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Driving Inclusive Growth and Enhancing Intra-African Trade through Service Sector Development

Inclusive Economic Growth through Services Regulation

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Content

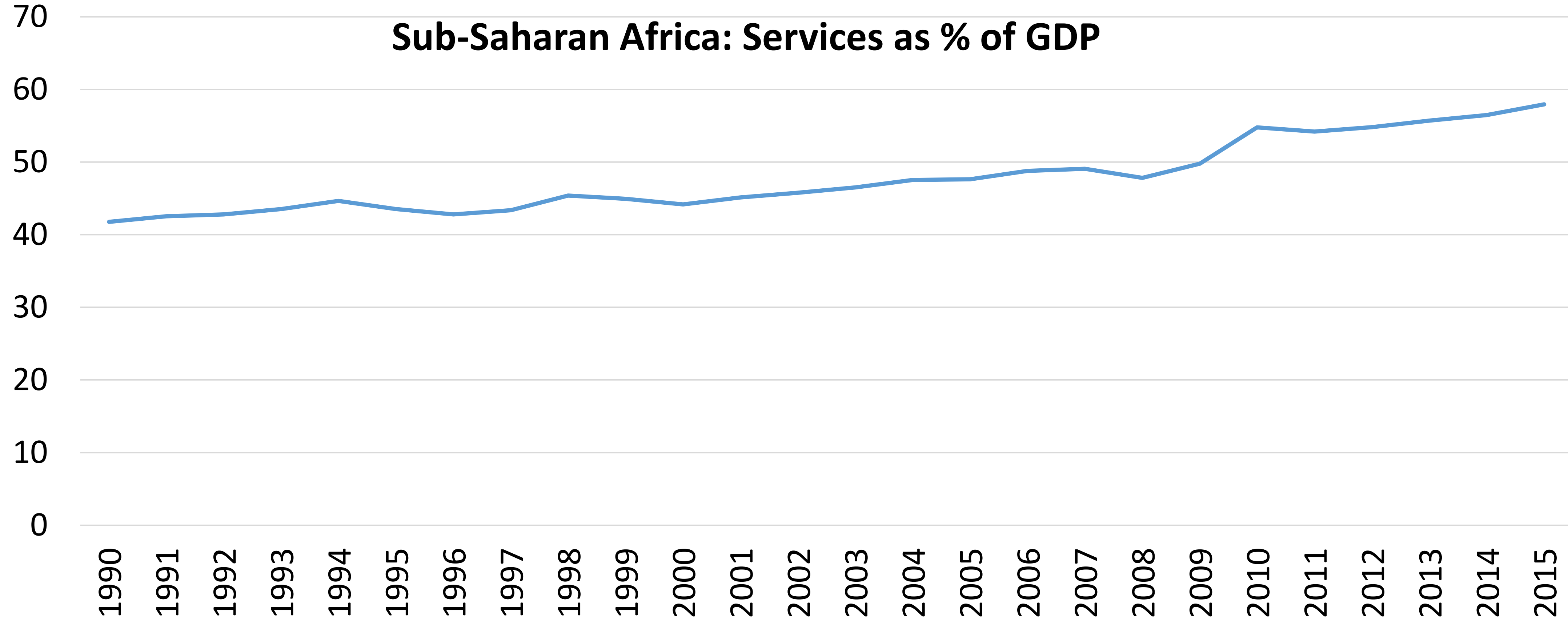
Introduction

- Importance of services trade still unrecognised / misunderstood
- Large focus on tourism – limited expansion and diversification of other service sectors
- Low levels of competitiveness in other sectors
- Policy environment is not conducive to service sector-specific development

- Recommendations will be made towards developing service sector policy focus in southern African countries

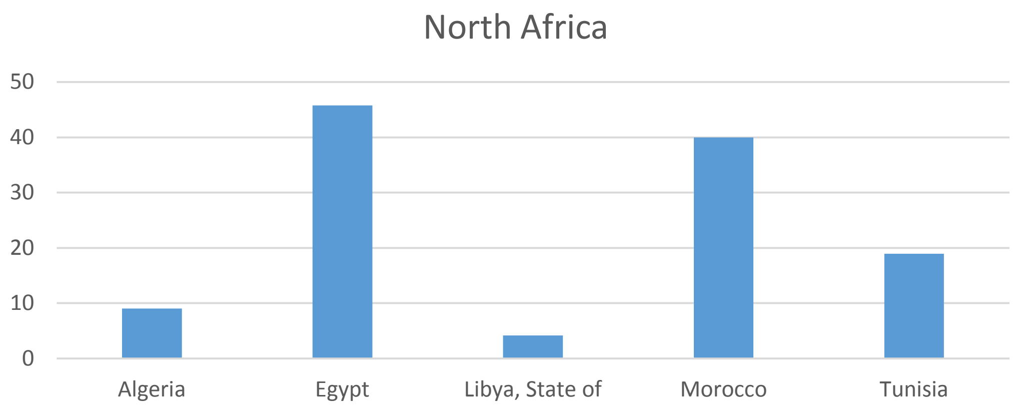
Importance of services of Southern Africa:

a. Services as % of GDP

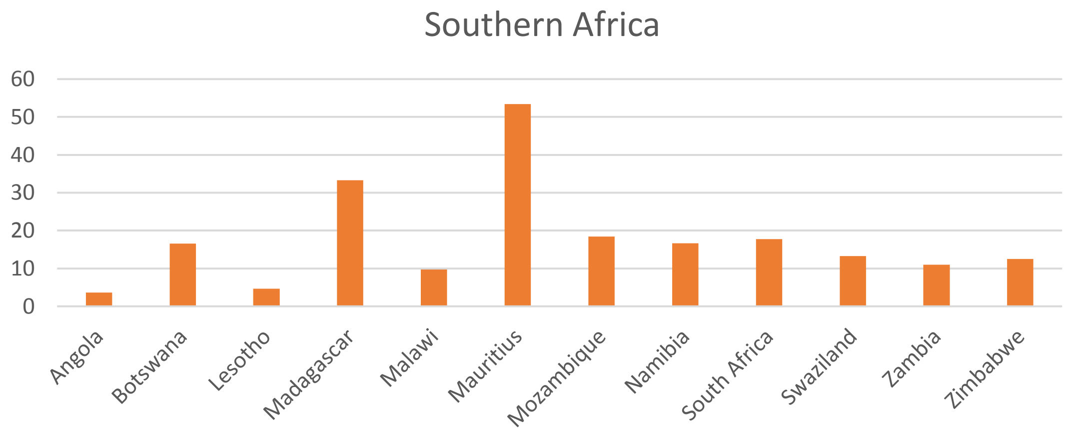


World Bank, 2017

b. Services as % of total exports by region (World Ave = 34%)

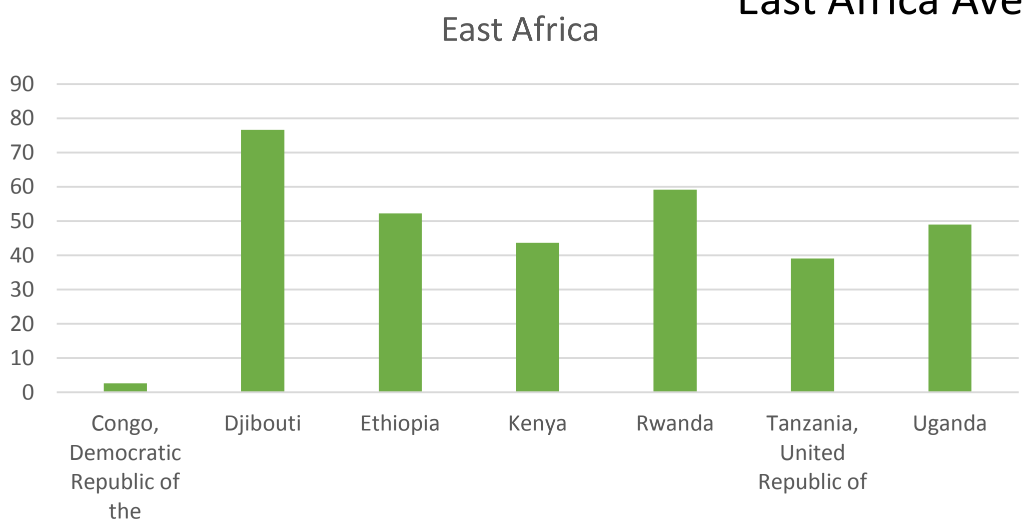


North Africa Average = 24%

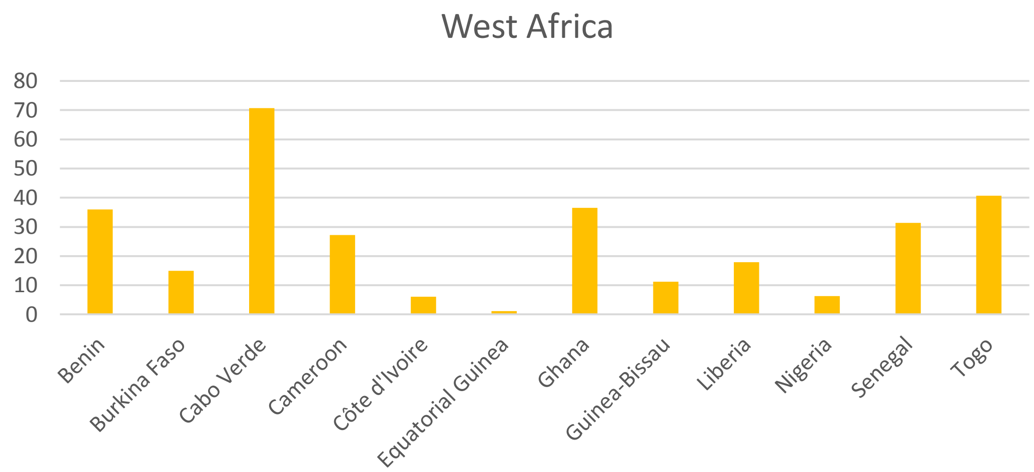


Southern Africa Average = 18%

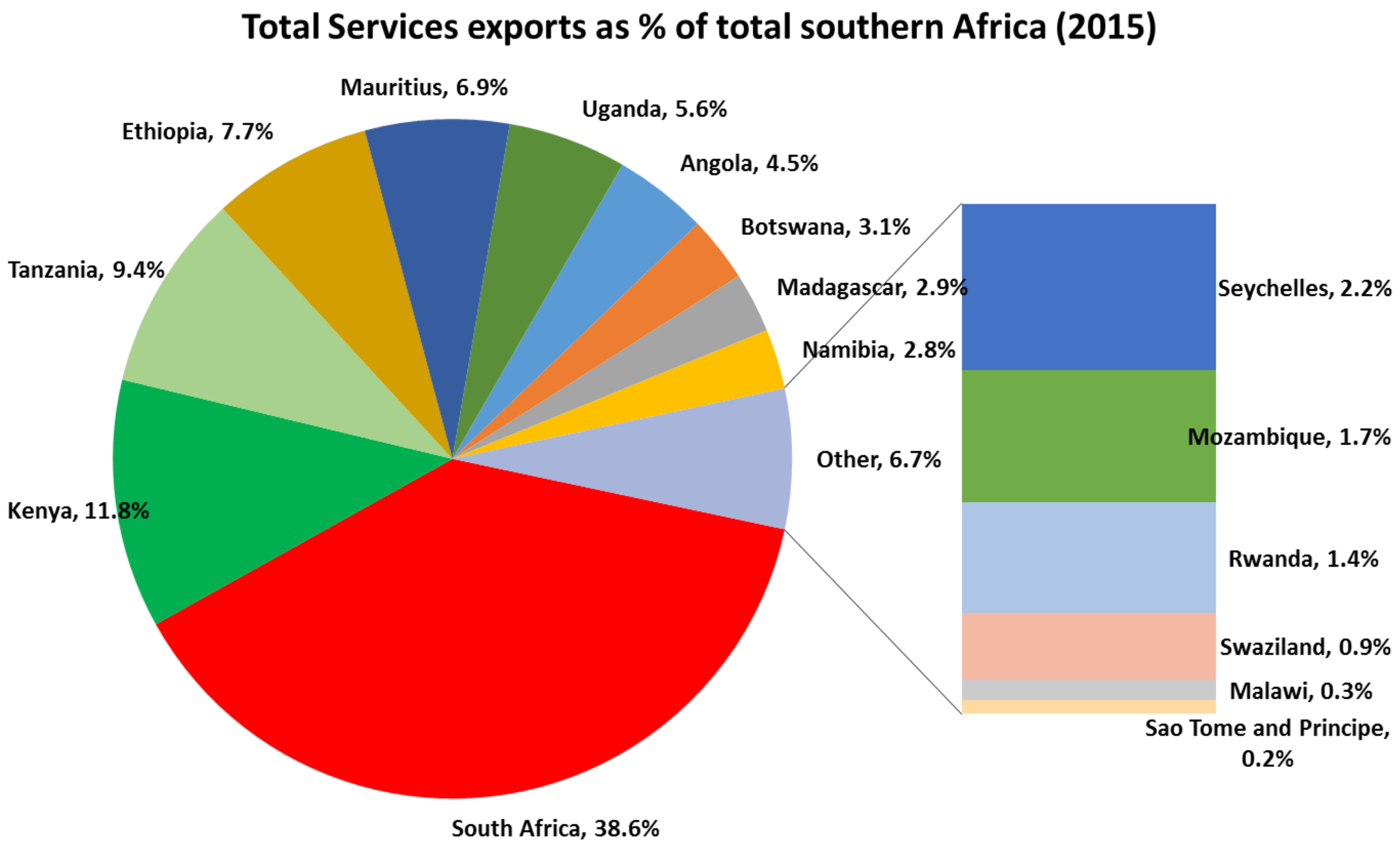
East Africa Average = 46%



West Africa Average = 25%



c. Total service exports as % of total exports by country



- Data for services trade are limited.
- **South Africa** dominates southern African services exports in value terms.
- **Kenya** is also a strong exporter of services, specifically in financial services, insurance and pension services, telecommunication and ICT services and transport services.

Process of liberalisation of services in southern Africa

- Commitments under WTO GATS
- SADC Protocol on Trade in Services currently under negotiation (follows GATS structure)
  - Communication, transport, tourism, financial services, construction and energy
- TFTA and CFTA
- Actual liberalisation?

Supply-side constraints to services in Southern Africa

- Southern African countries are far removed from international markets
  - This causes higher trade costs, less competitive service sector
- Majority of services firms are small- and medium-sized (SMEs)
  - Facing the typical constraints of any SME (limited resources, finance, capacity, lack of skills, no foreign market intelligence)
  - Also service sector SME constraints (compliance issues, visa & immigration)
- Limited focus on services in domestic and trade policies
- Investment still lacking in the services sector
  - FDI mostly towards primary sector (foreign affiliates in extractive, fuel and mining sectors)
- Data constraints and limitations which hinder governments from understanding the services sector

Competitiveness of services

- To increase trade in services, southern African countries need to identify competitiveness
- Many elements can be evaluated to determine competitiveness in services, but RCA is a good start

- Revealed Comparative Advantage (RCA) is an index used to calculate the relative advantage/disadvantage of a certain country, in goods or services.
- A comparative advantage in a good/service is “revealed” if RCA>1.
- If RCA<1, the country is said to have a comparative disadvantage.

RCA in service sector exports

	South Africa			Botswana			Angola			Mozambique			Malawi			Zambia			Tanzania			Kenya		
Service sector	**2010**	**2015**	**5yr time wght**	**2010**	**2015**	**5yr time wght**	**2010**	**2015**	**5yr time wght**	**2010**	**2015**	**5yr time wght**	**2010**	**2015**	**5yr time wght**	**2010**	**2015**	**5yr time wght**	**2010**	**2015**	**5yr time wght**	**2010**	**2015**	**5yr time wght**
Manufacturing services on physical inputs owned by others	0,01	0,01	0,01	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Maintenance and repair services n.i.e.	0,11	0,16	0,23	0,00	0,00	0,00	0,00	0,01	0,02	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Transport	0,99	0,92	0,95	0,19	0,22	0,22	0,26	0,11	0,11	1,78	3,40	3,17	2,11	1,11	1,07	0,40	0,29	0,34	1,14	1,54	1,45	2,25	2,50	2,44
Travel	2,36	2,21	2,23	3,32	3,04	3,01	3,51	3,72	3,76	1,85	1,07	1,14	1,62	1,20	1,20	3,60	3,08	3,02	2,56	2,39	2,41	0,89	0,66	0,69
Construction	0,07	0,08	0,07	0,22	0,75	0,74	1,73	0,00	0,03	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Insurance and pension services	0,71	0,56	0,58	0,02	0,15	0,14	0,00	0,00	0,00	0,00	0,00	0,00	0,43	1,14	1,20	0,54	3,85	4,25	0,63	0,46	0,45	0,36	0,00	0,37
Financial services	0,62	0,66	0,64	0,01	0,01	0,01	0,00	0,00	0,00	0,20	0,00	0,01	0,00	1,55	1,59	0,00	0,00	0,00	0,04	0,05	0,07	0,35	0,00	0,23
Charges for the use of intellectual property n.i.e.	0,13	0,11	0,12	0,00	0,00	0,00	0,00	0,23	0,23	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,25	0,00	0,09
Telecommunications, computer, and information services	0,41	0,40	0,40	0,31	0,12	0,15	0,57	0,25	0,28	2,19	0,24	0,40	0,79	2,04	2,23	0,57	0,40	0,41	0,24	0,14	0,16	1,33	0,00	0,66
Other business services	0,56	0,62	0,59	0,54	0,53	0,56	0,10	0,08	0,06	0,22	0,19	0,34	0,38	0,43	0,41	0,04	0,03	0,03	0,59	0,43	0,47	0,00	0,00	0,00
Personal, cultural, and recreational services	1,04	1,41	1,22	0,00	0,00	0,00	2,33	0,00	0,12	0,00	0,00	0,00	1,01	0,92	0,89	0,00	5,16	4,78	0,08	0,24	0,25	0,07	0,00	0,12
Government goods and services n.i.e.	1,42	1,88	1,73	2,51	4,60	4,66	0,00	0,00	0,00	0,00	0,00	0,00	3,46	3,80	3,59	0,00	0,00	0,00	1,28	0,75	0,65	11,83	0,00	6,17

Challenges

- Government in southern Africa tend to have little capacity and limited knowledge of services
  - (no dedicated unit/directorate)
- Large data limitations – a crucial element of understanding position of services
  - BoP, trade data, investment data
- Little research and analysis of service sector-level issues / barriers
- Lack of understanding of the link between services and products – regional value chain development
  - E.g. SA RCA in value-added is much higher than direct exports
- Inefficient incorporation of services into the policy sphere (domestic, trade, trade promotion, trade negotiations)

Recommendations:

Establish a Trade in Services Unit

National Strategy for Services

- Addressing the Data Limitations
- Research and Analysis
- Sector Specific Strategies
- Establish Coordination amongst role-players
- Strengthen the Regulatory Framework
- Provide support for sector development

Trade Strategy for Services

- Addressing the Data Limitations
- Research and Analysis
- Trade Strategy for Services
- Export Promotion Strategy for Services
- Trade Negotiation Strategy for Services
- Address Capacity Constraints

Thank you

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http://commerce.nwu.ac.za/trade