

# Africa's trade in services: trade potentials, negotiations and challenges in the context of the African Continental Free Trade Area Agreement



Creating One African Market

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SAIIA Conference on New Dimensions of Growth and Development in Africa:  
Trade, Infrastructure and the Fourth Industrial Revolution

Pretoria

19 November 2019

# Context

Why is the role of the services sector in trade and structural transformation attracting so much attention?

- Share of services in **GDP**
- Share of services in **employment**
- Growing trade in services
- Importance in facilitating and supporting production and trade in other economic sectors, especially manufacturing
- Services value added component of gross exports
- Growing pressure on developing countries to liberalise services in North-South trade and investment agreements
- AfCFTA services trade negotiations in Phase I
- REC and TFTA services negotiations progressing

Services share of GDP%	
Angola	46.76
Botswana	58.40
Mauritius	67.38
Mozambique	47.68
Namibia	58.39
South Africa	61.49
Tanzania	37.92
Zambia	52.19

% Share of employment	
Angola	42.48
Botswana	58.77
Mauritius	65.63
Mozambique	20.30
Namibia	60.77
South Africa	71.48
Tanzania	26.22
Zambia	35.17



# Evolving role of services sector in development

- Increased tradability of services has also been an important factor in the global re-organisation of production and trade in global value chains
- Services are an important component of trade in value added:
  - Contribution of services value added to gross exports often exceeding the contribution of 'final services' exports to gross exports
  - Services value added important component of manufactured exports
- But...the services sector is extremely heterogeneous
- Aggregate data on share of the services sector in GDP and employment conceals a wide range of activities from high tech to survivalist and poorly remunerated work
- May reflect premature deindustrialisation/tertiarisation; hence controversy over the sector's position in contemporary development strategies
- Centrality of manufacturing in the industrialisation process
- A key lesson: in the current value chain context, the interaction between manufacturing and services activities is important for development.

# The objectives of the study



- Examine the growth and structure of Africa's trade in services and its importance for services trade policy formulation and the AfCFTA negotiations on services trade
- **Trade in services:** BoP data, services trade potential using trade complementarity indices, services value added as a share of gross exports, services shares in inward and outward FDI, the proportion of listed companies on African stock markets in services sectors
- **Services trade openness:** GATS commitments, World Bank Services Trade Restrictions Index
- **Services trade negotiating landscape:** from GATS to TiSA, AfCFTA services negotiations, RECs, TFTA
- Consider implications and recommendations for a developmental services trade strategy

# Measuring trade in services

## GATS – four modes of supply of services:

- Mode 1: cross-border supply (non-resident service providers supply services across the border to consumers in another territory)
- Mode 2: consumption abroad (residents purchase services in another country)
- Mode 3: commercial presence (service suppliers from abroad supply services via commercial presence such as a branch or subsidiary in partner country)
- Mode 4: supply of services via the presence of natural persons (foreigners enter and temporarily stay to supply a service).

## Trade in value added literature:

‘Mode 5’ trade in services to take account of the delivery of services embodied as inputs into traded goods

# Measuring trade in services

- Balance of payments statistics alone inadequate (capture, imperfectly, Modes 1 and 2, and part of Mode 4)
- Mode 3 supply via commercial presence is significant however, and must be taken into account
- **Guiding framework for collection and reporting of services trade data: 2010 Manual on Statistics of International Trade in Services (MSITS)**
  - Adoption of BPM6 – twelve services components and an extended balance of payments services (EBOPS) classification that broadens the twelve components significantly
  - Reporting of BoP services trade by country of origin and destination
  - Development foreign affiliate statistics (FATS) to provide information on Mode 3 supply of services; FDI data used in the interim – but needed by sector *and* country of origin and destination
  - Measurement issues related to Mode 4 (the most sensitive mode of supply)
  - Allocation of data across the four modes of supply to inform negotiations that build on the GATS framework

# Growth and structure of services trade on the continent

## Focus countries:

- a) SADC member states: Angola, Botswana, Mauritius, Mozambique, Namibia, South Africa, Tanzania and Zambia.
- b) Non-SADC countries involved in the TFTA between SADC, EAC and COMESA: Egypt, Ethiopia, Kenya, Rwanda and Uganda.
- c) AU countries that are not part of the TFTA: Cameroon, Ghana, Morocco, Nigeria and Tunisia.

## Choice guided by:

- Active services traders on export or import side or both
- Market size; GDP per capita; membership of regional groupings

## Income and LDC status:

- Five are low-income, nine lower middle-income, four upper middle-income, according to the World Bank classification by GNI per capita.
- In addition, seven out of the eighteen have LDC status (UN)

Table extract (2017 only)

Largest exporters	
Egypt	
Morocco	
South Africa	
Ghana	
Nigeria	
Largest importers	
Nigeria	
Egypt	
South Africa	
Angola	
Morocco	

Table 3.2: Total services exports, imports and trade balance (constant 2012 US\$ millions)

Selected AU countries	Services exports	Services imports	Services trade balance
<b>SADC</b>			
Angola	880.72	12338.24	-11457.53
Botswana	915.18	805.72	109.46
Mauritius	2728.20	1949.46	778.74
Mozambique	588.15	2673.97	-2085.82
Namibia	651.24	610.62	40.63
South Africa	14098.83	14459.90	-361.07
Tanzania	3443.50	1804.99	1638.51
Zambia	773.70	1363.85	-590.16
<b>Non-SADC TFTA</b>			
Egypt	17474.53	15940.18	1534.35
Ethiopia	3225.85	4396.03	-1170.18
Kenya	4157.41	2765.79	1391.62
Rwanda	892.94	919.57	-26.64
Uganda	1462.10	1842.66	-380.56
<b>Other AU</b>			
Cameroon	1738.99	2182.28	-443.28
Ghana	5905.55	8475.49	-2569.94
Morocco	15501.98	8781.13	6720.85
Nigeria	4492.42	16310.94	-11818.52
Tunisia	2928.41	2728.02	200.39
Selected countries total	81859.69	100348.83	-18489.14
Africa total	95067.23	136304.49	-41237.26
World	4833491.81	4612376.21	

Source: Author's computations based on ITC, UNCTAD & WTO Trade in Services Databases

Key services export sub-sectors

Egypt:

- 'Sea freight'
- 'Passenger air'
- 'Other Transport'
- 'Telecommunications'
- 'Construction'
- 'Professional and management consulting'

Morocco:

- 'Personal travel (other than health and education)'
- 'Goods for processing in the reporting economy'
- 'Air passenger transport'
- 'Technical, trade-related and other business services'
- 'Sea freight transport'
- 'Telecommunications services'

South Africa:

- 'Personal travel'
- 'Technical, trade-related and other business services'
- 'Freight transport'
- 'Explicitly charged and other financial services'
- 'Passenger transport'
- 'Business travel'

Ghana:

- 'Technical, trade-related and other business services'
- 'Other' business and personal travel
- 'Freight transport'

Nigeria:

- 'Other personal travel'
- 'Other sea transport'
- 'Explicitly charged and other financial services'
- 'Telecommunications services'



Table extract (2017 only)

Table 3.3: Services value added to GDP, services trade to GDP, services trade to total trade (%)

Selected AU countries	Serv VA/GDP	Serv trade/GDP	Serv trade/total trade	
<b>SADC</b>				
Angola	46.76	12.10	22.72	
Botswana	58.40	11.05	14.68	
Mauritius	67.38	39.64	41.50	
Mozambique	47.68	28.84	25.87	
Namibia	58.39	9.75	10.51	
South Africa	61.49	9.15	15.71	
Tanzania	37.92	11.00	32.94	
Zambia	52.19	9.24	12.43	
<b>Non-SADC TFTA</b>				
Egypt	53.02	15.87	28.82	
Ethiopia	36.92	10.58	32.68	
Kenya	43.62	9.76	25.65	
Rwanda	46.38	22.18	34.21	
Uganda	47.11	14.21	30.30	
<b>Other AU</b>				
Cameroon	52.15	12.55	34.16	
Ghana	42.35	27.25	37.26	
Morocco	49.96	24.94	27.75	
Nigeria	55.80	6.19	25.04	
Tunisia	58.82	15.83	15.37	
Low income	40.19	12.07		
Lower middle income	49.28	11.00	23.95	Selection
Upper middle income	55.32	7.58	21.78	Africa
World		12.98	23.00	World

# Trade Complementarity Indices

- *Potential* trade in services between South Africa and partners can be measured using Trade Complementarity Indices (TCIs).
- TCIs useful measure of trade potential in the case of services trade as they do not require *existing* bilateral trade data between the two countries
- Instead they examine the overlap between the *structure* of one country's exports to the world and another country's imports from the world, and vice versa.
- For each of South Africa's bilateral relationships, two TCIs are computed: one on the export side and one on the import side

# Services trade potential between SA and selected AU partners

Table 3.4: Services trade complementarity indices between South Africa and selected AU countries (%)

	SADC partner			Non-SADC TFTA partner			Other AU partner		
	Angola	Mauritius	Tanzania	Egypt	Ethiopia	Kenya	Ghana	Morocco	Nigeria
<b>SA's services export TCI</b>	42.89	69.90	72.77	48.54	33.17	46.90	38.02	54.95	69.00
<b>SA's services import TCI</b>	31.23	52.35	61.48	68.79	60.04	76.88	34.65	59.29	58.82

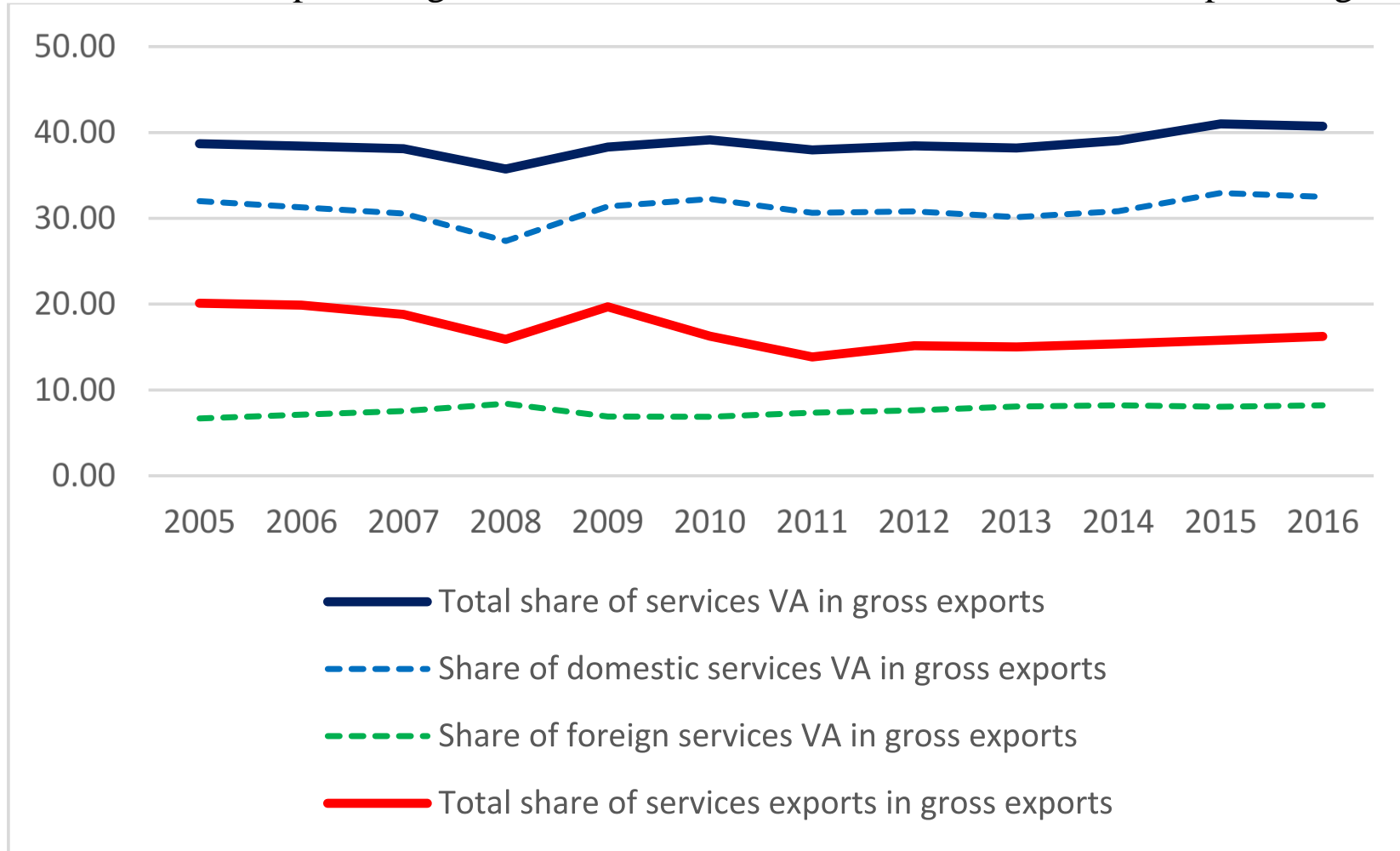
Source: Author's computations based on services trade flows for 2017 from ITC, UNCTAD & WTO, 2019

South Africa's **services export TCI** is highest with Tanzania, Mauritius and Nigeria. The structure of South Africa's services exports to the world matches best with the structure of Tanzania, Mauritius and Nigeria's services imports from the world.

South Africa's **services import TCI** is highest with Kenya, Egypt, Tanzania and Ethiopia suggesting that the structure of South Africa's services imports from the world matches best with the structure of these countries' services exports to the world.

# Services value added in gross exports: the case of South Africa

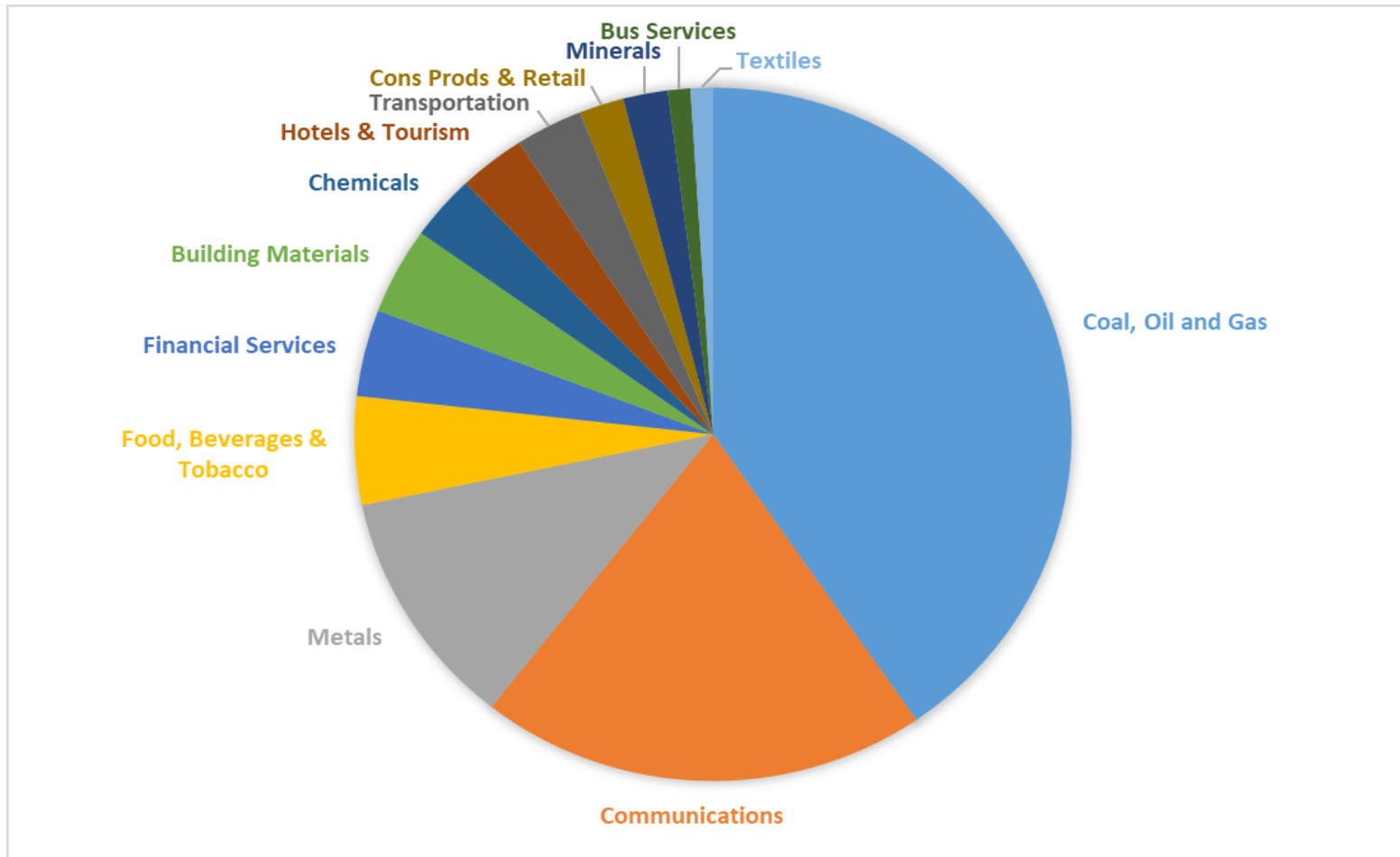
Figure 3.1: South Africa: percentage shares of services value added and services exports in gross exports



Source: OECD & WTO, Trade in Value Added Database, 2018; ITC, UNCTAD & WTO, Trade in Services Database, 2019; ITC, Trade in Goods Database, 2019

# Exploring Mode 3 supply of services

Figure 3.2: South Africa's FDI into the rest of Africa by sector (2003-2016)



## Most prominent services sectors:

Communications	20%
Financial services	4%
Hotels and Tourism	3%
Transportation	3%
Consumer products & retail	2%
Business services	1%

## Listed services companies in selected African markets (October 2019)

	Services	Total	%	Main services sectors
Botswana	22	33	66.67%	Financials, Consumer services
BRVM	20	45	44.44%	Financials, Consumer services, Telecomms
Egypt	140	266	52.63%	Financials, Cons services, Health care, Telecomms
Ghana	22	39	56.41%	Financials, Consumer services, Health care
Kenya	35	62	56.45%	Financials, Consumer services
Malawi	12	14	85.71%	Financials
Mauritius	67	100	67.00%	Financials, Consumer services
Morocco	39	76	51.32%	Financials, Technology services, Consumer services
Namibia	28	43	65.12%	Financials, Banks, Insurance
Nigeria	91	165	55.15%	Financials, Cons services, Health care, Technology
Rwanda	7	8	87.50%	Financials
South Africa	260	399	65.16%	Financials, Real estate invest services & trusts, Retailers
Tunisia	48	83	57.83%	Financials, Consumer services
Tanzania	21	28	75.00%	Financials, Consumer services
Uganda	13	17	76.47%	Financials, Consumer services
Zambia	13	24	54.17%	Financials
Zimbabwe	27	63	42.86%	Financials, Consumer services

Table 4.1: Sector-specific GATS commitments of selected AU WTO member states

Selected country	Sub-sectors % of 155	Broad sectors within which sub-sectoral commitments have been made											
		Bus	Comm	Con&Eng	Dist	Educ	Env	Fin	Hea&Soc	Tou&Trav	Rec,Cult,Sp	Trans	Other
<b>SADC</b>													
Angola	5.8							*		*	*		
Botswana	12.9	*	*							*			
Mauritius	16.1		*					*		*			
Mozambique	7.7							*					
Namibia	1.9	*								*			
South Africa	54.8	*	*	*	*		*	*		*		*	*
Tanzania	0.6									*			
Zambia	10.3	*		*					*	*			
<b>Non-SADC TFTA</b>													
Egypt	31.6		*	*				*		*		*	
Kenya	27.1		*					*		*		*	*
Rwanda	6.5	*				*	*			*	*		
Uganda	3.2		*							*			
<b>Other AU</b>													
Cameroon		*								*			
Ghana			*	*		*		*		*		*	
Morocco		*	*	*			*	*		*		*	
Nigeria			*					*		*		*	
Tunisia			*					*		*			

Table 4.2: World Bank Services Trade Restrictiveness Index 2008-2010

	<b>Overall STRI</b>			
Country	Overall	Mode 1	Mode 3	Mode 4
<b>SADC</b>				
Botswana	38.3	55.6	31.3	60.0
Mauritius	16.9	30.4	14.6	40.0
Mozambique	18.6	36.0	10.8	55.0
Namibia	37.0	29.7	40.3	60.0
South Africa	34.5	1.8	37.1	75.0
Tanzania	30.7	10.0	29.7	65.0
Zambia	21.0	13.7	21.3	50.0
<b>Non-SADC</b>				
Egypt	52.1	24.0	54.9	95.0
Ethiopia	88.2	84.9	93.2	80.0
Kenya	29.5	35.6	30.1	65.0
Rwanda	25.0	5.8	23.1	45.0
Uganda	34.5	29.4	28.2	55.0
Zambia	21.0	13.7	21.3	50.0



# Services trade negotiations under the AfCFTA

- Negotiating modalities (June 2017)
- Services trade protocol (framework document) (March 2018)
- Guidelines for the services negotiations (Feb 2019)
- Starting point for AU WTO members: GATS-plus
- Starting point for other AU members: autonomous liberalization at the national level
- Scheduling: GATS-type; positive list approach
- But also negotiations on sectoral regulatory cooperation frameworks
- Objectives of services trade protocol explicitly highlight industrialisation and the development of regional value chains

# Services trade negotiations under the AfCFTA

- Issues:
- Uneven starting points for the negotiations
- Undefined: terms like “minimum threshold” required and the meaning of “substantial liberalisation”
- Parallel negotiations in RECs (e.g. SADC Round 2) and TFTA
- Request-offer approach to the negotiations but the question of whether adequate time for stakeholder consultation and whether countries have adequately identified relevant stakeholders for each
- Importance of collaboration with regulatory bodies at the national and regional level

# Recommendations

- Key to improving the quality and range of information available for trade negotiators and other stakeholders is to make progress with the implementation of the recommendations of the 2010 MSITS
- For trade in value added analysis, improvement of the statistics and documentation available for the UNCTAD-EORA database is needed, as well as extension of the OECD-WTO TiVA database to include more African countries.
- Further work needed on skill intensity, value add and productivity of traded services activities to better understand sector's ability to contribute to growth-enhancing structural transformation and the development of RVCs
- Keep track of what is unfolding in the plurilateral trade negotiations landscape; ensure that national, regional and continental frameworks are developed before negotiations in North-South configurations take place
- Work needed on the implications of current trends in digital trade and the challenges of the digital economy more broadly in this regard
- Ensure adequate consultation of key stakeholders in AfCFTA services negotiations
- Investigate the implications of parallel services negotiations in RECs, TFTA and AfCFTA