

Services trade: A sustainable solution to southern Africa's growth and development challenges?

(Reflections from the WTO Public Forum 2017, Geneva, Switzerland)

‘Services have tremendous potential to give momentum to the economies of southern Africa,’ said **Prof Wilma Viviers, WTO Chair and Director of the TRADE research entity at the North-West University in South Africa**. ‘But much has to happen – particularly on the policy front – if services are to feature prominently on countries’ trade agendas and if they are to become vehicles for sustainable growth and development in the region.’

Wilma was moderating one of the sessions (with the theme, “Driving inclusive growth and enhancing intra-African trade through services sector development”) at the **WTO Public Forum 2017** which took place at the WTO headquarters in Geneva from 26-28 September 2017. Wilma and her team had organised the session with the Geneva-based **ICTSD (International Centre for Trade and Sustainable Development)**, with whom the TRADE research entity enjoys close ties.

‘Services trade and its potential to act as a catalyst for positive change in the developing world is an important area of research for us,’ Wilma continued. ‘We have been working with the ICTSD on a number of projects to better understand how services can drive more inclusive growth - especially through the creation of more export opportunities, at both a regional and international level, for marginalised groups such as SMEs (small and medium-sized enterprises) and women.’

Services are making an increasingly important contribution to economic growth and employment in both developed and developing countries and today account for about 20% of the value of global trade (or nearly 50% if measured in terms of value added). Services such as advertising, ICT, transportation and financial services generally straddle an entire value chain, while services such as R&D, branding, licensing, distribution and after-market services (including customer care) are specific service activities that support, but are not a direct part of, a particular production process.

‘The quality of a country’s logistics services, transport services, communication services and border operations are much more important than tariffs as determinants of competitiveness,’ said **Dr Sherry Stephenson, Senior Fellow at the ICTSD**. ‘Supply-side conditions are key for export success.’ Sherry stressed, however, that a service sector with a competitive advantage (such as, in the African context, air transport in Ethiopia, education in Uganda and banking in Nigeria) must be supported by the other main service sectors in the economy, failing which the growth and export potential of the sector enjoying the competitive advantage are likely to be constrained. For instance, a weak financial sector would make it difficult for entrepreneurs to secure loans to start or expand their businesses, the lack of affordable Internet connectivity would deal a blow to e-commerce and online education, and so on. ‘The entire services environment is a determinant of export success,’ said Sherry.

The spike in the use of services as inputs in manufacturing, a process known as 'servicification', has the potential to boost productivity and competitiveness, and enhance producers' eligibility to participate in global value chains. Commenting on the servicification phenomenon, **Dr Judith Fessehaie, Senior Manager for Trade and Development at the ICTSD**, said, 'Services are critical for achieving value and competitiveness in international trade, and many companies in developing countries opt to outsource professional services, like accounting, legal and after-market services (such as call centre support) if they lack the relevant in-house expertise and capacity'.

While many developing countries are well immersed in the global value chain culture, manufacturers and service providers in those countries are often active at the low points in the value chain. This generally deprives them of the opportunity to develop technology-rich and sustainable businesses. This is a frequent phenomenon in Africa where the prioritisation of extractive industries and simple farming has deflected people's attention away from the many services sector opportunities further up the value chain, including R&D, product development, marketing and after-market services (which often require technical know-how).

'For least-developed and low-income countries to benefit from services in global value chains, they need to consider the concept of "upgrading along the value chain",' said **Ambassador Moshe Kao, former Permanent Representative at the Lesotho Mission in Geneva**. While the lack of market access is often considered to be a significant impediment to poor countries' export expansion efforts, 'market access is not the problem,' said Moshe. 'The problem is upgrading along the value chain, which involves being able to take advantage of existing service opportunities.' A major contributing factor in this regard is supply-side capacity.

Deborah Vorhies, Managing Director of the ICTSD, explained that a strong regulatory environment is a vital ingredient in an effective services sector development strategy since, 'at the end of the day, it is all about competitiveness'. Services are very regulation intensive, with regulations linked to traditional government services (such as electricity, road systems, and telecommunication and digital infrastructure) generally being very onerous. Yet even private sector services, such as medical, financial, accounting and legal services, are subject to professional standards and regulations which have evolved over many years.

'The challenge is to take advantage of trade opportunities, particularly in global value chains, while also achieving public policy goals. At the same time, the Sustainable Development Goals (which include protecting the rights of women, and reducing poverty and inequality) must be served by regulatory objectives.' Deborah added that another extremely important factor in terms of competitiveness is the phenomenal growth of the digital economy, which is making the need for regulatory evolution and adaptation all the more urgent.

In Africa, about 80% of employment is provided by SMEs, many of which are service providers. 'Yet they are vulnerable', said Deborah. 'They don't have clout in the market place and cannot absorb the typically high costs of regulatory compliance.' Clearly, there is a

need for greater transparency which helps to reduce trade costs, and accountability which helps to minimise the risk of collusion between government and big businesses. 'Investment is particularly important if a country is to acquire the supply-side capacity needed to develop a competitive, sustainable and inclusive services sector,' Deborah concluded.

Prof Sonja Grater, associate professor in the TRADE research entity at the North-West University, shared her experiences of, and concerns about, services trade in southern Africa. She said that there is limited understanding of the importance and potential of services trade in the region, both at the government level and among businesses. A major contributing factor is the lack of economic and trade data on services. 'If data collection could be improved, it would be easier to identify those service sectors in which countries have a competitive advantage, or at least show strong potential, and to formulate appropriate policies and regulations – which should be responsive to the needs of small businesses in particular.'

Some countries (such as India and Canada) have addressed the problem of insufficient services data and poor policy coherence and cooperation between different government departments by establishing a dedicated services directorate. The mandate of such a body is to encourage alignment between disparate goals and interests, and to ensure that domestic policies and regulations feed into trade policy and trade agreements.

'Southern Africa is trailing behind East, North and West Africa in terms of the contribution of services to exports,' added Sonja, 'which points to a policy and regulatory environment that does not support the goals of regional integration and more diverse and efficient trade. Another problem is that southern Africa is situated a long way from many world markets, which adds to producers' export costs and erodes their competitiveness. Stronger and more harmonised regional trade in services is therefore essential to minimise this cost disadvantage.'

For the countries of southern Africa to turn the many opportunities presented by the services sector into commercial success stories, governments and businesses alike need to take a fresh look at how they operate, how they deal with challenges, how they plan for the future and, importantly, how they collaborate with one another.

For more information about the work of the TRADE research entity at the North-West University, contact: wilma.viviers@nwu.ac.za or visit the TRADE website: <http://commerce.nwu.ac.za/trade>.