of capital and workers in line with adopted schedules. [9]

It is important to note that although the Protocol does not provide market access limitations, the schedules have a column on market access and national treatment limitations by modes of supply with elimination date. A literal translation of the commitments would imply that parties had listed the existing market access and national treatment limitations that should be eliminated on the respective dates inscribed in the schedules. Although individual State party positively enumerated market access and national treatment limitations for each mode of supply, the target date for elimination of all listed limitations is 2015. In other words, it is hoped that by 2015 EAC will achieve full liberalization in the services sub-sectors listed in their schedules of commitments. A literal count of sub-sectors in the seven priority sectors covered by each state party indicates a varying sectoral coverage with most by Rwanda (104), Uganda (96), Burundi (76), Kenya and United Republic of Tanzania (61) each. Table 6 below provides a list of subsectors in the seven-priority sector covered in the liberalization commitments at EAC Common Market and GATS commitment. In addition, the Annex on Mutual Recognition of Academic (MRA) and Professional Qualifications was adopted in 2011 and three MRAs on professional services in legal, accounting and auditing, and architects and quantity surveyors have since been concluded.

Table 6: EAC Liberalization Commitments vis-à-vis GATS (1994) commitment

Countries/Sectors	Burundi	Kenya	Rwanda	UR of Tanzania	Uganda	Number Sub-sectors in W/120
Business	**31**	**15**	**32**	**7**	**32**	**46**
Communication	**6**	**16**	**21**	**18**	**20**	**24**
Distribution	**3**	**3**	**4**	**2**	**4**	**5**
Education	**4**	**4**	**5**	**4**	**5**	**5**
Financial	**9**	**12**	**16**	**17**	**12**	**17**
Tourism	**4**	**3**	**4**	**4**	**4**	**4**
Transport	**16**	**8**	**22**	**9**	**22**	**35**
Total	**73**	**61**	**104**	**61**	**99**	**136**

It is expected that as a first step of implementation countries would undertake necessary regulatory reforms for domestication of the agreements. A review by EAC and World Bank (2014), of more than 500 key sectoral laws and regulations of the EAC Partner States identified at least 63 measures inconsistent with commitments to liberalize services trade within the EAC. The review focused on professional services (legal, accounting, architectural, and engineering), road transport, distribution (retail and wholesale), and telecommunications legislation. The measures are most common in the United Republic of Tanzania (17) and Kenya (16), followed by Rwanda (11), Uganda (10), and Burundi (9)[10]. It is worth noting that the existing mode 4 commitments by all the States in the seven sectors are linked to schedules of commitment on free movement of workers. The linking has brought some implementation challenges and which parties are trying to resolve.

The Economic Community of Western African States (ECOWAS) was established in 1975 and its object is to promote economic integration in "all fields of economic activity, particularly industry, transport, telecommunications, energy, agriculture, natural resources, commerce, monetary and financial questions, social and cultural matters ....." . Member countries are Benin, Burkina Faso, Cape Verde, Ivory Coast, Gambia, Ghana, Guinea, Guinea Bissau, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone and Togo. ECOWAS agreed on free movement of persons and right of establishment in 1976, which has evolved to allow visa free movement (up to 90 days) to the use ECOWAS Passport and Residence Card/Permit parallel with harmonization of regulations in services sectors i.e., telecommunication and transport in particular. In addition, the sub-regional West African Economic and Monetary Union (WAEMU/UEMOA) comprising of eight members of ECOWAS have agreed to further liberalize trade in services in the context of a common market.

There are no scheduled liberalization commitments but sectoral agreements within the region that promotes trade liberalization including (a) UEMOA Directives harmonizing regulations in telecommunications; maritime, road, and air transport services; (b) ECOWAS Supplementary Act harmonizing telecommunications regulations; (c) Intra-UEMOA liberalization (modes 3 and 4) for dental, medical, accounting, legal and architectural services, and (d) ECOWA new regulatory framework to reduce historical monopolies.

Implementation of commitments has been difficult and at times in effective in many services areas due to challenges related to limited political and financing support; policy incoherence, legislative and language heterogeneity among member countries. Also, some regulations like the UEMOA directive is yet to be ratified while the non-domestication of regional agreements such as the ECOWAS telecommunications regulation has affected implementation of related commitments.

Economic Community of Central African States (ECCAS) established in 1983 and the member countries are Angola, Burundi, Cameroon, Central African Republic, Chad, Congo, Congo DR, Equatorial Guinea, Gabon and Sao Tome and Principle. ECCAS has a cooperation agreement in communication; transport; energy; education and training; and tourism sectors. The Economic and Monetary Community of Central Africa (CEMAC) a sub-group of ECCAS countries, has undertaken deeper liberalization in air transport and telecommunication services. Also, the ECCAS treaty provides for free movement of persons and right of establishment in accordance with Annex VII. However, there is no agreement in the context of trade in services liberalization.

Inter-Governmental Authority on Development (IGAD) founded in March 1996 comprised of member countries such as Djibouti, Ethiopia, Kenya, Mauritius, Somalia, Sudan and Uganda. One of the objectives of IGAD is to harmonize policies with regard to trade, customs, transport, communications, agriculture, and natural resources, and promote free, movement of goods, services, and people and the establishment of residence. Currently IGAD members are developing a draft protocol on movement of persons as a stepping stone in regional integration process.

The Southern African Development Community (SADC) was founded in 1992. Current member countries are Angola, Botswana, DR Congo, Lesotho, Malawi, Madagascar, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, United Republic of Tanzania, Zambia and Zimbabwe. In August 2012, SADC member States signed a Protocol on Trade in Services, which is largely modeled on GATS, providing for progressive liberalization of trade in services in different round of negotiations with the 1st round covering six priority sectors namely communication, construction, finance, energy, tourism and transport. The negotiations were scheduled for conclusion in March 2015. However by that date, only eleven countries have submitted offers most of which covers communication, finance, tourism and transport services.

Negotiations in the five remaining sectors as well as Mutual Recognition Agreements (MRAs) will be addressed in subsequently round(s) of negotiation planned to start with 3 years of concluding the current round. Further to this Protocol, members have signed several Protocols on: transport, communication and meteorology; education and training; health; information, sports and culture, tourism development; and the facilitation of movement of persons[11]. While the sectorial protocols provides for regulatory and standards harmonization; the protocol on facilitation of movement of persons provides for gradually liberalization of immigration to allow visa free movement (up to 90 days), temporary and permanent residence.

Although, the SADC Protocol on Trade in Services provide some flexibilities for States parties to maintain defined market access and national treatment limitation in the sectors, the SADC Scheduling and Negotiating Guideline provides that starting point for liberalization commitments is the existing GATS commitments. Therefore, logically it implies that the SADC liberalization commitment will be somehow be better/more liberal than that of the SADC member States' existing GATS commitment. Also, it is worth noting that the SADC Protocol on Transport, Communication and Meteorology, explicitly provides for liberalization of cross border road transport services through bilateral agreements among States parties.

The Southern African Customs Union (SACU) was founded in 1889. The member countries are: Botswana, Lesotho, Namibia, Swaziland and South Africa. SACU being a customs union does not have an agreement on trade in services, however in April 2013, the 4th Summit of the SACU Heads of State and Government endorsed trade in services as one of her priority areas to underpin a new work programme. Preparations are underway to define the scope and the legal nature of the services work programme. Also, a common SACU travel document is used to allow intra-regional movement of persons in the region.

In **other RECs** there has been little progress in terms of services liberalization. These include IGAD, ECCAS, CEN-SAD and UMA despite the ambition to conclude intra-regional agreements. CEMAC (an ECCAS sub-region) has a cooperation agreement on transport as well as telecommunication. CEMAC has made some progress in liberalization of air transport, implementing a project on Transport-Transit Facilitation and another project on regional undersea fiber optic cables.

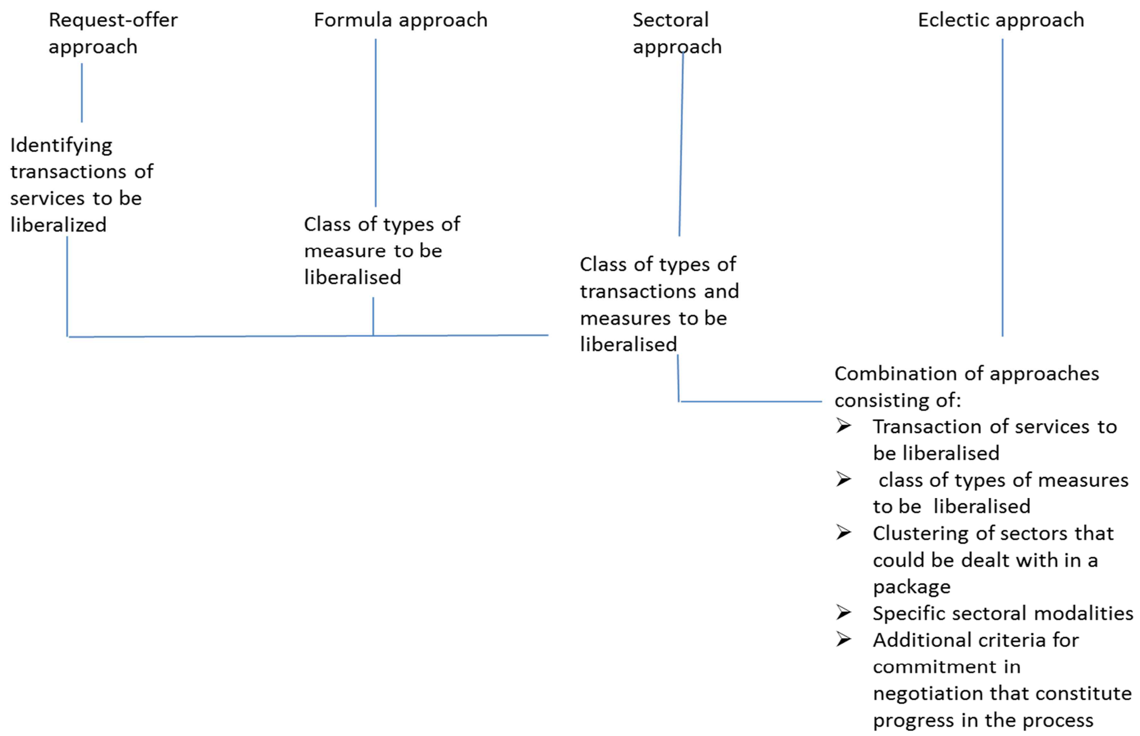
In terms of **agreements between African countries and third parties**, all African countries members of the WTO undertook GATS commitments, as well as those that are negotiating their accession to WTO Agreement. Some countries have signed and/or are negotiating trade agreements, which include services liberalization at bilateral level including among others the US Trade and Investment Agreement and the Economic Partnership Agreement with EU under the ACP-EU Cotonou Agreement. Apart from the EU-South Africa Trade Development and Cooperation Agreement (TDCA), all the concluded/initialed EU-EPAs with the African countries are yet to include services chapter with specific liberalization commitments.

CHAPTER 3: SERVICES NEGOTIATION MODALITIES AND APPROACHES

The quality of services agreement depends upon several factors. These include coverage (sectors, modes of supply), transparency obligations, national treatment obligation, scheduling at level of status quo, future liberalization commitments, breadth and depth of other included disciplines, rule of origin criteria/denial of benefits and regulatory annexes. The quality can also be affected by the scheduling technique adopted, reflecting weaker or stronger approach. It can also be affected by the structure of the services agreement, i.e., by the way in which the agreement is reflected in architecture of the economic integration process. [12]

General there has been varied approaches to trade in services negotiations across the different regional economic integration mostly determined by the objective and the complexities involved in both the negotiations and membership. These approaches can be clustered into four groups such as request-offer, formula, sectoral and hybrid i.e., "eclectic" approach. Figure 2 below provides an overview of the various approaches. The choice of appropriate modalities to is key to effective and successful negotiations. It is important for decision makers to understand the various modalities in determining the appropriate approach for the CFTA, and to note that no two agreements are identical as services agreements demonstrate a wide variety and diversity.

Figure 2:Approaches to Services Negotiations



Source: Kartadjoemena, H. S. (2003).

3.1: Types of Negotiating Modalities

3.1.1: Request-offer approach

The request-offer approach involves one country (usually with exporting interest) requesting a trading partner(s) to open-up or liberalize (sub) sector(s). The request could be general or target specific measure(s), type of measures or transactions to be liberalized. The requested partner responds to the request(s) through an offer indicating the intended level of liberalization. Once the offer is exchanged, parties will engage each other in bilateral negotiations after which the offer is revised until both parties agree. The final offer constitutes the schedule for implementation of liberalization commitments applying to all services and suppliers of the parties.

The request-offer approach is a step process that allows for flexibilities in terms of the depth of liberalization across sub-sectors and/or sectors i.e., countries can choose what and what not to request and or offer in the different sectors. It is suitable where members have diverse import and export interest, varied economic structures and levels of development. It is used in WTO both for GATT and GATS negotiations, where the membership is large and is virtually complicate to bring together representatives of the entire WTO member in a room/forum to negotiate with one country's offer. Although not commonly used in FTA agreements on trade in services, SADC member states are using it while COMESA agreed on the same but so far have abandoned it in their on-going services negotiations.

3.1.2: Formula Approach

The formula approach involves an agreed formula for liberalization. The objective is to ensure equitable effects in tariff reductions thus higher cuts for higher tariff and low reductions in case of low tariffs. With a formula approach the parties would agree in advance on the tariff cut levels as well as the equitable effects. This approach is used in GATT negotiations such as the formula proposed by Switzerland famously known as the "Swiss formula". It is important to note that there are exceptions to this approach, allowing no or varied tariff reductions for sensitive products in particular. For trade in services, a formula approach implies deeper liberalization levels in case of highly protective/trade restrictive measures and *vice versa*. This means that parties would have to agree in advance. However, it has been observed that formula approach in services liberalization is technical and must be policy-driven with necessary political support.

A formula approach in case of services liberalization could target modes of supply or measures (sectorial or horizontal). Targeting modes of supply would include commitments of measures applicable in the respective modes of supply that are subject to liberalization. These could be centered on the elimination of limitations listed under GATS market access limitations as they apply to the various modes of supply. Some exceptions may be necessary for some sector for example to take care of non-discriminatory prudential measures in financial and health services. Annex 1 of the COMESA Regulations on Trade in Services contains clear-cut commitments on progressive removal of mode 4 limitations (i.e. quantitative restrictions and economic needs tests) with timeframes.

Some examples of formula approach targeting sectoral measures used under the WTO/GATS include a) model schedules on maritime transport (2) reference paper telecommunication [13], and c) the "understanding" on financial services. A similar approach targeting sectoral measure features in the ongoing and the concluded EPA negotiations by incorporating some aspects of sectorial regulatory commitments in the framework agreement. The same approach has been adopted in the on-going SADC trade in services negotiations.

The targeted sectoral measures in the telecommunication reference paper comprise of common commitments on domestic regulatory issues such as competitive safeguards, access to facilities/services (i.e. interconnection, universal services and allocation of scarce resources), transparency (i.e. licensing) and independence of regulators. The "understanding" on financial services contains some commitments on market access (prudential measures, recognition and dispute settlement), public procurement, the treatment of new financial services, and a standstill clause. The mode schedule on maritime transport encourages greater clarity and use of standard classification in scheduling commitments. It also identifies areas for: common commitments, where varied liberalization commitments are possible and those that are excluded i.e., cabotage.

The formula approach could be used to target trade distortive horizontal/cross-cutting measures. More often, these are measure in domestic public policies, which may limit freedom of entry of foreign service-providers. A formula approach in this regard would mean a commitment to remove (may be progressively) all limitations on say a number of services suppliers, foreign capital participation and all discriminatory measures. This approach would result in major policy shifts and relinquishing of national economic sovereignty, thus it very political sensitive and may stall negotiations. It is suitable in a context for a common market agreement where there are less divergent economic interests among parties. The EAC common market agreement seem to have followed this approach; in the absence of an article on market access it does not allow explicitly and does provide flexibilities for parties to maintain any limitations in any sectors. Article 16(5) of the EAC Common Market Protocol provide *"…the Partner States shall progressively remove existing restrictions and shall not introduce any new restrictions on the provision of services in the Partner States, by nationals of other Partner States except as otherwise provided in this Protocol*"

3.1.3: Sector Specific Approach

An alternative approach to request-offer and the formula approaches involve an agreement on various measures that should be reduced or eliminated in specific sectors. The advantage of sector-specific approach is that it allows coverage of sectoral peculiarities but the risk could be an attempt by some countries to opt-out of negotiations in a sector of no or less interest to them. To optimize on the benefits and risks of this approach WTO/GATS negotiations include a general commitment on the scope and coverage i.e., include all services sectors and allowed sectoral agreements in a form of annexes to take care of sectoral peculiarities. GATS annex are on financial, telecommunications, maritime and air transport as well as on movement of natural persons.

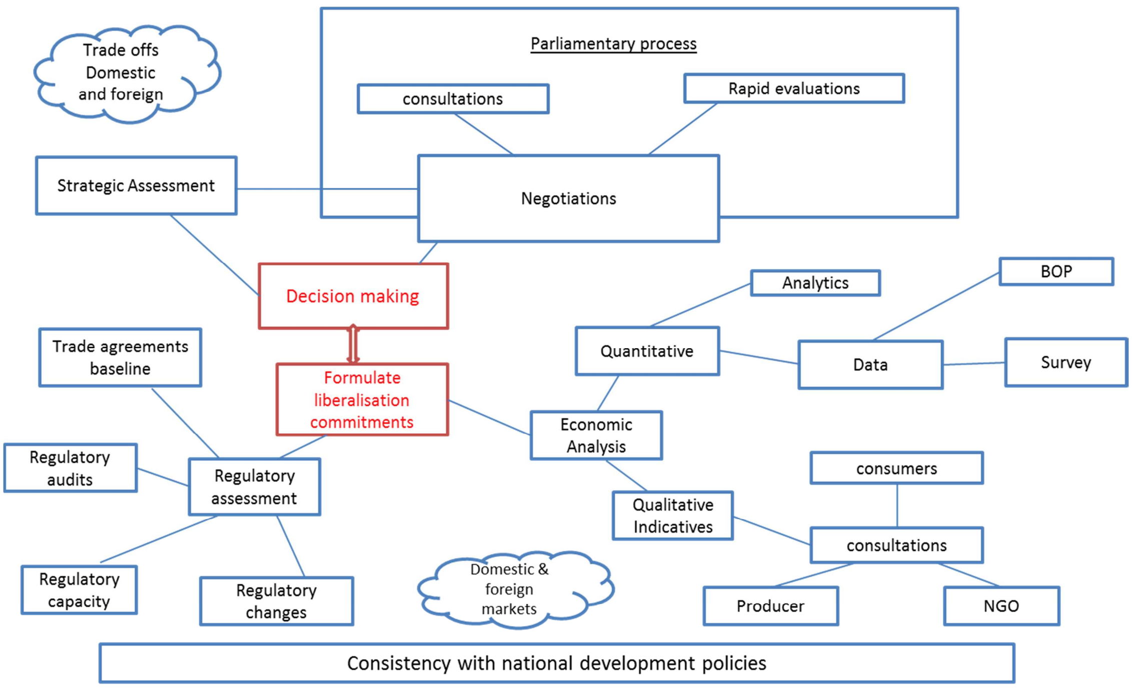
3.1.4: Eclectic Approach

Eclectic approach as the name suggests it is a combination of the various approaches consisting of some aspects the request-offer, formula and sector-specific approaches as appropriate. It will include a different approach for example in negotiating the framework agreement on general trade principles/rules and different approach in negotiating the liberalization commitments as well as the mutual recognition agreements if any.

3.1.5: Selection of Negotiating Modalities

Generally, each of the negotiating modalities has advantages and disadvantages therefore the most important issues are the political environment and liberalization ambition that will dictate the appropriate approach. However, any selection of one approach over the other involves trade-offs and complexity which the negotiator must understand to achieve the optimal level of liberalization. This will include a complex analysis as depicted in Figure 3 below.

Figure 3: Complexity in Services Sector Analysis



Source: **Author's adaption**

3.2: Liberalizing Trade in Services

3.2.1: Schedules of commitments

Liberalization commitments consist of the general undertakings and sector commitments. In a trade in services agreements, member States commits to fully or partially liberalize the services sector by substantially eliminated or reducing trade restrictions on a non-discriminatory basis. The specific commitments are usually listed in form of schedule (see Box 1) similar to tariff schedule in trade in goods, stating the market access and national treatments conditions/terms which applies in liberalized sectors and subsectors. The schedules of specific commitment consist of four columns such as: a) sector and subsector, b) market access limitations c) national treatment limitations and d) additional commitments.

Box 1: Services Schedules Matter

Services schedules, as under WTO GATS, contain terms and conditions under which market access and national treatment will be provided for services activities. These also allow flexibilities in specific sectors/subsectors/modes of supply such as possibility of not undertaking commitments, and the possibility of introducing limitations. Services schedules involve the following:

- set out the degree of liberalization a country commits to (e.g., requirements for certain domestic measures affecting trade in services);
- create “legal predictability”;
- are legally binding and enforceable;
- allow liberalization, while preserving the right to regulate;
- are detailed documents (on sectors/measures); and
- require information and data, and technical knowledge.

Source: Louisa Rodríguez, Economic Affairs Officer, UNCTAD. Presentation on "Understanding, Preparing and Interpreting Schedule of Commitments for Services", 24-28 August 2015, Nairobi, Kenya.

Market Access comprises the conditions for allowing the supply of services from a member country into another member territory. When a Member undertakes a commitment in a sector or subsector it must indicate for each mode of supply of service what limitations, if any, it maintains on market access. The market access limitations comprise of conditions that modifies the terms of competition among services and services suppliers. The targeted market conditions in case of GATS are those related to restrictions on foreign capital participation, type of legal entity or quantitative (i.e. number of services suppliers, number of services operations, number of natural persons and total value of services transactions or assets).

On the other hand, **national treatments limitations** are those conditions that favor national services or services supplier over the foreign services. A measure would be considered less-favorable if it modifies the terms of competition in favor of a foreign services or services supply. Generally, a member is obligated to accord to the services and service suppliers of any other member States, treatment no less favorable than is accorded to domestic services and service suppliers. In case a member State wishes to maintain a measure that will be less-favorable for foreign services and services supplier, then it must indicate as such under the national treatment limitations column. Typical national treatment limitations includes such measures on nationality and residence requirement, discriminatory and other fiscal measures, discriminatory licensing/registration and qualification/training requirements, technology transfer requirements, prohibitions on foreign land/property ownership and local content requirements.

Additional commitments includes measures other than those on market access and national treatment such as qualitative (minimum) and procedural requirements - regulatory autonomy of member States subject to rules aimed at minimizing trade restrictive effects. This is optional for a member State wishing to undertake positive additional commitments, not the listing of additional limitations or restrictions. These are measure in the domestic regulations which supports implementation of the liberalization commitments. More often, where member States are divergence on the level of regulatory commitments, they could negotiate the key principles in the sector e.g. GATS Reference Paper on Basic Telecommunication and individual member States may wish to undertake additional commitments in line with the negotiated principles.

3.2.2: Scheduling approaches

There are two approaches for scheduling the liberalization commitments namely: (a) a “positive list” or “Bottom-up” approach, largely based on the WTO GATS approach; and (b) a “negative list” or “top-down” approach, largely based on NAFTA and increasingly adopted by emerging regional integration agreements. The two approaches are discussed below including their advantages and disadvantages. There is also an hybrid approach used in the proposed Trade in Services Agreement (TISA) combing both approaches with a positive list for market access and negative list for national treatment.[14]

The positive list approach involves listing of sectors and subsectors that are subject to liberalization and for each of the subsector a member State lists the market access and national treatment imitations applicable to the four modes of supply. A shorthand description of the positive list approach is as follows: “only the listed sectors are liberalized and everything else is not”. For sectors where liberalization commitments are not made, the most favored nation (MFN) principle will apply. This approach was adopted in the context of GATS schedules and some FTAs including COMESA, EAC and SADC.

The advantages of the positive list are the following that it allows for application of special and differential treatment to less developed member States and it easy to monitor the negotiating process. It gives comfort to member States as they are clear to what they are exactly committing to liberalize by positively defining the subsectors. It allows for a precise policy space in that it only includes the sector to be liberalized, thus somehow implying cautious liberalization. This approach is normally supplemented by a "standstill” clause In order to ensure members would not introduce new limitations. A prototype example of positive list approach is given in Table 7.

Table 7: Example of a Positive list Approach

Sector Subsector	Market access limitations	National Treatment limitations	Additional commitments
Positive Element: selection of sectors in which Market Access and National Treatment is granted	1) .... 2) ...... 3) .... 4) ...... 1) .... 2) ...... 3) .... 4)	1) ...... 2) ..... 3) ...... 4) [illegible] [illegible] 2) ...... 3) .... 4)	**Regulatory(Negotiated) commitments which other than the market access and national treatment**

Inscribe only the negative conditions on market access and national treatments

The negative approach involves listing of sectors where a member has some reservations i.e., a member States lists those measures in the describe services sector that will not be liberalized. It obliges members to liberalize all forms of discriminatory treatment in all other sectors except for sectors or measure included in the list of reservations (usually attached to the agreement). Generally all the non-conforming measures are bound on entry into force of the agreement and further liberalization rests on progressive elimination of reservations. This approach encourages deeper liberalization commitments and minimizes the policy flexibility, and may create uncertainties as to what exactly is liberalized. A prototype example of the negative approach is shown in Table 8 below.

Table 8: Example of a Negative List Approach

Sector Subsector	Description of reservations
Production of electricity: Distribution and transmission of electricity on own account	Investors from countries which are energy suppliers may be prohibited from obtaining control of the activity. Unbound for direct branching (incorporation is required).

Regardless of whichever the negotiating modality and the scheduling approach is adopted, formulating liberalization commitments involves a complex and lengthy process, as many stakeholders are involved and requires some political and socio-economic decisions. In particular stakeholder consultations would be needed to define the strategic considerations including in terms of the priority services sectors to increase the supply and quality, the defensive agenda (such as areas where regulatory reform must be completed before liberalization is undertaken),and the positive agenda (such as areas where liberalization may be sough). Figure 3 depicts the analytical work and process require in formulation of liberalization commitments.

3.2.3: Hubs and Spokes Approach with Sectoral Negotiations

In addition to the positive list, negative list and hybrid approach, there is another option, namely an hubs and spokes approach with sectoral negotiations.[15] This would comprise a framework services agreement with enhanced services disciplines (GATS plus), together with sectoral protocols negotiated in phases with priority sectors negotiated first, followed by other sectors over time, and agreements on key horizontal trade-related issues. The framework agreement would contain all of the disciplines for the services agreement, either to be applied across the board to all services, or only to those sectors negotiated in the sectoral protocols (to be decided). The priority sectors for sectoral protocols could be those identified in the Abuja Treaty, especially infrastructural services, that are crucial for economic growth and services trade. These include, for example, telecommunications, financial, tourism and energy services. Other services sector could be integrated gradually over time. A protocol on labour mobility could be negotiated with other sectoral protocols. Separate protocols can be negotiated on key horizontal trade-related issues such as investment policy, competition policy, government procurement and intellectual property.

CONCLUSIONS AND SOME SUGGESTIONS

Services are a driver of growth and inclusive development. Services can support a process of structural transformation, characterized by a shift from low - to high - productivity activities, with an increasing share of manufacturing and modern services in output, as well as diversification toward knowledge-intensive activities. The importance of services will increase for Africa as its population and economy grow. Exports and imports of services are likely show dynamic growth for Africa. It is particularly important to consider that the more liberalized the service sector is, the more important it is for African countries to have sound regulatory and institutional framework. Also, the liberalization of services should support universal access, macro-prudential objectives, financial inclusion, fair competition and sustainable development.[16] This calls for a cautious approach to liberalization, sector-by-sector, and policy-by-policy.[17]

Services potential in Africa needs to be unlocked, and the CFTA provides an opportunity to realize that potential. Developing services trade is a key component of successful regional integration in Africa.[18] For African countries, the economic gains from further liberalizing merchandise trade are potentially large. The expected gains from liberalizing services are even larger, and those from boosting services trade and information flows have multiplier effects that are potentially significant. There are some dynamic emerging services subsectors with the potential to generate growth, trade and employment opportunities, which have yet to be tapped. For instance, logistics and distribution could greatly benefit Africa's agriculture and manufacturing sectors. In addition, studies by UNCTAD indicate that services sectors and sub-sectors that are important to facilitate intra-African trade and to boost services production and supply include infrastructural services, distribution services, telecommunications, finance (mobile money), BPOs (front and back offices services), tourism, ICT sectors with pro-development applications like e-government or e-trade, financial services and movement of natural persons supplying services. Most of these services are enablers of effective value chains in the agricultural, non-agricultural and other services sectors. Other important sectors include transport, energy, education, sports and cultural, and logistical services. A particular aspect of the services economy that is highly relevant for Africa is its creative economy. Harnessing the creative and cultural talents of Africa, and protection of regional ethnic intellectual property rights should constitute an important aspect of African continental economic integration.

Trade negotiations and trade rules that are developed under the CFTA will also need to take into account the changes that are taking place in the world market in the 21st century. This should also be reflected in individual African countries' policies and governance structures to ensure that they develop regional value chains both in goods and services so as to link up with GVCs which have altered the way in which firms do business and trade is conducted.

The formation of a CFTA services regime would be a catalyst for harnessing the potential development impact of services economy and intra-African as well as extra-African services trade. The services negotiations should build on the autonomous liberalization and the acquis in the regional economic communities. , which seem to suggest the following priority sectors for the initial round of negotiations: financial, telecommunication, transport, energy, education, sports and cultural, and logistical services. African policymakers need to place greater emphasis on how to move towards the provision of more sophisticated services where there is greater value addition, opportunities for technology transfer and linkage development with other sectors of the economy. Also the gains that flow from openness are not only economic in nature; cross-border exchanges also offer, amongst other things, cultural and political benefits, as well as confidence building among nations and economic actors. Africa stands to gain from a sustained structural benefit brought about by the opening up of African economies to each other and generating benefits that would also spill over to the world at large.

The negotiating approach that is adopted needs to take into account the work that has already been undertaken in the different African RTAs. However, it does not necessarily mean that the CFTA should adopt a similar approach as these RTAs. An approach that will facilitate trade and ensure that African countries develop regional value chains and also join GVCs should be considered. In this regard consideration should be given to the use of the `eclectic' approach in terms of scheduling of commitments which combines various approaches. Also, in terms of structural approach, the hubs and spokes option of a services framework agreement, combined with sectoral protocols and trade-related agreements is worth examining. The complementary protocols can inter alia address the movement of persons supplying services. The liberalizing approach also will need to take cognizance of the fact that African countries are already negotiating in different configurations and it might not be possible to have different schedules of commitments for each grouping. Therefore a hybrid approach may need to be considered.

The following salient suggestions on services trade and trade negotiations under the CFTA, reflecting some of the suggestions above, emerged from a meeting organized by UNCTAD and the African Union Commission in Nairobi, Kenya.[19]

- The services economy and services trade is a potential key driver of economic growth and structure transformation for African countries, including in boosting manufacturing capacities. Services are inputs for manufactures and facilitate trade in goods. Infrastructure services promote competitiveness but need to be mainstreamed into the long, medium and short term plans and the budgeting cycles in member states. This is a key message from UNCTAD's Economic Development in Africa Report of 2015 on "Unlocking the potential of Africa's services trade for growth and development" and UNCTAD services policy reviews undertaken for several African countries.

- The formation of a CFTA services regime would be a catalyst for harnessing the potential development impact of services economy and intra-African as well as extra-African services trade. The services negotiations could build on the autonomous liberalization and the acquis in the regional economic communities, which seem to suggest the following priority sectors for the initial round of negotiations: financial, communication, transport, energy, education, sports and cultural, and logistics services.

- In light of the 8 designated RECs as building blocks for the CFTA and the multiple agreements under them dealing with trade reform and various trade related areas, lessons learnt from various models or best practices that exist for organizing multiple trade agreements could be considered. For example the WTO approach includes an overarching Agreement to which are annexed the sectoral agreements.

- The pan-African services liberalization regime would set out key obligations and rights as well as general exceptions and safeguards, drawing on best practices in common markets, to be achieved progressively, and providing flexibilities for LDCs. Another approach to services liberalization is provided by the TISA. Given the novelty and complexity of services, support in building up institutional, human and regulatory capacities of African countries to enhance their readiness and preparedness to commence negotiations is necessary. It needs to include *inter alia*:
    - Further training of services trade negotiators, including scheduling of such training back-to-back with official services trade negotiations sessions under relevant AU bodies on CFTA negotiations. The workshops would equip trade negotiators and stakeholders with relevant information and evidence-based policy implications on pertinent issues up for negotiations.
    - Conduct regulatory mapping and gap assessment of the existing situation in African countries and RECs, drawing upon information available within countries and RECs.
    - Conduct a situational analysis of the services liberalization regimes in RECs, drawing upon material such as the UNECA's Assessing Regional Integration in Africa (ARIA) VI report, or UNCTAD's Economic Development in Africa reports, TRALAC's reports and others.
    - Request UNCTAD, working together with the AUC, to undertake national services policy reviews for African countries.
    - Undertake services studies at African-wide level or sectoral studies as being conducted by AUC on education services.
    - Seeking improvement on the availability of services economy and trade data in African countries including enhancing awareness and coaching on use of existing databases.

- The capacity of the AUC to support CFTA negotiations in goods and services was underlined as an important factor.

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Endnotes

1UNCTAD facilitates through its Multi-year Expert Meeting on Trade, Services and Development, discussions among member States on the regulatory and institutional dimensions in the development of the services sector, including infrastructure services sectors. These meetings, supported by report prepared by UNCTAD, discuss in-depth regulatory and institutional frameworks and cooperative mechanisms with a view to enhancing services supply and trade capacity, and the efficiency and competitiveness of the services sector. For details consult the following website: http://unctad.org/en/Pages/Meetings/Expert-Meetings.aspx

2 This is a key message emerging from UNCTAD's Economic Development in Africa Report of 2015 (UNCTAD/ALDC/AFRICA/2015) on "“Unlocking the potential of Africa's services trade for growth and development" and UNCTAD services policy reviews undertaken for several African countries including Uganda ((UNCTAD/DITC/TNCD/2013/12), Rwanda (UNCTAD/DITC/TNCD/2013/6) and Lesotho ((UNCTAD/DITC/TNCD/2012/1).

3 UNCTAD undertakes services policy reviews of developing countries that provide a systematic review of the economic, trade policy, regulatory and institutional frameworks characterizing a country's services sectors with a view to developing options and strategies to help the country better harness the development benefits of the services sector and of international trade in services. African countries that have benefited from such services policy reviews include Uganda, Rwanda, Lesotho, Angola and Mozambique. For details please consult UNCTAD website: http://unctad.org/en/Pages/Publications/Services-Policy-Reviews.aspx

4 See for discussion UNCTAD, 2016, African Continental Free Trade Area: Developing and Strengthening
Regional Value Chains in Agricultural Commodities and Processed Food Products (UNCTAD/WEB/DITC/2016/4).

5 Presentation by Ms. Laura Páez of UNECA at a “Regional Meeting On Promoting Services Sector Development And Trade-Led Growth In Africa” held in Addis Ababa, Ethiopia, 12-13 September 2013.

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8 Services opportunities and challenges are discussed in UNCTAD, Economic Development in Africa Report of 2015 (UNCTAD/ALDC/AFRICA/2015).

9 For more discussion see Dorica Suvye Phiri, Presentation on Trade in Services in the EAC Region, 24-28 August 2015, and Nairobi, Kenya.

10 Burundi’s strong performance on the scorecard is partly due to the fact that some of its sectors are not yet regulated through sectoral legislation.

11 Not yet in force due to insufficient number of countries that have ratified

12 Sherry Stephenson, Presentation on "Overview of Various Approaches to Services Liberalization", 24-28 August 2015, Nairobi, Kenya.

13 Similar reference papers were proposed (were not adopted) for postal & courier services and tourism services during Doha round (see WTO Documents TN/S/W/26; S/CSS/W/107 and S/C/W/147).

14 See ibid.,Sherry Stephenson.

15 See ibid.,Sherry Stephenson, who proposed this approach.

16 See Michiko Hayashi, Presentation on Services in the Global Economy: Key Issues for Development, 24-28 August 2015, Nairobi, Kenya.

17 See William David, Presentation on Service Trade and African Integration, 24-28 August 2015, Nairobi, Kenya.

18 UNCTAD, Building the African Continental Free Trade Area: Some Suggestions on the Way Forward (UNCTAD/DITC/2015/1).

19 See Report on the Training Workshop on Trade in Services Negotiations for African Union Continental Free Trade Area Negotiations, 24-28 August 2015, Nairobi, Kenya.