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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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- Importance of services in the southern African region
- Supply-side constraints to services trade in southern Africa
- Competitiveness of services in southern Africa
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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

Sub-Saharan Africa: Services as % of GDP

World Bank, 2017
b. Services as % of total exports by region (World Ave = 34%)

North Africa

- Algeria
- Egypt
- Libya, State of
- Morocco
- Tunisia

North Africa Average = 24%

East Africa

- Congo, Democratic Republic of
- Djibouti
- Ethiopia
- Kenya
- Rwanda
- Tanzania, United Republic of
- Uganda

East Africa Average = 46%

Southern Africa

- Angola
- Botswana
- Lesotho
- Madagascar
- Malawi
- Mauritius
- Mozambique
- Namibia
- South Africa
- Swaziland
- Zambia
- Zimbabwe

Southern Africa Average = 18%

West Africa

- Benin
- Burkina Faso
- Cabo Verde
- Cameroon
- Côte d’Ivoire
- Equatorial Guinea
- Ghana
- Guinea-Bissau
- Liberia
- Nigeria
- Senegal
- Togo

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

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<th>Service sector</th>
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<th>Botswana</th>
<th>Angola</th>
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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:

1. 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

Sonja Grater

North-West University (NWU)  
TRADE research entity  
South Africa  
http://commerce.nwu.ac.za/trade