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Africa's trade in services and the African Continental Free Trade Area Agreement

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Global insights

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Executive summary

In recent years there has been growing interest in the role and position of the services sector and services trade in structural transformation and development. This is associated with the services sector's significant share in domestic and global value added and employment, the increasing tradability of services and the notable proportion of foreign direct investment (FDI) flowing to the services sector. The role of the services sector in facilitating production and trade in other key sectors of the economy, particularly manufacturing, is also of growing importance in the context of global value chains. In the light of pressure on developing countries to liberalise their services sectors in North–South trade and investment agreements, often before domestic and regional frameworks have developed sufficiently, the need for a developmental trade strategy for the services sector has become more pressing. This report examines the growth and structure of trade in services in Africa and its importance for services trade policy formulation and the African Continental Free Trade Area (AfCFTA) negotiations on services trade.

Currently, the largest services exporters on the continent are Egypt, Morocco, South Africa, Ghana and Nigeria, and the largest importers Nigeria, Egypt, South Africa, Angola and Morocco. There is scope for increased intra-African services trade, particularly in sub-categories of transport and travel, as well as in sub-sectors such as technical, trade-related and other business services, and telecommunications. At the bilateral level, estimates suggest that, of the AU countries under consideration, South Africa's main services trading partners on the export side are Angola, Nigeria, Kenya, Ghana and Mauritius, and on the import side Egypt, Nigeria, Ghana, Angola and Mauritius. Key traded services categories include travel, transportation, other business services, communication and construction services. The analysis of services trade complementarities using trade complementarity indices (TCIs) finds significant potential for increased intra-African services trade and indicates that South Africa would face more competition in the African services market on the formation of an African services trade agreement.

The study finds that, in the case of South Africa, services value added as a share of gross exports exceeded the share of services exports in the country's gross exports for the period 2005–2016. In addition, both domestic and foreign services are important inputs into the country's gross exports in a number of key manufacturing sectors. Regarding the supply of services via commercial presence, South Africa is the largest African intra-continental investor and was the seventh largest investor by stock into Africa globally in 2017, while Kenya, Nigeria, Egypt and Morocco are also important outward investors in their respective regions. The importance of services in total FDI on the continent is noteworthy, with a share for 2018 of 44.4%. Key services sectors for FDI on the continent include consumer products and retail, telecommunications, media and technology, transport and logistics, business services and financial services. The proportion of listed companies in services sectors in selected African stock markets is significant and enriches the picture of the services landscape on the continent.

The study concludes that no single source of services trade data provides a complete picture of services trade via the different modes of supply. Since the recently released Balanced Trade in Services Database and Trade in Services by Mode of Supply databases are still being refined and are highly experimental in nature, for the foreseeable future researchers and policymakers will need to draw on a variety of sources in order to build an adequate picture of services trade for policy formulation. The databases available should be complemented by case studies, survey work and consultations with key stakeholders affected by services trade agreements.

A number of recommendations emerge from the study:

- A key starting point for improving the quality and range of information available for trade negotiators and other stakeholders on the continent is to make progress with the implementation of the recommendations of the *2010 Manual on Statistics of International Trade in Services*. In particular, an improvement in the number of Extended Balance of Payments Services Classification (EBOPS) sub-components reported in the balance of payments data is essential, together with the reporting of services trade by country of origin and destination. In the absence of foreign affiliates statistics (FATS) data to estimate Mode 3 supply of services, improved FDI data by partner and sector should be made available. Efforts should also be made to begin the collection of FATS across the continent. In addition, the extension of the Organisation for Economic Co-operation and Development – World Trade Organization's Trade in Value Added database to include more African countries should be prioritised.

  Alongside the greater availability of services trade data at a more disaggregated EBOPS sub-component level, further work is needed on the skill intensity, value added and productivity levels of traded services activities to allow for a more comprehensive investigation of the contribution of services to structural transformation and the development of regional value chains. It is important to be able to distinguish higher value services activities that are key facilitators of industrial activity.

- From the perspective of trade in services negotiations and pressures on developing countries to liberalise their services markets, developing countries need to track what is unfolding in the plurilateral trade negotiations landscape and ensure that national, regional and continental frameworks are developed before negotiations in North–South configurations take place. In particular, further work is needed on the implications of current trends in digital trade and the challenges of the digital economy.

- Two key challenges regarding continental services negotiations should be addressed. First, AU member states should ensure that they avoid a disjuncture between what is negotiated in the initial priority sectors and what is needed by key stakeholders in terms of domestic development priorities, whether at home or in the export market. The roadmap for the AfCFTA services negotiations should provide ample space for consultation with stakeholders and domestic regulatory agencies with respect to both offers and requests, in order to improve the prospects for a developmental services trade

agreement on conclusion of the negotiating process. Second, the implications of parallel services negotiations in the regional economic communities, Tripartite Free Trade Area and AfCFTA should be investigated to harness opportunities and address potential problems that may arise from the duplication of negotiating processes.

Abbreviations & acronyms

AfCFTA	African Continental Free Trade Area
AU	African Union
BaTiS	Balanced Trade in Services database
BoP	balance of payments
BPM5	IMF Balance of Payments Manual, 5th edition
BPM6	IMF Balance of Payments and International Investment Position Manual, 6th edition
BRICS	Brazil, Russia, India, China, South Africa
BRVM	Bourse Régionale des Valeurs Mobilières
CMT	SADC Committee of Ministers Responsible for Trade
COMESA	Common Market for Eastern and Southern African States
EAC	East African Community
EBOPS	Extended Balance of Payments Services Classification
EIU	Economist Intelligence Unit
EPA	Economic Partnership Agreement
EU	European Union
FATS	foreign affiliate trade in services / foreign affiliates statistics
FDI	foreign direct investment
FTA	free trade area
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GDP	gross domestic product
IMF	International Monetary Fund
ITC	International Trade Centre
LDC	least developed country
LMC	lower middle-income country
MFN	most-favoured nation
MSITS	*Manual on Statistics of International Trade in Services*
NOC	high-income non-OECD country
NTB	non-tariff barrier
OAU	Organisation of African Unity
REC	regional economic community

SACU	Southern African Customs Union
SADC	Southern African Development Community
SARS	South African Revenue Service
SNA	System of National Accounts
SOE	state-owned enterprise
TCI	trade complementarity index
TFTA	Tripartite Free Trade Area
TiSA	Trade in Services Agreement
TiSMoS	Trade in Services data by Mode of Supply
TiVA	trade in value added
TRIPS	Trade-related Intellectual Property Rights
UMC	upper middle-income country
UNCTAD	UN Conference on Trade and Development
WB	World Bank
WB STRI	World Bank Services Trade Restrictions Index
WTO	World Trade Organization

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Cover image

Ugandan factory workers assemble mobile phone cases. Uganda's first mobile phone electronics factory has been operating in Namanve, near Kampala, since August 2019 (Luke Dray/Getty Images)

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CHAPTER 1

Introduction

There has been increasing interest in recent years in the role and position of the services sector and services trade in structural transformation and development. Contributing factors include the share of services in domestic and global value added and employment, growing trade in services and the significant proportion of foreign direct investment (FDI) flowing to services sectors. The role of the services sector in facilitating and supporting production and trade in other key sectors of the economy, particularly manufacturing, is another aspect of growing importance in the context of global value chains (GVCs). Furthermore, there is increasing pressure on developing countries to liberalise their services sectors in North–South trade and investment agreements, often before domestic and regional frameworks have sufficiently developed and in some cases before multilateral commitments have had to be made. As a result, it has been argued that the need for a developmental trade strategy for the services sector is becoming more pressing.[1]

An important question for African countries is how to approach services trade negotiations strategically at multilateral, continental and regional levels and in North–South versus South–South configurations in order to advance domestic and regional development objectives. Most African countries are members of the World Trade Organization (WTO) and made some services commitments under the General Agreement on Trade in Services (GATS), the WTO agreement governing services trade at the multilateral level. The extent of these commitments varies significantly, however, particularly since 60% of AU countries have least developed country (LDC) status.[2]

At the continental level, services trade negotiations have been initiated under the Protocol on Trade in Services attached to the Agreement to Establish the African Continental Free Trade Area (AfCFTA), launched in Kigali in March 2018. The AfCFTA is an initiative of the AU and dates back to its predecessor the Organization of African Unity's 1980 Lagos Plan of Action and 1991 Abuja Treaty Establishing the African Economic Community.[3] The Abuja Treaty called for the creation of regional economic blocs that would ultimately merge into a continental economic community. Eight regional blocs had emerged by the early 2000s (see Appendix 1), with the main blocs in Southern and Eastern Africa being SADC, the East African Community (EAC) and the Common Market for Eastern and Southern Africa (COMESA).

1 Cattaneo N, 'Trade in Services Negotiations: A Southern African Perspective', Issue Paper. Geneva: ICTSD (International Centre for Trade and Development), May 2017.

2 See Appendix 1 and Table 4.1. Note that most of the non-WTO African countries have WTO observer status and have begun the process of accession. See WTO (World Trade Organization), 'Members and observers', https://www.wto.org/english/thewto_e/whatis_e/tif_e/org6_e.htm, accessed 12 September 2019.

3 OAU (Organization for African Unity), 'Lagos Plan of Action for the Economic Development of Africa', 1980, https://www.merit.unu.edu/wp-content/uploads/2015/01/Lagos-Plan-of-Action.pdf, accessed 15 November 2018; OAU, 'Treaty establishing the African Economic Community', 1991, https://au.int/sites/default/files/treaties/7775-treaty-0016_-_treaty_establishing_the_african_economic_community_e.pdf, accessed 15 November 2018.

The Agreement to Establish the AfCFTA entered into force in May 2019 after sufficient ratifications had occurred. Phase I of the negotiations focuses on both goods and services, with the potential to create a market of over 1.2 billion people. The second phase will address intellectual property rights, investment and competition policy. A key question in this regard is whether a larger services market under the AfCFTA can facilitate structural transformation and the development of regional value chains (RVCs) on the continent.

At the regional level, Africa's regional economic communities (RECs) have also engaged in services negotiations within their respective blocs. In the case of SADC, the first round of services negotiations under the 2012 Trade in Services Protocol prioritised six initial services sectors. Final commitment schedules for four of these six sectors – communication, financial, tourism and transport services – were approved by the Committee of Ministers Responsible for Trade (CMT) in July 2018. By the end of the first round of SADC services negotiations in June 2019, negotiations on the remaining two priority sectors, construction and energy services, had been finalised, with any necessary adjustments deferred to the second round.[4] Draft negotiating guidelines for the second round highlight the intention to prioritise services sectors that are important for the SADC Industrialisation Strategy and Roadmap 2015–2063, particularly business services, as well as the need for SADC services commitments to incorporate or improve upon those undertaken as part of the AfCFTA negotiations.[5]

The Tripartite Free Trade Area (TFTA) Agreement between the three Eastern and Southern African RECs (SADC, COMESA and the EAC) was launched in Egypt in June 2015 with the aim of rationalising and harmonising their trade regimes and promoting the development of RVCs. While 14 ratifications are required for the TFTA Agreement to enter into force, by June 2019 only four countries (Egypt, Kenya, South Africa and Uganda) had ratified the Agreement. Phase I of the TFTA negotiations deals with trade in goods, while Phase II is set to address trade in services, intellectual property rights, investment and competition policy.[6] Outstanding issues related to tariff phase-down schedules, rules of origin and trade remedies have delayed the finalisation of the TFTA Phase I negotiations on goods and the initiation of Phase II negotiations on services and other issues. While some TFTA member states reportedly favour proceeding with services negotiations under the TFTA at the same time as the AfCFTA, others evidently prefer a focus on the AfCFTA negotiation process.

Under the AfCFTA, services trade negotiations are proceeding on a simultaneous but separate track to goods trade negotiations in Phase I.[7] The inclusion of services in the first

4 Email correspondence with dti (Department of Trade and Industry) official, 2 December 2019.

5 SADC, 'Trade in Services Negotiations: Draft Negotiating and Scheduling Guidelines for the Second Round', 2019, https://tis.sadc.int/files/6915/5800/4888/SADC_Trade_in_Services_Negotiations_-_draft_Negotiating_and_Scheduling_Guidelines_for_the_2nd_Round_v160519_EN.pdf, accessed 2 November 2019.

6 South Africa, dti, 'Ratification of the COMESA-EAC-SADC Tripartite Free Trade Area (TFTA)', Presentation to the Portfolio Committee on Trade and Industry, Cape Town, 13 June 2018.

7 It was initially thought that the TFTA services negotiations would be collapsed into the AfCFTA Phase I services negotiations. However, at the time of writing, it seemed that the TFTA services negotiations would proceed alongside the AfCFTA negotiations (Telephonic interview with dti official, 15 October 2019).

phase of the AfCFTA negotiations means that there will be overlap with the second round of SADC services negotiations and with Phase II of the TFTA negotiations. Draft guidelines for negotiating the schedules of specific commitments in the AfCFTA trade in services negotiations were approved by the AU Ministers of Trade in December 2018. Schedules of specific commitments in the five priority sectors (business services, communication services, financial, tourism and transport services) are to be finalised within a two-year period.

South Africa signed the Agreement to Establish the AfCFTA in July 2018. As a member of SADC, South Africa has been engaged in negotiations on trade in services under the SADC Services Trade Protocol. The country also signed the TFTA Agreement in July 2017, and will therefore negotiate on services in this configuration if the Phase II TFTA services negotiations proceed. South Africa currently has a services trade deficit globally, but a surplus in sectors with potential for export on the continent, including maintenance and repair services, travel, construction and financial services, and personal, cultural and recreational services.[8] Furthermore, the continent is an important destination for the country's manufactured products, and an efficient and effective services sector plays a key facilitating role in goods production and trade, as well as in the development of RVCs. It is therefore important to consider South Africa's prospects for expanding its services trade in the AfCFTA region, and to investigate the structure and performance of services trade, as well as trade potentials, with both SADC and non-SADC AU countries.

This report examines the growth and structure of trade in services on the African continent and its importance for services trade policy formulation and the AfCFTA negotiations on services trade. To make the analysis manageable, there will be a focus on South Africa's trade relations with a selection of AU member states, covering both SADC and non-SADC countries. Furthermore, given the importance of services for industrialisation, particularly in an environment of GVCs and RVCs, the report also explores the importance of services value added in South Africa's total gross exports and in the exports of key South African manufacturing sectors. This highlights the implications of a services trade agreement under the AfCFTA for industrialisation and the development of RVCs on the continent. Finally, the report considers the need for regional and domestic regulatory frameworks to facilitate the evolution of a developmental services trade strategy, and briefly reflects on new challenges related to the expansion of digital trade.

8 ITC (International Trade Centre), UNCTAD (UN Conference on Trade and Development) & WTO, 'Trade in services database', https://www.trademap.org/Index.aspx, accessed 30 September 2019.

CHAPTER 2

The evolving role of the services sector in development

The role of the services sector in development and trade has received increasing attention owing to the growing tradability of services over the past few decades and the high share of services in value added and employment across many countries, both developed and developing. The increased tradability of services has also been an important factor in the global re-organisation of production and trade in GVCs. According to the 2019 WTO World Trade Report, trade in commercial services comprises just over 20% of total global trade, with developing countries accounting for about a third of this.[9] However, developing country services trade is highly concentrated, with five Asian countries (China, Hong Kong, India, Singapore and South Korea) accounting for nearly 58% of the developing country total.[10] Services also comprise an important component of trade in value added, with the contribution of services value added to gross exports often exceeding the share of services exports in gross exports. In addition, services exports provide an important source of foreign exchange earnings.

> The share of the services sector in GDP and employment is used as a rationale for locating the sector in a dominant position, which is controversial as aggregated data on the sector's share of output and employment conceals a wide range of heterogeneous activities

The share of the services sector in GDP and employment is often used as a rationale for locating the sector in a more dominant position in contemporary development strategies. This view is controversial, as aggregated data on the sector's share of output and employment conceals a wide range of heterogeneous activities, from hi-tech to survivalist and poorly remunerated work.[11] Nonetheless, it is frequently argued that the services sector itself should become the engine of growth and economic development owing to constraints to the pursuit of growth and development through industrialisation for many

9 WTO, *World Trade Report 2019: the Future of Services Trade*. Geneva: WTO, 2019, p. 14. Note that this figure is based on balance of payments data and does not account for services supplied via commercial presence in the host country, which is a major component of services trade (see Section 3.1).

10 *Ibid*., p. 32.

11 This section draws in part on Cattaneo N, 'Services Trade Liberalization and the Role of the Services Sector in South African Development', Occasional Paper, 94. Johannesburg: SAIIA (South African Institute for International Affairs), 2011, pp. 6–10.

developing countries.[12] In contrast, there are still strong views regarding the centrality of industrialisation in the development process, particularly associated with post-Keynesian, structuralist and Schumpeterian thought. The structuralist perspective considers the manufacturing sector to be the most effective driver of development owing to its particular characteristics. This is explained by Palma[13] as follows:

> The pattern, the dynamic and the sustainability of growth are crucially dependent on the activities being developed. In particular, there are specific growth enhancing effects associated with manufacturing due to its capacity to set in motion processes of cumulative causation. This is because 'learning-by-doing', dynamic economies of scale, increasing returns, externalities and spillover effects are more prevalent in manufacturing than elsewhere in the economy … [I]ssues such as technological change, synergies, balance-of-payments sustainability and the capacity of developing countries to 'catch up', are directly linked to the size, strength and depth of the manufacturing sector.

The emphasis on the growth-pulling effects of manufacturing stems from the view that an increase in value added in manufacturing has a stronger effect on economic growth than a corresponding addition to value added in services or agriculture. Reasons include stronger forward and backward linkages between manufacturing and the other sectors of the economy; greater dynamic economies of scale; greater technological change in manufacturing and more extensive technological diffusion to other sectors; and price and income elasticities of imports that are more favourable to easing balance of payments (BoP) constraints on growth. However, Sheehan[14] argues that the special characteristics of manufacturing identified as important for growth and development are also present in modern services sectors, as well as in manufacturing.

Dasgupta and Singh[15] examine the role of developments in information and communications technology (ICT) on the structural change from manufacturing to services at much lower per capita income levels than before, with reference to the case of India. They argue that at lower per capita income levels the income elasticity of demand for manufactures is still comparatively high. This implies that manufacturing remains crucial for the health of the BoP in middle-income countries. In the case of India, ICT and other particular services sectors are identified as 'dynamic' in the Kaldorian sense, and hence as potential additional or complementary engines of growth. ICT exports also make a significant contribution in BoP terms.

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12 See, for example, Sheehan P, 'Beyond Industrialization: New Approaches to Development Strategy Based on the Service Sector', Research Paper, 2008/60. Helsinki: UNU-WIDER (United Nations University – World Institute for Development Economics Research), 2008, p. 2.

13 Palma JG, 'De-industrialization, "premature" de-industrialization and the Dutch Disease', in Durlauf SN & LE Blume (eds), The New Palgrave Dictionary of Economics, 2nd edition. London: Palgrave Macmillan, 2008.

14 Sheehan P, op cit., p. 2.

15 Dasgupta S & A Singh, 'Manufacturing, Services and Premature Deindustrialization in Developing Countries: A Kaldorian Analysis', Research Paper, 2006/49. Helsinki: UNU-WIDER, 2006, p. 4.

Even recognising the continued importance of manufacturing, changes in the global structure of production, trade and investment necessitate increased recognition of the role of the services sector and the impact of services trade liberalisation, particularly as developing countries contend with the rise of global production networks. However, a focus on the services sector to the neglect of manufacturing as a development strategy would be short-sighted. A decline in the manufacturing sector would also have an adverse impact on the health of the services sector.

As noted earlier, aggregate statistics on the size or growth performance of the services sector relative to gross domestic product (GDP) should be interpreted with caution. Early expansion of the sector in terms of output and employment may signal premature deindustrialisation. The benefits of services sector growth in these cases could be concentrated among managerial classes in specific sectors such as finance and retail, with the bulk of unskilled labour engaged in survivalist or poorly paid employment. Sub-sector analysis of the interaction between output, employment and productivity growth is needed to identify propulsive services sectors.

In the case of South Africa, for example, in the period to 2010 the broad category 'finance, insurance, real estate (FIRE) and business services' displays substantial value added growth accompanied by healthy employment and productivity growth. However, the picture changes considerably at a less aggregated level: the business services category depicts dramatic employment growth with very low productivity, while FIRE shows dramatic productivity growth with little employment growth.[16] Even 'business services' is still an extremely heterogeneous category. More disaggregated analysis by Tregenna[17] indicates that

> relatively high growth in services employment is driven by an expansion of employment of cleaners and security guards and an outsourcing-type reallocation of these activities from manufacturing and the public sector towards private services. These activities have limited scope for cumulative productivity increases.

Rodrik[18] emphasises the difficulties of a development path based on rapid growth in manufacturing in the current global environment. Many developing countries in Africa and Latin America are deindustrialising prematurely (ie, at lower levels of per capita income than previously observed) or failing to develop an industrial sector altogether.[19] However, Rodrik expresses scepticism about a catch-up scenario for African countries based on growth in services productivity. In his view, services have not, for the most part, acted as

16 Cattaneo N & D Fryer, 'Structural Change, Productivity Growth and Employment: South African Development in Comparative Perspective', Paper presented at the International Conference on Manufacturing-led Growth for Employment Equality co-hosted by the SA–EU Strategic Partnership Dialogue Facility and Trade and Industrial Policy Strategies (TIPS), Johannesburg, 20–21 May 2014.

17 Tregenna F, 'Contracting Out of Service Activities and the Effect on Sectoral Employment Patterns in South Africa'. Working Paper in Economics, 0906. Cambridge: Faculty of Economics, University of Cambridge, 2009, p. 1.

18 Rodrik D, 'An African growth miracle?', *Journal of African Economies*, 27, 1, 2018, pp. 23–24.

19 *Ibid*., p. 23; Andreoni A & F Tregenna, 'Stuck in the Middle: Premature Deindustrialisation and Industrial Policy', Industrial Development Think Tank Working Paper, 11/2018. Johannesburg: Centre for Competition, Regulation and Economic Development, 2018.

a propulsive sector in the same way as manufacturing. One concern is that 'services that have the capacity to act as productivity escalators tend to require relatively high skills', like information technology.[20] This makes it more difficult for labour to shift from low productivity activities in agriculture to high-end services activities, compared to moving from low productivity activities in agriculture into labour-intensive manufacturing, for example.[21] Rodrik argues that recent growth on the continent has been accompanied by patterns of structural change in which, in many instances, labour is shifting into low productivity services and informal activities, with both manufacturing and services 'falling behind the productivity frontier'.[22]

Furthermore, the nature of 'productivity increases' in the case of services needs further investigation. Chang *et al.*[23] point out that recent productivity increases in retail and financial services often come at the expense of a 'de-basement' (reduction in the quality) of the service. In addition, Di Meglio *et al.*[24] highlight the question of the adequacy of traditional productivity measures in the case of services, pointing to the need for a 'substantial theoretical effort' together with better data collection to improve empirical studies on services productivity and the role of the services sector in structural transformation.

Nevertheless, the importance of knowledge-intensive or 'modern' services (including computer and related services, research and development, engineering, technical, legal and other business services) for other sectors of the economy, particularly manufacturing, is increasingly recognised.[25] Recent industrial policy discussions in South Africa, for example, highlight engineering, research and development and ICT as significant focus sectors in this regard.[26] The key lesson is that, in the current GVC context, the interaction between manufacturing and service activities is important for development. From a policy perspective, increasing productivity in knowledge-intensive services that are critical for supporting manufacturing and value chain participation requires systematic and extensive accumulation of the relevant productive capabilities. The role of traditional services such as tourism should not be neglected, however, owing to their importance for employment creation, provided the appropriate social protections are in place. In the face of

20 Rodrik D, op cit., p. 25.

21 Note that Rodrik also discusses a growth scenario that emphasises diversification into non-traditional agriculture, but concludes that African economies would still need to develop a range of high productivity activities beyond agriculture. Recent work on opportunities in high value added agricultural production (the 'industrialisation of freshness') suggests that more attention should be paid to the agricultural sector as part of African countries' industrial policy. See, for example, Cramer C & J Sender, 'Oranges Are Not Any Fruit: The Industrialization of Freshness and the Quality of Growth', in Kanbur R, Noman A & J Stiglitz (eds), *The Quality of Growth in Africa*. New York: Columbia University Press, 2019.

22 Rodrik D, op cit., p. 21.

23 Chang H-J, Hauge J & M Irfan, *Transformative Industrial Policy for Africa*. Addis Ababa: UNECA (UN Economic Commission for Africa), 2016, p. 31.

24 Di Meglio G *et al.*, 'Services in Developing Economies: The Deindustrialization Debate in Perspective', *Development and Change*, 49, 6, 2018, p. 1515.

25 *Ibid.*, p. 1512.

26 Zalk N, 'Placing Structural Transformation at the Centre of Economic Revival under the New Dawn', Concept Note for Ministry of Finance Colloquium, Department of Trade and Industry, 2018, p. 3. Note, too, that services such as business process outsourcing and film production have been a successful part of South Africa's 2010–2018 Industrial Policy Action Plans.

international pressure to liberalise their services sectors, developing countries should adopt a nuanced approach to the services sector and a services trade strategy that is embedded in industrial policy.

CHAPTER 3

The growth and structure of services trade on the continent

This section explores the growth and structure of services trade on the continent, as well as the services trade balance in external trade for selected AU member states, with reference to the BoP services components and sub-sectors driving some of these trends. The relative significance of services trade in total trade, and the importance of particular AU trading partnerships, is also examined, where data permits. The discussion is important for services trade policy formulation and the identification of countries' offensive and defensive interests in the context of services trade negotiations under the AfCFTA. An examination of inward and outward FDI stock in and from the services sectors of selected countries is used to supplement BoP data, to give an indication of trade in services via commercial presence. In addition, the number of listed companies in services sectors in selected African markets is considered to add to the picture of the services landscape on the continent.

Bilateral data on trade in services, particularly involving African countries, is notoriously hard to come by. The recent Balanced Trade in Services (BaTiS) database of the Organisation for Economic Co-operation and Development (OECD) and the WTO, however, provides estimates of existing bilateral services trade flows on the continent between 1995 and 2012. These estimates are investigated for South Africa's trade with selected partners. In addition, the *potential* for increased bilateral services trade between selected AU member states following the formation of the AfCFTA is assessed using trade complementarity indices. These indices compare the structure of one country's exports to the world with the structure of a partner country's imports from the world, and vice versa. This is a particularly useful measure in circumstances where bilateral trade data availability is constrained. Trade complementarity indices (TCIs) are of significant interest to potential partners engaged in trade negotiations. Finally, in the case of South Africa, estimates of the importance of services value added in gross exports are examined because of the relevance of trade in value added as an indicator of participation in GVCs and the development of RVCs.

3.1 Measurement of trade in services, definitions and data sources

Article I of the GATS distinguishes four modes of supply of services internationally. Mode 1 is cross-border supply, whereby non-resident service providers supply services across the border to consumers in another territory. Mode 2 is consumption abroad, where residents purchase services in another country. Mode 3 refers to commercial presence, whereby service suppliers from abroad supply services via commercial presence (such as a branch or subsidiary) in a partner country. Finally, Mode 4 is the supply of services via the presence of natural persons; in this case, foreigners enter and temporarily stay in another member's

territory in order to supply a service.[27] In addition, with the growing importance of services as inputs into manufacturing and the re-organisation of production and trade in GVCs, recent literature on trade in value added has also distinguished 'Mode 5' trade in services to take account of the delivery of services embodied as inputs into traded goods.[28]

Measurement of trade in services is complicated by the fact that BoP statistics capture only (imperfectly) Modes 1 and 2, and part of Mode 4 of service supply. Mode 3 supply via commercial presence is significant, however, and must be taken into account in providing a more complete picture of services trade. The guiding framework that has evolved for the collection and reporting of services trade data is found in the *Manual on Statistics of International Trade in Services* (MSITS). The first MSITS[29] was published in 2002 and is based on the fifth edition of the International Monetary Fund's (IMF) *Balance of Payments Manual* (BPM5) and the 1993 System of National Accounts (SNA). It sets out an Extended Balance of Payments Services (EBOPS) classification that broadens the 11 main BPM5 services components to provide a more detailed picture of services trade between residents and non-residents via Modes 1 and 2. It also discusses the development of foreign affiliate trade in services (FATS) statistics to provide information on Mode 3 supply of services. Issues related to data collection for Mode 4 (presence of natural persons) are discussed in Annex I of the manual.

The 2010 edition of the *Manual on Statistics of International Trade in Services*[30] updates the 2002 manual to reflect, *inter alia*, the shift from BPM5 to BPM6 and from the 1993 to 2008 SNA. In the move from BPM5 to BPM6, the 11 standard BPM5 services components were revised into 12 standard BPM6 services components (see Table 3.1). Two BPM5 goods categories, 'Goods for processing' and 'Repairs on goods', were reallocated from goods trade to services trade under BPM6, becoming 'Manufacturing services on physical inputs owned by others' and 'Maintenance and repair services, not included elsewhere' respectively. In addition, the BPM5 services categories – 'Communication services' and 'Computer and information services' – became 'Telecommunication, computer and information services', except for 'Postal and courier services', which was moved to the 'Transport' category. With these and other changes, the EBOPS classification was adjusted significantly in the process.[31] Furthermore, 'Merchanting' was reallocated from 'Other business services' under BPM5 to a goods category under BPM6. The reclassifications between goods and services trade and within services components are important to understand, as they affect trend analysis at both the aggregate and the sub-sector level.

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27 WTO, 'General Agreement on Trade in Services', 1994, https://www.wto.org/english/docs_e/legal_e/26-gats.pdf, accessed 21 September 2019.

28 See, for example, Cernat L, 'Trade rules and technological change: The case for Mode 5 services', The E15 Initiative, November 2015, http://e15initiative.org/blogs/trade-rules-and-technological-change-the-case-for-mode-5-services/, accessed 20 September 2019; Cernat L & Z Kutlina-Dimitrova, 'Thinking in a box: A "mode 5" approach to service trade', EC (European Commission) Chief Economist Note, Trade, 1, March 2014, http://trade.ec.europa.eu/doclib/docs/2014/march/tradoc_152237.pdf, accessed 20 September 2019.

29 UN, EC, IMF (International Monetary Fund), OECD (Organisation for Economic Co-operation and Development), UNCTAD & WTO, *Manual on Statistics of International Trade in Services*. Geneva: UN, 2002.

30 UN, Eurostat, IMF, OECD, UNCTAD, UNWTO (UN World Tourism Organization) & WTO, *Manual on Statistics of International Trade in Services*. Geneva: UN, 2010.

31 See *ibid* for more detail.

TABLE 3.1 SERVICES COMPONENTS IN BPM5 VERSUS BPM6	
BPM5 standard services	**BPM6 standard services**
Transport	Manufacturing services on physical inputs owned by others
Travel	Maintenance and repair services, not included elsewhere
Communication services	Transport
Construction services	Travel
Insurance services	Construction services
Financial services	Insurance and pension services
Computer and information services	Financial services
Royalties and licence services	Charges for the use of intellectual property, not included elsewhere
Other business services	Telecommunication, computer and information services
Personal, cultural and recreational services	Other business services
Government services, not included elsewhere	Personal, cultural and recreational services
	Government goods and services, not included elsewhere

Source: Eurostat, 'Measuring international trade in services: From BPM5 to BPM6, Statistics Explained', 2019, https://ec.europa.eu/eurostat/statistics-explained/pdfscache/35119.pdf, accessed 26 October 2019

With respect to refinements of estimates of Mode 3 services trade, the 2010 MSITS includes further elaboration of the FATS framework, while the FATS acronym was changed from 'foreign affiliate trade in services' to 'foreign affiliates statistics'. Additional detail and explanation with respect to measurement issues for Mode 4 (presence of natural persons) is also provided in the 2010 edition of the MSITS.

The compilation of services trade data in line with the recommendations of the 2010 MSITS is a long-term goal for developing countries. The manual recommends, in the first instance, the implementation of central elements such as the disaggregation of BoP data and the collection of FDI and FATS data. The recording of services trade by geographical origin and destination is another key recommendation. This should be followed by elements such as the allocation of transactions over the GATS modes of supply and the collection of statistics on Mode 4. Countries are at different stages in applying the guidelines of the manual, which affects the availability and consistency of data for services trade analysis. In particular, FATS data and data classified by mode of supply are not yet available for African economies.[32]

The International Trade Centre (ITC), UN Conference on Trade and Development (UNCTAD) and WTO Trade in Services Database[33] provides services trade data for 2005–2017 classified

32 In July 2019 the WTO released an experimental database called Trade in Services data by Mode of Supply (TiSMoS). This resource includes a worldwide FATS database that will be an interesting tool for further research. See WTO, 'Trade in services data by mode of supply (TiSMoS)', https://www.wto.org/english/res_e/statis_e/trade_datasets_e.htm#TISMOS, accessed 28 August 2019.

33 ITC, UNCTAD & WTO, *op. cit.*

in accordance with the framework set out in BPM6 and the EBOPS categories delineated in the 2010 MSITS. Data for 2000–2004 is also available, but it is based on the BPM5 methodology and 2002 EBOPS categories. Countries report varying levels of EBOPS sub-sectoral detail, which complicates comparative structural analysis at the sub-sector level. Nonetheless, the ITC, UNCTAD and WTO Database provides a comprehensive accessible source of countries' trade in services data with the world in the aggregate, and for the 12 main BPM6 services components and some 2010 EBOPS categories. It is therefore used in this study to analyse the growth and structure of selected AU countries' services trade. Bilateral services trade by geographical origin and destination is, however, not available in this dataset.

The World Bank Trade in Services Database provides bilateral services trade data for Modes 1 and 2 services trade, based on the BPM5 methodology for the period 1981–2010.[34] The data includes varying numbers of 2002 EBOPS categories and available years, depending on the bilateral relationship in question. More detailed and comprehensive coverage by sector and over time is evident for bilateral trade between developed economies, and between developed and developing countries, owing to the generally better mirror data obtainable from developed country data sources. While numerous South–South relationships can be analysed, the only intra-African bilateral relationship involving South Africa that appears explicitly in the dataset is that between South Africa and Swaziland for the period 2000–2010. South Africa's bilateral services trade with other African economies and numerous other countries globally (both developed and developing) is subsumed under the residual XWD ('rest of the world') country group.[35] This database is therefore not a useful source of bilateral services trade data for the present study.

In 2017 the OECD and WTO released the BaTiS database,[36] covering the period 1995–2012 and the 11 main BPM5 services sectors. The purpose of the database is to develop a disaggregated set of bilateral trade in services statistics as an international benchmark that can be updated and refined as further data becomes available. The methodology builds on initiatives such as that of the World Bank Trade in Services Database, which used mirror data to fill in missing information on bilateral trade flows. The BaTiS methodology[37] goes further in two main respects. First, it includes estimates of bilateral flows in instances where there are missing observations. Second, in cases where both export and import

34 See Francois J & O Pindyuk, 'Consolidated Data on International Trade in Services v8.9', Discussion Paper, 20130101. Rotterdam: IIDE (Institute for International and Development Economics), 2013. The database can be accessed at World Bank, 'Trade in services database', https://datacatalog.worldbank.org/dataset/trade-services-database, accessed 28 September 2019.

35 Since bilateral partners for a particular economy 'appear' and 'disappear' in different years in the dataset it must be assumed that the XWD category is not static in terms of the number of countries it includes each year vis-à-vis that economy. A country's 'bilateral trade with XWD' reflects the difference between its total reported flows and total reported bilateral flows that year. It is therefore inaccurate to infer trends in services trade with the 'rest of the world' on the basis of the XWD category or to use XWD as a proxy for a particular set of developing countries, as has been done in some studies (see, for example, Bhorat H *et al.*, 'Understanding and Characterizing the Services Sector in South Africa: An Overview', Working Paper, 201803. Cape Town: Development Policy Research Unit, University of Cape Town, October 2018, pp. 35–37).

36 OECD & WTO, 'Balanced trade in services database', https://www.wto.org/english/res_e/statis_e/trade_datasets_e.htm#BaTis, accessed 12 October 2019.

37 See Fortanier F *et al.*, 'The OECD-WTO Balanced Trade in Services Database', OECD & WTO, November 2017, https://www.wto.org/english/res_e/statis_e/daily_update_e/OECD-WTO_Batis_methodology.pdf, accessed 12 October 2019.

sources are available, it presents a set of balanced data for which trade asymmetries have been reconciled in order to ensure internal consistency and coherence. While the dataset is described as 'experimental' and is still under development, an effort has been made to describe the methodology in a transparent manner.[38] Some preliminary insights into bilateral services trade flows on the African continent are explored using this dataset, although the results must be treated with caution owing to the estimation and reconciliation processes involved.

With the lack of availability of FATS data for estimating Mode 3 supply of services via commercial presence in the case of African economies, FDI data is typically used instead to provide a picture of the importance of Mode 3 trade,[39] although it differs in important ways from FATS. According to Francois *et al.*,[40] FDI stock data is closer to capturing what FATS would measure. It is important to include some indication of Mode 3 trade in services in an assessment of services trade on the continent. In the case of South Africa, for example, neglect of services supplied via Mode 3 would significantly understate the country's services trade with the rest of Africa. The country's Mode 3 engagement in telecommunications, financial, retail and construction services sectors is of particular interest in this regard. In the present study, information on South Africa's inward and outward FDI stock is obtained from a variety of sources, including the South African Reserve Bank (SARB) and UNCTAD.[41] Interesting information on the reach of services companies on the continent can also be obtained by examining the proportion of listed companies on African stock exchanges that are services suppliers, and which services sectors dominate in this context. For the present report, this information is derived from data sourced from the African Markets Portal.[42]

It was noted earlier that the increasing importance of services as inputs into manufacturing, together with the rise of GVCs, has led to an emphasis in the trade-in-value-added literature on the supply of services embodied as inputs into traded goods. The OECD-WTO Trade in Value Added (TiVA) Database[43] provides indicators on the origins of value added by sector and country in exports, imports and final demand. The most recent (2018) version of the database covers 64 countries and 36 sectors for the period 2005–2016. The only African countries in the dataset at present are South Africa, Morocco and Tunisia. TiVA analysis allows for a more complete picture to be built of the contribution of services to gross exports in general and to the exports of particular manufacturing sectors, as well as the importance of services in GVCs. This study uses the OECD-WTO TiVA Database to explore

38 Further details can be found in *ibid*.

39 See, for example, Visagie J & I Turok, 'The Contribution of Services to Trade and Development in Southern Africa', Working Paper 2019/37, UNU-WIDER, April 2019, pp. 16–20, https://www.wider.unu.edu/sites/default/files/Publications/Working-paper/PDF/wp-2019-37.pdf, accessed 12 July 2019; Bhorat H *et al.*, *op. cit.*, pp. 50–62.

40 Francois J, Pindyuk O & J Woerz, 'Trends in International Trade and FDI in Services', Discussion Paper, 20090802. Rotterdam: IIDE, 2009, p. 5.

41 SARB (South African Reserve Bank), 'Quarterly Bulletins 2012–2019', https://www.resbank.co.za/Publications/QuarterlyBulletins/Pages/Quarterly-Bulletin.aspx, accessed 8 November 2019; UNCTAD, *World Investment Report 2019*, https://unctad.org/en/PublicationsLibrary/wir2019_overview_en.pdf, accessed 4 November 2019.

42 African Markets, https://www.african-markets.com/en/, accessed 4 November 2019.

43 Available at OECD, 'Trade in value added', https://www.oecd.org/sti/ind/measuring-trade-in-value-added.htm, accessed 3 September 2019.

indicators on the importance of services value added in South Africa's total exports and in the exports of particular manufacturing sub-sectors.

It is important to note, however, that TiVA indicators are derived from an international input-output table that is in turn constructed from national input-output or supply-use tables, together with a set of bilateral trade flows for every country in the database.[44] Each step in the process embodies a range of major assumptions and adjustments, and information on services in particular is imperfect.[45] TiVA indicators should thus be seen as estimates and used with caution, especially when drawing inferences for policy.

The state of affairs regarding services trade data, particularly for low-income countries, should be borne in mind when assessing empirical work on the impact of services trade liberalisation for developing countries and when formulating negotiating positions. With increasing pressure to liberalise services in plurilateral, regional and bilateral trade agreements, and with the growing importance of services for industrial policy in the context of GVCs, greater priority needs to be given to the development of services trade statistics. Such statistics need to be fit for purpose – in terms of their compatibility with international reporting standards and to facilitate the development of a strategic trade policy for the services sector aligned with broader industrial policy objectives.

3.2 Assessing the growth and structure of services trade on the continent

The growth and structure of African countries' services trade is studied for the period 2005–2017, subject to data availability. To make the analysis manageable given the number of AU member states, a group of countries has been selected that includes the most active services traders in recent years on either the export or import side or both. The selection has also been guided by factors such as market size, GDP per capita and membership of regional groupings.[46] The focus will be on South Africa and the RECs most relevant for the country, as well as prominent services traders elsewhere on the continent. The selection includes the following:

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

44 Javorsek M & I Camacho, 'Trade in Value Added: Concepts, Estimation and Analysis', Asia-Pacific Research and Training Network on Trade Working Paper, 150/2015. Bangkok: UN Economic and Social Commission for Asia and the Pacific, 2015.

45 Sturgeon T, 'Trade in value added indicators: What they are, what they aren't and where they're headed', VOX, CEPR Policy Portal, 20 May 2015, https://voxeu.org/article/trade-value-added-indicators-caveat-emptor, accessed 12 December 2019.

46 Appendix 1 provides information on market size, GDP per capita and membership of regional groupings and the WTO for all AU member states.

Of the countries above, five are low-income countries, nine are lower middle-income and four are upper middle-income (according to the World Bank classification by gross national income per capita).[47] In addition, seven out of the 18 have LDC status.[48] While this is less than the proportion of LDCs in the AU, which stands at 60%, it does reflect the importance of services trade to low-income countries and LDCs on the continent.[49]

Table 3.2 depicts services exports, imports and the services trade balance for the selected AU member states, organised into the country categories described above, and based on data from the ITC, UNCTAD and WTO Trade in Services Database converted to constant US dollars.[50] In absolute terms, the largest services exporters in recent years have been Egypt, Morocco, South Africa, Ghana and Nigeria, and the largest importers Nigeria, Egypt, South Africa, Angola and Morocco. On the export side, this suggests that South Africa would face increased competition in the African services market from a number of non-SADC AU economies once an AfCFTA services agreement is implemented. In general, services export growth has been highly variable, however, especially in the most recent periods.

> The largest services exporters are Egypt, Morocco, South Africa, Ghana and Nigeria suggesting that South Africa would face increased competition in the African services market from non-SADC AU economies once an AfCFTA services agreement is implemented

At a disaggregated level, Egypt's services exports are driven by 'Sea freight', 'Passenger air' and 'Other transport', 'Telecommunications', 'Construction', and 'Professional and management consulting' services sub-categories.[51] For Morocco, major services exports

47 World Bank, 'List of economies (June 2019)', 2019, https://www.acpe-accredit.org/pdf/ISP/WorldBankData-CountryClassifications.pdf, accessed 4 October 2019.

48 See UNCTAD, 'UN list of least developed countries', Appendix 1, https://unctad.org/en/pages/aldc/Least%20Developed%20Countries/UN-list-of-Least-Developed-Countries.aspx, accessed 10 November 2019.

49 For a more detailed discussion of services trade, GATS commitments and services negotiations in the LDC context see Cattaneo N, 2017, *op. cit.*

50 Nominal services trade data in US dollars is deflated using the US implicit price deflator for personal consumption spending on services, available at FRED, 'Personal consumption expenditures: Services (implicit price deflator)', https://fred.stlouisfed.org/series/DSERRD3A086NBEA, accessed 2 November 2019. There is much debate over the most suitable deflator for nominal trade data. For cross-country data in US dollars, the US CPI or US GDP deflator is commonly used to convert current to constant US dollars. For example, Visagie J & I Turok, *op. cit.*, p. 8, use a US GDP deflator to deflate services trade flows. In this report, personal consumption spending on services is used as a deflator, as recommended by the EIU, as it captures more than just private household spending on services. In any event, the various alternative options were not found to differ significantly from the chosen deflator. For more discussion on the pros and cons of various price deflators, see EIU (The Economist Intelligence Unit), 'Data tool: prices', 2019, http://graphics.eiu.com/data_services/contentguide/prices.htm, accessed 2 November 2019; Mohr P, *Economic Indicators*, 4th edition. Pretoria: Van Schaik, 2014; IMF, *Export and Import Price Index Manual: Theory and Practice*. Washington DC: IMF, 2009.

51 While services trade data by country disaggregated into the main BPM6 components and numerous EBOPS sub-categories can be obtained from ITC, UNCTAD & WTO, *op. cit.*, detailed tables for each of the selected countries have not been included here for space reasons.

TABLE 3.2 TOTAL SERVICES EXPORTS, IMPORTS AND TRADE BALANCE (CONSTANT 2012 $ MILLION)

Selected AU countries	Services exports				Services imports				Services trade balance			
	2005	2009	2013	2017	2005	2009	2013	2017	2005	2009	2013	2017
SADC												
Angola	208,83	661,36	1285,92	880,72	8020,24	20343,01	22540,06	12338,24	-7811,41	-19681,65	-21254,14	-11457,53
Botswana	982,03	894,06	902,08	915,18	701,52	843,44	1030,29	805,72	280,50	50,62	-128,21	109,46
Mauritius	1911,00	2376,03	2713,85	2728,20	1414,56	1705,66	2160,65	1949,46	496,44	670,37	553,20	778,74
Mozambique	403,87	649,12	630,86	588,15	765,97	1108,22	3815,89	2673,97	-362,10	-459,11	-3185,04	-2085,82
Namibia	487,29	665,83	572,91	651,24	435,53	582,79	723,12	610,62	51,76	83,04	-150,21	40,63
South Africa	13969,86	14008,77	16434,58	14098,83	14350,50	16339,95	17645,73	14459,90	-380,64	-2331,19	-1211,15	-361,07
Tanzania	1498,90	1968,18	3129,18	3443,50	1425,86	1827,37	2432,15	1804,99	73,03	140,81	697,03	1638,51
Zambia	648,93	560,91	740,86	773,70	486,87	712,89	1775,13	1363,85	162,06	-151,98	-1034,27	-590,16
Non-SADC TFTA												
Egypt	17293,12	22837,28	17848,14	17474,53	12410,21	14788,34	16036,30	15940,18	4882,90	8048,94	1811,84	1534,35
Ethiopia	1195,34	1841,49	3031,76	3225,85	1409,93	2359,95	3348,02	4396,03	-214,59	-518,46	-316,26	-1170,18
Kenya	2223,58	3070,14	5015,88	4157,41	1360,84	1953,12	2751,60	2765,79	862,74	1117,02	2264,27	1391,62
Rwanda	141,38	378,81	562,22	892,94	337,97	566,64	576,58	919,57	-196,59	-187,83	-14,37	-26,64
Uganda	621,41	1090,07	2055,46	1462,10	719,05	1478,23	2372,69	1842,66	-97,64	-388,16	-317,23	-380,56
Other AU												
Cameroon	1145,50	1325,37	1901,79	1738,99	1727,82	2081,35	2507,63	2182,28	-582,32	-755,98	-605,84	-443,28
Ghana	1306,78	1878,05	2398,49	5905,55	1503,54	3123,30	4786,94	8475,49	-196,76	-1245,25	-2388,45	-2569,94
Morocco	10940,97	15740,79	14027,72	15501,98	4541,44	7320,70	7399,83	8781,13	6399,54	8420,08	6627,89	6720,85
Nigeria	2117,07	2353,65	2341,93	4492,42	7822,42	19841,19	21309,37	16310,94	-5705,35	-17487,54	-18967,44	-11818,52
Tunisia	4578,57	5660,43	4721,33	2928,41	2487,77	3047,84	3229,47	2728,02	2090,80	2612,59	1491,87	200,39
Selected countries total	61674,42	77960,33	80314,94	81859,69	61922,05	100023,99	116441,46	100348,83	-247,63	-22063,66	-36126,51	-18489,14
Africa total	72613,13	91153,74	96210,53	95067,23	90775,88	146013,28	171562,85	136304,49	-18162,75	-54859,54	-75352,32	-41237,26
World	3120876,89	3816554,23	4716224,89	4833491,81	3069788,64	3702559,24	4587869,93	4612376,21				
						Selected less Angola & Nigeria			13269,13	15105,53	4095,07	4786,91
						Africa less Angola & Nigeria			-4645,99	-17690,35	-35130,74	-17961,22

Source: Author's computations based on ITC (International Trade Centre), UNCTAD (UN Conference on Trade and Development) & WTO (World Trade Organization), 'Trade in Services Database', https://www.trademap.org/Index.aspx, accessed 12 September 2019

include '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' and 'Telecommunications services'. In the case of South Africa, 'Personal travel', 'Technical, trade-related and other business services', 'Freight transport', 'Explicitly charged and other financial services', 'Passenger transport' and 'Business travel' are key export sectors. Ghana's services exports are dominated by 'Technical, trade-related and other business services', 'Other' business and personal travel, and 'Freight transport', while Nigeria's are led by 'Other personal travel', 'Other sea transport', 'Explicitly charged and other financial services' and 'Telecommunications services'.

Even at the EBOPS level, many services sub-sectors cover a range of extremely heterogeneous activities. An example is 'Technical, trade-related and other business services', which includes activities as diverse as architectural services and waste treatment. It is therefore difficult to make an assessment about the extent to which higher value services activities are being exported from this data. The dominance of the traditional travel and transport sectors is noticeable, although the telecommunications sub-sector and certain sub-categories of business and financial services are evidently important export sectors. Visagie and Turok [52] make a useful distinction between 'traditional' (travel and transport) and 'modern' services (telecommunications, information technology, construction, finance and insurance, and business services) at the BPM5 broad sector level. However, more work is needed at the EBOPS sub-sector level to classify activities as higher value added or propulsive for growth.

While Africa's services trade deficit worsened markedly between 2005 and 2013, it had improved significantly by 2017

The importance of services trade for the selected countries' BoP is also depicted in Table 3.2. In Africa as a whole, while services exports and imports both increased up until 2013, imports grew more rapidly, widening the services trade deficit. Services exports and imports were both lower in 2017 compared to 2013, but imports fell more extensively, reducing the deficit in 2017 relative to 2013. Thus, while Africa's services trade deficit worsened markedly between 2005 and 2013, it had improved significantly by 2017. The major continental oil exporters, Angola and Nigeria, are among the largest services importers and have the greatest services trade deficits.[53] If Angola and Nigeria are excluded, the selected countries' overall services trade deficit is eliminated and the continental deficit is more than halved. Angola's services trade deficit is driven at the sub-sector level by 'Technical, trade-related and other business

52 Visagie J & I Turok, *op. cit.*, p. 10. See also Bhorat H *et al.*, 2018, *op. cit.*

53 Libya, the next most significant continental oil producer, also has comparatively large services imports in absolute terms and a prominent services trade deficit (Cattaneo N, 2017, *op. cit.*, p. 10).

services', 'Sea freight transport' and 'Construction in the reporting economy'. In the case of Nigeria, the largest import sub-categories contributing to the country's services trade deficit are 'Technical, trade-related and other business services', 'Air passenger transport', 'Personal travel, education-related', 'Sea freight transport' and 'Other personal travel (other than health and education)'. Survey work is needed to indicate the sub-categories of 'Technical, trade-related and other business services' that are driving this trend.

For the other large services importers in absolute terms, South Africa's main services import categories are 'Personal travel', 'Technical, trade-related and other business services', 'Charges for the use of intellectual property' and 'Telecommunications, computer and information services', while Egypt's are 'Sea freight transport', 'Technical, trade-related and other business services', 'Personal travel' and 'Insurance and pension services'. Note that South Africa's services trade deficit is comparatively small while Egypt has run a surplus for the period under study. The highest services trade surpluses in 2017 were recorded in Morocco, Tanzania, Egypt and Kenya. The only LDC country in the group with systematic services trade surpluses since 2005 is Tanzania. In the case of South Africa at the broad sector level, the country has surpluses in maintenance and repair services, travel, construction and financial services, as well as personal, cultural, and recreational services.

There is scope for increased intra-African services trade in sub-categories of transport and travel, and in sub-sectors such as 'technical, trade-related and other business services' and 'telecommunications'

The data suggests that there is scope for increased intra-African services trade, particularly in sub-categories of transport and travel, as well as in sub-sectors such as 'Technical, trade-related and other business services' and 'Telecommunications'. This is more formally investigated in Section 3.3 using trade complementarity indices to measure trade potential on formation of a continental services trade agreement. However, a systematic examination of services trade at the EBOPS sub-component level is limited by missing or unreported data categories at higher levels of disaggregation in the ITC, UNCTAD and WTO Trade in Services Database.

A different picture of the importance of services trade for the selected AU countries is provided in Table 3.3. The second panel of the table depicts services trade as a proportion of GDP, based on World Bank data.[54] Mauritius, Mozambique, Ghana and Morocco have the highest shares of services trade as a proportion of GDP; more than double the low and

54 World Bank, 'World Development Indicators', 2019, https://datacatalog.worldbank.org/dataset/world-development-indicators, accessed 15 July 2019.

middle-income averages. Nigeria, South Africa and Zambia have the lowest shares. These contrast with much higher shares of service value added as a proportion of GDP (portrayed in the first panel of Table 3.3), which varies from approximately 37% for Ethiopia to just over 67% for Mauritius, with South Africa at 61.5%. Finally, services trade as a proportion of total trade can be found in the last panel of Table 3.3. This ratio ranges from 10.5% for Namibia to 41.5% for Mauritius, with South Africa at a comparatively low 15.7%. The global share of services trade in total trade is seen to be 23%, with the African share slightly lower at 21.8%. South Africa thus has a share of services value added in GDP that is well above the upper-middle-income average, while services trade as a proportion of GDP is closer to the average. At the same time, South Africa's services trade as a share of total trade is quite far below the African norm.

Mauritius, Mozambique, Ghana and Morocco have the highest shares of services trade as a proportion of GDP contrasting with much higher shares of service value added as a proportion of GDP in Ethiopia (37%), Mauritius (67%) and SA (61.5%)

It is interesting to consider which services sub-sectors or components are most significant in bilateral estimates of intra-African services trade relative to African countries' services trade globally. It is also important to identify major bilateral trading relationships and services hubs on the continent. To achieve this, bilateral trade estimates using the BaTiS database described in Section 3.1 are examined from the perspective of South Africa vis-à-vis selected AU countries. Caution must be exercised when comparing bilateral trade estimates from BaTiS with global services trade data from the ITC, UNCTAD and WTO Services Trade Database at the component level since the BaTiS database still uses BPM5 services trade categories.

Appendix 2, compiled from the BaTiS database, depicts estimated bilateral services trade flows between South Africa and a sub-set of the selected AU countries discussed in Section 3.2. Services trade flows for both 1995 and 2012 are indicated for each of the 11 BPM5 services trade categories and for total services.[55] According to the BaTiS estimates, South Africa's main services trading partners on the export side in 2012 (out of the sub-set of selected countries) were Angola, Nigeria, Kenya, Ghana and Mauritius. Construction and other business services dominated in exports to Angola, while travel, transportation and other business services were important exports to Nigeria, Kenya, Ghana and Mauritius.
On the import side, South Africa's main services trading partners were Egypt, Nigeria, Ghana, Angola and Mauritius in 2012. Key BPM5 import categories in all cases were travel

55 As noted earlier, the database covered the period 1995–2012 at the time of writing.

TABLE 3.3 SERVICES VALUE ADDED TO GDP, SERVICES TRADE TO GDP, SERVICES TRADE TO TOTAL TRADE (%)

Selected AU countries	Services value added as a share of GDP					Services trade as a share of GDP					Services trade as a share of total trade				
	2000	2005	2009	2013	2017	2000	2005	2009	2013	2017	2005	2009	2013	2017	
SADC															
Angola	22,21	35,53	48,99	42,78	46,76	32,50	18,85	28,15	17,83	12,10	49,73	23,46	20,51	22,72	
Botswana	42,75	45,60	57,55	56,62	58,40	15,07	14,35	15,95	13,27	11,05	15,81	16,67	11,64	14,68	
Mauritius	54,28	58,08	62,23	64,37	67,38	39,99	44,81	42,13	41,12	39,64	34,68	41,19	39,20	41,50	
Mozambique	47,72	49,67	48,74	51,97	47,68	–	12,82	15,18	28,40	28,84	19,26	21,88	24,37	25,87	
Namibia	57,43	56,73	55,81	57,27	58,39	12,88	10,97	13,26	10,43	9,75	12,95	8,88	8,70	10,51	
South Africa	59,07	60,10	60,51	61,17	61,49	7,99	9,31	9,66	9,51	9,15	19,03	19,56	14,95	15,71	
Tanzania	49,08	45,08	44,55	40,27	37,92	9,79	13,46	12,30	12,46	11,00	33,49	27,32	25,15	32,94	
Zambia	48,96	48,96	51,55	53,09	52,19	12,49	11,54	7,83	9,18	9,24	18,05	12,90	11,03	12,43	
Non-SADC TFTA															
Egypt	46,53	45,93	46,57	52,30	53,02	17,34	28,04	18,76	12,01	15,87	45,23	33,91	26,65	28,82	
Ethiopia	37,45	39,14	38,77	39,67	36,92	12,08	17,79	12,21	13,70	10,58	30,52	29,22	32,52	32,68	
Kenya	–	–	49,32	48,01	43,62	13,68	16,20	12,79	13,32	9,76	24,67	24,40	26,33	25,65	
Rwanda	46,87	44,05	48,50	47,73	46,38	–	–	–	15,29	22,18	43,64	39,36	30,97	34,21	
Uganda	44,67	45,31	46,23	46,72	47,11	10,85	12,59	13,32	18,42	14,21	28,36	29,39	35,52	30,30	
Other AU															
Cameroon	45,46	50,66	52,58	52,47	52,15	17,05	13,56	12,34	13,95	12,55	30,10	36,77	28,75	34,16	
Ghana	28,82	28,91	47,94	39,15	42,35	21,83	22,17	18,14	11,62	27,25	23,06	29,01	22,43	37,26	
Morocco	50,55	52,31	51,51	51,59	49,96	15,14	21,03	23,39	20,52	24,94	29,07	31,64	24,62	27,75	
Nigeria	43,80	44,68	50,98	52,37	55,80	7,39	4,78	7,17	4,70	6,19	–	19,96	15,34	25,04	
Tunisia	51,63	55,04	55,49	57,21	58,82	17,83	18,54	18,88	17,59	15,83	20,18	19,66	16,45	15,37	
Low income	42,01	41,80	42,11	41,11	40,19	–	14,51	13,70	14,18	12,07	–	–	–	–	
Lower-middle-income	42,25	45,35	46,99	47,93	49,28	11,33	13,40	11,61	11,15	11,00	28,85	24,62	20,07	23,95	**Selection**
Upper-middle-income	–	47,56	50,72	51,78	55,32	8,75	8,63	7,58	7,41	7,58	25,68	22,77	19,02	21,78	**Africa**
World	62,26	61,41	63,87	63,53	–	9,18	10,98	11,64	12,23	12,98	20,01	22,11	20,13	23,00	**World**

Source: Author's computations based on ITC (International Trade Centre), UNCTAD (UN Conference on Trade and Development) & WTO (World Trade Organization), 'Trade in Services Database', https://www.trademap.org/Index.aspx, accessed 12 September 2019

and transportation, with other business services imports also notable in the case of Angola, communications services imports in the case of Egypt and construction services imports in the case of Nigeria.

South Africa's main services trading partners on the export side in 2012 were Angola, Nigeria, Kenya, Ghana and Mauritius, with construction and other business services dominated in exports to Angola

In 2012 South Africa had a services trade deficit with Egypt, Ghana, Mauritius, Morocco and Tanzania. This deficit was highest with Egypt, followed by Ghana. The BaTiS estimates suggest that bilateral services trade flows between South Africa and the selected partner countries grew significantly in most instances between 1995 and 2012, with imports from Ghana, Nigeria and Egypt growing particularly fast. This reinforces the earlier point that South Africa will face increased competition in the African services market from a number of AU economies on implementation of a continental services trade agreement.[56] Case study analysis is needed to investigate which sub-categories of the main traded services sectors (particularly in travel, transportation, other business services, communication and construction) are driving the trends in South Africa's bilateral services trade on the continent.

3.3 Assessing services trade potential using trade complementarity indices

Section 3.2 considered recent trends in aggregate services trade by country, as well as estimates of bilateral services trade between South Africa and selected AU partner states. In this section the focus shifts to consider services trade *potential* between South Africa and these partners, given the proposed opening of services markets in the context of the AfCFTA.

While there are a number of methods that can be used to investigate the potential for increased trade among countries forming a trade agreement such as the AfCFTA, a particularly useful technique in the services trade context is the calculation and interpretation of TCIs. TCIs measure trade potential by computing the degree of overlap between one country's exports and another country's imports, and vice versa.[57] The measure is useful for investigating services trade potential, as it does not require data on

56 The BaTiS database is in the process of being revised to reflect BPM6 categories and more recent years, but it is encouraging to note that the estimates discussed regarding South Africa's bilateral trade with the selected countries appear to be generally plausible and in line with other findings in the study.

57 Michaely M, 'Trade Preferential Agreements in Latin America: An Ex Ante Assessment', Policy Research Working Paper, 1583. Washington DC: World Bank, 1996; UNCTAD & WTO, *A Practical Guide to Trade Policy Analysis*. Geneva: UNCTAD & WTO, 2012, pp. 30–31.

existing bilateral trade between the countries under study. Instead, it considers the overlap between the structure of one country's exports to the world and the structure of another country's imports from the world, and vice versa.

As an example, South Africa's services export TCI with Egypt compares the extent to which the structure of South Africa's services exports to the world matches the structure of Egypt's services imports from the world. Similarly, South Africa's services import TCI with Egypt compares the structure of South Africa's services imports from the world with the structure of Egypt's services exports to the world. Thus, for each of South Africa's bilateral relationships two TCIs are computed: one on the export side and one on the import side.[58]

In this context specifically, South Africa's services export TCI considers the overlap between the share of each sub-sector in South Africa's services exports to the world and the share of each sub-sector in the relevant partner's services imports from the world. South Africa's services import TCI measures the overlap between the share of each sub-sector in the country's services imports from the world and the share of each sub-sector in the relevant partner's services exports to the world.[59]

The measurement of TCIs is highly sensitive to the level of aggregation of the trade data. In the case of services trade, the level of disaggregation is restricted to the BPM6 broad and EBOPS categories available in the ITC, UNCTAD and WTO Trade in Services Database. However, the number of EBOPS categories available varies by country and there are missing sub-totals and sub-categories in some instances at the more disaggregated level. TCIs are therefore computed based on the 11 BPM6 commercial services categories for a sub-set of the selected AU countries. The measurement of the TCIs is based on trade data and trade shares for 2017, unless otherwise indicated.

Table 3.4 provides the results of the calculation of South Africa's services export and import TCIs with a sub-set of the selected countries discussed in Section 3.2. The TCIs are in percentage terms, with the higher index indicating a greater potential for increased services trade on formation of a services trade agreement between the countries in question. In cases where South Africa's services export TCI is relatively high, the relevant partner country provides a potential import demand for South Africa's services exports. On the other hand, where South Africa's services import TCI is relatively high, South Africa provides a potential source of import demand for the partner country's services exports.[60]

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58 Cattaneo N & J Snowball, 'South Africa's Cultural Goods Trade with Africa: Policies and Trade Potentials in the Context of the African Continental Free Trade Area Agreement'. Port Elizabeth: South African Cultural Observatory, 2019.

59 South Africa's services export TCI is calculated as: $SAEXPTCI = 100\ [\ 1 - \sum |saexp_i - partimp_i| /2\ ]$ where $\sum$ is the sum across all services sub-sectors; saexpi is the share of sub-sector i in South Africa's total services exports to the world; and partimpi is the share of sub-sector i in the partner country's total services imports from the world. Similarly, South Africa's services import TCI is calculated as:$SAIMPTCI = 100\ [\ 1 - \sum |saimp_i - partexp_i| /2\ ]$ where $\sum$ is the sum across all services sub-sectors; $saimp_i$ is the share of sub-sector i in South Africa's total services imports from the world; and $partexp_i$ is the share of sub-sector i in the partner country's total services exports to the world.

60 Kollamparambil U, 'Diversity and intra-BRICS trade: Patterns, risks and potential', in Neuwirth R, Svetlicinii A & D Halis (eds), *The BRICS-Lawyers' Guide to Global Cooperation*. Cambridge: Cambridge University Press, 2017, pp. 8–30; Cattaneo N & J Snowball, *op. cit.*, pp. 39–41.

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
SA's services export TCI	42.89	69.90	72.77	48.54	33.17	46.90	38.02	54.95	69.00
SA's services import TCI	31.23	52.35	61.48	68.79	60.04	76.88	34.65	59.29	58.82

Note: Based on the 11 BPM6 commercial services components (ie, excluding 'Government goods and services n.i.e')

Source: Author's computations based on services trade flows for 2017 from ITC, UNCTAD & WTO, 'Trade in services database', 2019, https://www.trademap.org/Index.aspx, accessed 30 September 2019

It can be seen that South Africa's services export TCI is highest in the case of Tanzania, Mauritius and Nigeria. This means that the structure of South Africa's services exports to the world matches best with the structure of these three countries' services imports from the world, out of the nine partner countries in the table. This is followed by Morocco in fourth place. The relatively high indices in the table overall in part reflect the comparatively low level of disaggregation of the data, as the indices were computed on the basis of 11 BPM6 services sub-components. As an area for further research, a higher level of disaggregation could be explored by including some EBOPS sub-components in the calculations. Nevertheless, it is evident that there is potential for South Africa to increase its services exports to a number of SADC and non-SADC African countries.

It is evident that there is potential for South Africa to increase its services exports to a number of SADC and non-SADC African countries

South Africa's services import TCI is, interestingly, relatively high in a number of instances, but highest in the case of Kenya, Egypt, Tanzania and Ethiopia. This suggests that the structure of its services imports from the world matches best with the structure of these countries' services exports to the world, out of the nine partners in the table. South Africa's services import indices for Morocco and Nigeria are also comparatively high. In general, there seems to be a lot of trade potential in terms of South Africa's services imports from the selected countries.

3.4 The importance of service value added in gross exports: The case of South Africa

The share of services exports in total exports understates the importance of services in international trade. Recent work by the OECD and WTO on TiVA allows for an examination of the contribution of services value added to gross exports and provides indicators of countries' participation in GVCs. As noted in Section 3.1, the latest edition of the OECD-WTO TiVA Database, released in 2018, provides a series of TiVA indicators for 64 countries and a 'rest of the world' category. At this stage, South Africa, Tunisia and Morocco are the only African countries in the database. It is useful, however, to demonstrate this added dimension of the contribution of services using South Africa as a case study, as it is especially relevant for GVC and RVC analysis.

At the broad level, total value added in gross exports can be decomposed into local and foreign value added components, yielding domestic value added as a proportion of gross exports (DVA/GE) and foreign value added as a proportion of gross exports (FVA/GE). The TiVA database also provides a sectoral decomposition of domestic and foreign value added as a share of gross exports, allowing for an assessment of trends in domestic services value added as a share of gross exports (DSVA/GE) and foreign services value added as a share of gross exports (FSVA/GE). Furthermore, a sectoral breakdown of DSVA/GE and FSVA/GE is also provided, facilitating a discussion of the importance of domestic and foreign services value added in the exports of 36 economic sectors and sub-sectors across agriculture, mining, manufacturing and services. The sectoral breakdown is especially useful for exploring the role of services as an input into manufacturing exports.

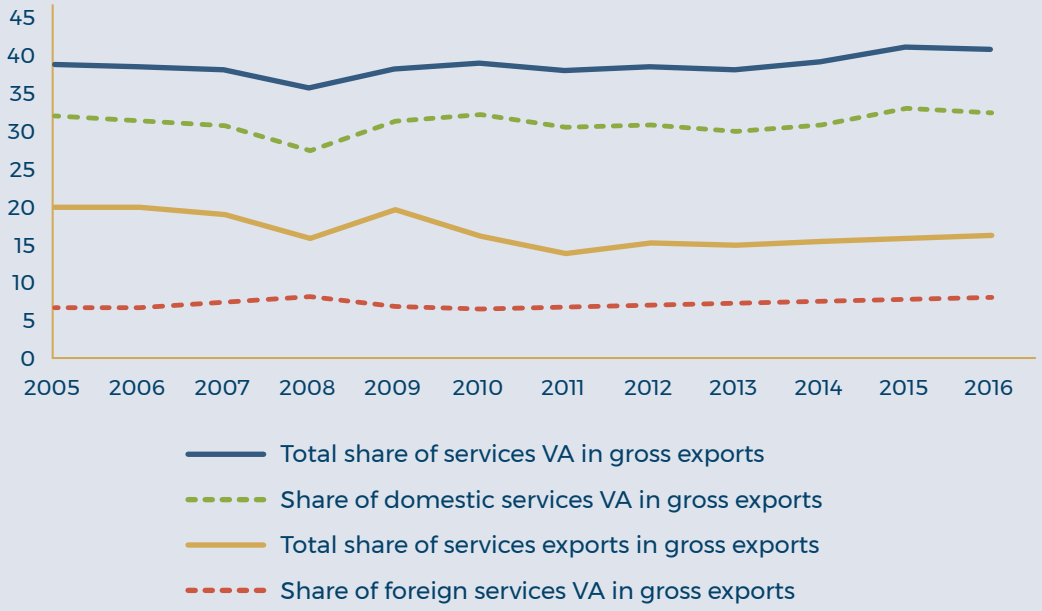
Using South Africa as an example, Figure 3.1 compares, firstly, services *value added* as a proportion of gross exports with services *exports* as a proportion of gross exports. As the graph indicates, the share of services value added in gross exports is more than double the share of services exports in gross exports throughout almost the entire period covered by the 2018 TiVA dataset (2005–2016), and especially in recent years. This underlines the importance of services as inputs into the country's total exports. Secondly, Figure 3.1 indicates the origin of the services value added (domestic versus foreign) embodied in South Africa's gross exports. Not surprisingly, DSVA/GE far exceeds FSVA/GE, although the difference has narrowed marginally in recent years.

The mainstream literature on trade in value added argues for the benefits of an increasing FSVA/GE as part of its services trade liberalisation agenda.[61] The rationale is seemingly based on the assumption that FSVA will be comprised of higher value added or higher productivity services activities. This position needs to be interrogated, however, and the value added composition of DSVA and FSVA properly investigated by sector. From a

61 See, for example, Baldwin R, Forslid R & T Ito, 'Unveiling the Evolving Sources of Value Added in Exports', IDE-JETRO Joint Research Program Series, 161, March 2015, pp. 25–26, https://www.ide.go.jp/library/English/Publish/Download/Jrp/pdf/161.pdf, accessed 15 March 2019.

development perspective, an increase in DSVA and a change in its composition towards higher value added and/or higher productivity activities could be an important part of a country's industrial policy agenda. This is a useful area for future research.

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



Source: OECD (Organisation for Economic Co-operation and Development) & WTO, 'Trade in Value Added Database', 2018, https://www.oecd.org/sti/ind/measuring-trade-in-value-added.htm#access, accessed 30 August 2019; ITC, UNCTAD & WTO, 'Trade in services database', 2019, https://www.trademap.org/Index.aspx, accessed 30 September 2019; ITC, 'Trade in goods database', 2019, https://www.trademap.org/Index.aspx, accessed 29 October 2019

As indicated earlier, the TiVA Database also provides a sectoral breakdown of DSVA/GE and FSVA/GE, which allows an assessment of the relative importance of DSVA and FSVA in the gross exports of a wide range of sectors and sub-sectors across the economy. Of course, the share of DSVA in gross exports is highest for the exports of services (at about 78%) and services sub-sectors, particularly finance and insurance (at 96%) and real estate (at 84%).[62] Apart from services sectors and construction, DSVA as a share of gross exports is relatively high (over 20%) for the following South African manufacturing export sectors: paper products and printing; textiles, wearing apparel, leather and related products; motor vehicles, trailers and semi-trailers; food, beverages and tobacco; and electrical equipment. By contrast, FSVA as a share of gross exports, although significantly lower than DSVA/GE across sectors, is relatively more prominent in South Africa's exports of motor

62 OECD & WTO, 'Trade in Value Added (TiVA): Principal indicators', 2018, https://stats.oecd.org/Index.aspx?DataSetCode=TIVA_2018_C1, accessed 30 August 2019.

vehicles, trailers and semi-trailers (14.8%); other transport equipment (13.3%); electrical equipment (12.46%); computer, electronic and optical products (12.12%); and chemicals and pharmaceutical products (11.96%).[63]

The discussion above suggests that services, both domestic and foreign, are an important input into South Africa's gross exports in a number of key manufacturing sectors. The next step would be to analyse the composition of the services value added embodied in the gross exports of these manufacturing sub-sectors. While this analysis is beyond the scope of the present report, it would give some important insights into the characteristics of the domestic versus foreign services value added in the country's important export sectors.[64]

An alternative to the TiVA Database for trade in value added analysis is the UNCTAD-Eora Global Value Chain Database.[65] The advantage of this database is its wide coverage: 189 countries over nearly 30 years. However, there are fewer compiled indicators than in the TiVA Database and less information on how the data is constructed. In addition, some authors have found implausible values in results for the SADC region pertaining to specific countries.[66] Nevertheless, a new methodological background paper is forthcoming on the UNCTAD-Eora Database that may ease its use.[67] Furthermore, the TiVA Database is growing in geographical coverage with each iteration.

3.5 Exploring Mode 3 supply of services via commercial presence

The analysis in Sections 3.2 and 3.3 was based on BoP data that does not account for Mode 3 supply of services. As noted in Section 3.1, in the absence of FATS data, FDI data is used to provide a picture of Mode 3 supply of services from South Africa's perspective.

FDI by country and sector

According to the 2019 UNCTAD World Investment Report,[68] inward FDI into Africa increased between 2017 and 2018, in contrast to the trend for developed and most developing country regions. Much of the increase was owing to a significant rise in FDI inflows to

63 *Ibid*.

64 In the TiVA literature more generally, the foreign value added content of a country's gross exports is taken as an indicator of 'backward GVC participation'. The domestic value added content of gross exports is in turn decomposed into three components: domestic value added sent to a partner consumer economy; domestic value added sent on to third economies; and domestic value added sent abroad then re-imported into the home economy. Domestic value added sent on to third economies is seen as an indication of value added trade within GVCs and has become known as 'forward GVC participation' (OECD, 'Guide to OECD's Trade in Value Added (TiVA) Indicators, 2018 edition', December 2019, https://www.oecd.org/sti/ind/tiva/TiVA2018_Indicators_Guide.pdf, accessed 12 February 2020. The sum of backward and forward GVC participation yields the so-called 'GVC participation index'.

65 Available at Eora World MRIO Project, 'UNCTAD-Eora global value chain database', https://worldmrio.com/unctadgvc/, accessed 11 October 2019. See also Aslam A, Novta N & F Rodrigues-Bastos, 'Calculating Trade in Value Added', Working Paper, WP/17/178. Washington DC: IMF, 2017.

66 See, for example, Black A *et al.*, 'Spreading the Gains? Prospects and Policies for the Development of Regional Value Chains in Southern Africa', Working Paper 2019/48, UNU-WIDER, June 2019, p. 8, https://www.wider.unu.edu/sites/default/files/Publications/Working-paper/PDF/wp-2019-48.pdf, accessed 21 October 2019.

67 Casella B *et al.*, 'Improving the Analysis of Global Value Chains: The UNCTAD-Eora Database', *Transnational Corporations*, 26, 3 (forthcoming).

68 UNCTAD, *World Investment Report 2019: Special Economic Zones*. Geneva: UNCTAD, 2019.

South Africa, from $2 billion to $5.3 billion. The major recipients of inward FDI flows for this period were Egypt, South Africa, Republic of Congo, Morocco and Ethiopia. At the same time, outward FDI from the continent fell between 2017 and 2018, primarily as a result of reduced outward investment from Angola and South Africa. The largest outward investors in 2018 were South Africa, Nigeria, Algeria, Morocco and Egypt.

South Africa is the largest African intra-continental investor and was the seventh largest investor by stock into Africa globally in 2017.[69] Kenya, Nigeria, Egypt and Morocco are also important outward investors in their respective regions.[70] Table 3.5 shows South Africa's private non-banking outward and inward FDI stock by selected partner country of destination and origin. The African countries shown in the table are those for which separate data is provided in the *SARB Quarterly Bulletin*. The table also includes South Africa's outward FDI stock to and inward FDI stock from the continent as a whole and globally in 2017.

TABLE 3.5 SOUTH AFRICA'S OUTWARD AND INWARD FDI STOCK IN AND FROM SELECTED AU COUNTRIES (ZAR* MILLION)

Selected AU country		Outward stock	Inward stock
Botswana	R millions	23 387	3 200
	Share	*0.69*	*0.18*
Mauritius	R millions	140 285	21 990
	Share	*4.12*	*1.22*
Mozambique	R millions	35 253	–
	Share	*1.04*	–
Namibia	R millions	17 599	4 868
	Share	*0.52*	*0.27*
Nigeria	R millions	1 035	2 476
	Share	*0.03*	*0.14*
Rest of Africa	R millions	116 452	41 209
	Share	*3.42*	*2.29*
Africa total	R millions	334 011	73 743
	Share	*9.81*	*4.11*
Total FDI stock	R millions	3 404 921	1 796 038

Note: Private non-banking sector FDI

* ZAR is the currency code for South African Rands (R)

Source: Author's compilation from SARB, 'Quarterly Bulletin', September 2019, https://www.resbank.co.za/Publications/QuarterlyBulletins/Pages/Quarterly-Bulletin.aspx, accessed 25 October 2019

Africa as a whole accounts for 9.81% of South Africa's private non-banking sector outward FDI stock, a proportion that is five percentage points higher if China is excluded from the

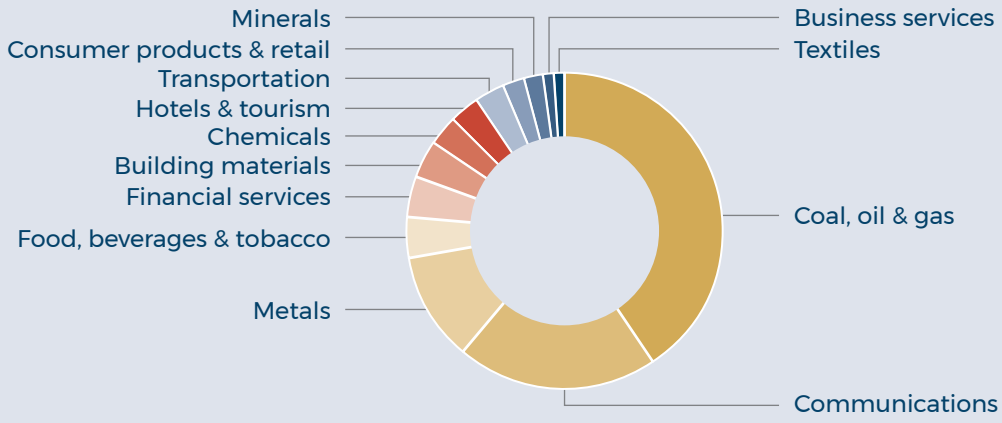
69 *Ibid.*

70 EY, 'How can bold action become everyday action?', EY Attractiveness Program Africa, September 2019, https://www.ey.com/Publication/vwLUAssets/ey-africa-attractiveness-2019/$FILE/ey-africa-attractiveness-2019.pdf, accessed 4 November 2019.

country's total outward stock. Of South Africa's total outward FDI stock, 4.12% resides in Mauritius. It is noteworthy that outward FDI stock to Nigeria fell steadily and dramatically from R18,457 million in 2012 (1.95% of the total) to R1,035 million in 2017 (a low 0.03% share).[71] UNCTAD data suggests that Ghana has recently become an important destination for South Africa's outward FDI.[72]

A recent report by EY[73] considers the relative importance of the services sector in FDI in Africa on the basis of the value of capital invested, the number of FDI projects and the number of jobs created by sector. Compared to the extractive sector and industry, for the period 2014–2018, the services sector received the least amount of capital ($92 billion over five years), but created the most jobs (2.5 million in the same period) and accounted for 77% of FDI projects. On the basis of a 'score' that takes account of all three dimensions (capital investment, job creation and number of FDI projects), the EY report places the services share of total FDI for 2018 at 44.4%, with industry at 32% and the extractive sector at 22.5%. By this score the most important services sectors for FDI on the continent in 2018 were consumer products and retail (18.1%), telecommunications, media and technology (11.9%), transport and logistics (5.6%), business services (4.3%) and financial services (3.6%). In terms of trends since 2014, a four percentage point decline in the share of the services sector in Africa's total FDI, by the EY measure, is largely accounted for by a reduction in the share of the financial services sub-sector of a similar magnitude.[74] The report highlights the importance of emerging technology hubs on the continent, particularly in South Africa, Nigeria and Kenya.

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



Source: South Africa, dti (Department of Trade and Industry), *Industrial Policy Action Plan*. Pretoria: dti, 2018, p. 84, based on the *Financial Times* FDI Database

71 SARB, 'Quarterly Bulletins 2014–2019', https://www.resbank.co.za/Publications/QuarterlyBulletins/Pages/QuarterlyBulletins-Home.aspx, accessed 25 October 2019.

72 Morar D, 'South Africa's Outward Investment into Africa with a Focus on the Retail Sector', Unpublished Research Project. Makhanda-Grahamstown: Department of Economics and Economic History, Rhodes University, 2018, p. 4.

73 EY, *op. cit.*, September 2019.

74 *Ibid.*

UNCTAD reports that approximately 60% of South Africa's outward investments were into the services sector.[75] With respect to the country's outward investment into the rest of Africa, Figure 3.2 indicates the relative importance of specific services sectors, on average, as a proportion of total outward FDI into the continent for the period 2003–2016. The most prominent sectors were communications at 20% of the total; financial services, 4%; hotels and tourism, 3%; transportation, 3%; consumer products and retail, 2%; and business services, 1%.[76]

Service suppliers listed on continental stock exchanges

A useful picture of the penetration of services companies on the African continent can be built by examining the proportion of listed companies on African stock exchanges that are services suppliers. Table 3.6 indicates that, in most cases, over 50% of listed companies operate in services sectors, with the highest proportions evident on the stock exchanges of Rwanda, Malawi, Uganda and Tanzania. The lowest shares of listed companies in services sectors can be found on the Zimbabwe and Bourse Régionale des Valeurs Mobilières (BRVM) stock exchanges, although these shares are still over 40%.

TABLE 3.6 LISTED SERVICES COMPANIES ON SELECTED AFRICAN STOCK MARKETS (OCTOBER 2019)

Country	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, consumer services, healthcare, telecomms
Ghana	22	39	56.41%	Financials, consumer services, healthcare
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, consumer services, healthcare, technology
Rwanda	7	8	87.50%	Financials
South Africa	260	399	65.16%	Financials, real estate investment 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

* Note: BRVM (Bourse Régionale des Valeurs Mobilières) is a West African regional stock exchange serving Burkina Faso, Côte d'Ivoire, Mali, Niger, Senegal and Togo

Source: Author's computations based on data from African Markets, https://www.african-markets.com/en/, accessed 4 November 2019

75 Morar D, *op. cit.*, 2018, p. 7.

76 The non-services sector proportions of South Africa's FDI into Africa were as follows: coal, oil and gas at 40%; metals at 11%; food, beverages and tobacco, 5%; building materials, 4%; chemicals 3%; minerals, 2%; and textiles, 1%.

The services sectors that dominate in these listings are, in most cases, financial services (excluding banks, which are categorised separately) and consumer services. In South Africa, real estate investment services and trusts and retailers are prominent, while technology services firms feature relatively strongly on the Moroccan and Nigerian stock exchanges. A notable number of telecommunications services companies feature on the BRVM and Egypt stock exchanges, while healthcare services companies are relatively important in Egypt, Ghana and Nigeria. This perspective on the reach of services firms in Africa could be enriched by adding the market capitalisation of the listed companies to provide a clearer picture of their relative importance by services sub-sector.

3.6 Summary of key findings on Africa's trade in services

Section 3 explored the growth, structure and pattern of Africa's services trade with reference to a wide range of data sources and indicators. BoP data from the ITC, UNCTAD and WTO Trade in Services Database was used to explore the services trade patterns of a selection of AU member states. It was found that the largest services exporters in recent years have been Egypt, Morocco, South Africa, Ghana and Nigeria, and the largest importers Nigeria, Egypt, South Africa, Angola and Morocco. The data suggests that there is scope for increased intra-African services trade, particularly in sub-categories of transport and travel, as well as in sub-sectors such as 'Technical, trade-related and other business services' and 'Telecommunications'.

At the bilateral level, using the OECD-WTO BaTiS Database estimates, it was found that South Africa's main services trading partners on the export side in 2012 (out of the AU countries under consideration) were Angola, Nigeria, Kenya, Ghana and Mauritius, and on the import side Egypt, Nigeria, Ghana, Angola and Mauritius. Key traded services categories included travel, transportation, other business services, communications and construction services. Sectors such as financial services do not appear to be prominent in the BoP data, but are evidently important in services trade via commercial presence. The analysis of services trade complementarities using TCIs in Section 3.3 reinforced the finding that there is significant potential for increased intra-African services trade, and suggests that South Africa would face increased competition in the African services market on the formation of an African services trade agreement.

For the case of South Africa, the OECD-WTO TiVA Database was used in Section 3.4 to examine the importance of services value added in gross exports and the exports of particular manufacturing sectors. It was found that services value added as a share of gross exports well exceeded the share of services exports in South Africa's gross exports for the period 2005–2016. Furthermore, both domestic and foreign services are important inputs into the country's gross exports in a number of key manufacturing sectors. Estimates of the significance of services value added in gross exports are interesting because of the insights they yield on the importance of services in GVCs.

The analysis of Mode 3 supply of services via commercial presence in Section 3.5 was undertaken largely from the perspective of South Africa's inward and outward FDI stock in and from selected AU countries. It was noted that South Africa is the largest African intra-continental investor and was the seventh largest investor by stock into Africa globally in 2017, while Kenya, Nigeria, Egypt and Morocco were also found to be important outward investors in their respective regions. The importance of services in total FDI on the continent was noted, with a share for 2018 of 44.4%. Key services sectors for FDI on the continent in 2018 included consumer products and retail; telecommunications, media and technology; transport and logistics; business services; and financial services. The importance of emerging technology hubs on the continent was highlighted, particularly in South Africa, Nigeria and Kenya. Section 3.5 also explored the importance of listed companies in services sectors in selected African stock markets to enrich the picture of the services landscape on the continent.

The discussion in Section 3 demonstrates that there is no single source of services trade data that provides a complete picture of services trade via the different modes of supply. The recently released BaTiS and Trade in Services by Mode of Supply (TiSMoS) databases are still being refined and are highly experimental in nature. For the foreseeable future researchers and policymakers will need to draw on a variety of sources, such as those examined in this section, to build an adequate picture of services trade for policy formulation and the identification of countries' offensive and defensive interests in the context of services trade negotiations under the AfCFTA. The data sources highlighted in this report should be complemented by case studies, survey work and consultations with firms, government departments, regulators and other actors affected by services trade agreements.

CHAPTER 4

Services and the international trade negotiating landscape

For AU countries that belong to the WTO, services trade commitments under the GATS form the basis of regional and continental trade in services negotiations. This section provides background on the GATS commitments of AU member states that belong to the WTO, as well as more recent indicators of the openness of their services sectors, with reference to the special nature of services trade barriers.

4.1 GATS commitments of AU WTO member states

As Appendix 1 indicates, 44 out of 55 AU countries are currently WTO members and have made some GATS commitments, either during the Uruguay Round of trade negotiations or subsequently at the time of their accession to the WTO. The GATS Agreement entered into force at the beginning of 1995 following the conclusion of the Uruguay Round. The agreement provides for general obligations and disciplines, including most-favoured nation (MFN) treatment and transparency, together with specific commitments on market access and national treatment. Under the GATS, a country's schedule of specific commitments only needs to specify those sectors in which that country is prepared to make market access and national treatment commitments. This is known as a positive list approach to scheduling, and contrasts with a negative list approach in which the obligations under an agreement apply to all sectors unless otherwise specified in the country's schedule. Low and Mattoo[77] explain, however, that the positive list approach applied in the GATS to indicate sectoral coverage with respect to market access and national treatment across the four modes of supply is accompanied by a negative list approach that then stipulates limitations to market access and national treatment in the listed sectors.

The GATS classifies services into 12 broad sectors: business services; communication services; construction and related engineering services; distribution services; educational services; environmental services; financial services; health related and social services; tourism and travel related services; recreational, cultural and sporting services; transport services; and other.[78] These broad sectors are further divided into 155 sub-sectors for scheduling purposes according to the Services Sectoral Classification List.[79] As noted above, for each

77 Low P & A Mattoo, 'Is there a better way? Alternative approaches to liberalization under the GATS', in Sauve P & R Stern (eds), *GATS 2000: New Directions in Services Trade Liberalization*. Washington DC: Brookings Institution Press, 2000, pp. 449–472. See also Cattaneo N, 2017, *op. cit.* for more detail.

78 Note that these 12 broad sectors do not correspond directly with the 12 BPM6 services trade components, although there is some overlap (recall Table 3.1).

79 WTO, 'Services sectoral classification list', MTN.GNS/W/120, 10 July 1991, https://www.wto.org/english/tratop_e/serv_e/mtn_gns_w_120_e.doc, accessed 10 November 2019.

listed sector or sub-sector, limitations to market access and national treatment may be indicated in the country's sector-specific schedule. Furthermore, a country's schedule may include horizontal commitments that apply to all listed sectors in the schedule. These indicate additional limitations on market access and national treatment that apply across all of the listed sectors.[80] Finally, when the GATS entered into force, each country was permitted to submit an MFN exemption list to indicate, for example, existing preferences affecting specific services sectors granted as part of regional agreements.

AU WTO member states have undertaken a broad range of diverse commitments under the GATS. At the conclusion of the Uruguay Round, WTO members were obliged to have a GATS schedule and committed to enter into future rounds of services trade negotiations. However, with no minimum requirement on the number of sectors to be committed at the time the GATS entered into force, they were permitted to list as few as one out of 155 sub-sectors. Many developing countries, particularly LDCs,[81] made limited commitments. It is important to have a picture of AU WTO members' varying services trade commitments under the GATS since regional and continental trade in services negotiations aim to build on existing GATS commitments. Where fewer GATS commitments were initially made, countries will have more leeway in regional and continental services negotiations.

For the selected AU countries in the present study,[82] Table 4.1 outlines the broad services sectors within which sub-sectoral commitments were made under the GATS. The most frequently committed sectors are tourism and travel (committed by all the selected countries except Mozambique), followed by communication and financial services (with 10 countries making commitments in each), business services (seven countries) and transport (six countries). Two or fewer countries made commitments in health and social, distribution, education, recreational, cultural and sporting, and other services. In the AfCFTA services negotiations, the five initial priority sectors will be business, communication, financial, tourism and travel, and transport services. These are identical to the most frequently committed sectors under the GATS for this group of AU countries.

When assessing the extent to which GATS commitments reflect the degree of openness of the services sectors of member states, a more detailed investigation is required. Firstly, the number of sub-sector listings out of the maximum possible 155 sub-sectors is indicative. Secondly, even when a sub-sector is listed in a country's GATS schedule as

80 Cattaneo N, 2017, *op. cit.*, p, 15. See also WTO, 'Schedules of commitments and lists of Article II exemptions', https://www.wto.org/english/tratop_e/serv_e/serv_commitments_e.htm, accessed 10 November 2019. Note too that some WTO members undertook further sectoral negotiations under the GATS between 1995 and 1997, including negotiations on the movement of natural persons, telecommunications and financial services. New commitments in these sectors appear as supplements to these countries' original GATS schedules, adding to or replacing the relevant sections in the original schedules.

81 In addition, the WTO Ministerial Declaration of 2005 indicated that LDCs would not be expected to make additional services commitments in the Doha Round (see WTO, 'Doha Work Programme: Ministerial Declaration Adopted on 18 December 2005', WT/MIN(05)/DEC, 22 December 2005, https://www.wto.org/english/thewto_e/minist_e/min05_e/final_text_e.pdf, accessed 4 February 2017. Furthermore, LDCs receive services preferences under the MFN waiver adopted at the 2011 Ministerial Conference (see UN, Support Measures Portal for Least Developed Countries, 'Preferential market access for services and service suppliers', 24 January 2019, https://www.un.org/ldcportal/preferential-market-access-for-services-and-service-suppliers/, accessed 10 November 2019.

82 The exception is Ethiopia, which still has observer status at the WTO.

having commitments, this does not mean that it is fully open. The extent to which the sub-sector has been liberalised depends on the limitations to market access and national treatment listed for that sub-sector across the four modes of supply and on any horizontal limitations pertaining to all sectors in the country's schedule. Finally, unilateral liberalisation undertaken beyond the GATS since 1995 and existing regulatory frameworks need to be taken into account to obtain a better picture of the openness of the services sectors of AU WTO member states.

TABLE 4.1 SECTOR-SPECIFIC GATS COMMITMENTS OF SELECTED AU WTO MEMBER STATES

Selected country	Sub-sectors	Broad sectors within which sub-sectoral commitments have been made											
	% of 155	Bus	Comm	Con & Eng	Dist	Educ	Env	Fin	Hea & Soc	Tou & Trav	Rec, Cult, Sp	Trans	Other
SADC													
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	■		■					■	■			
Non-SADC TFTA													
Egypt	31,6		■	■				■		■		■	
Kenya	27,1		■					■		■		■	■
Rwanda	6,5	■				■	■			■	■		
Uganda	3,2		■							■			
Other AU													
Cameroon	1,9	■								■			
Ghana	18,1		■	■		■		■		■		■	
Morocco	21,9	■	■	■			■	■		■		■	
Nigeria	15,5		■					■		■		■	
Tunisia	12,3		■					■		■			

Source: Author's compilation from individual country GATS schedules and supplements available at WTO, 'Schedules of commitments and lists of Article II exemptions', https://www.wto.org/english/tratop_e/serv_e/serv_commitments_e.htm

In terms of GATS commitments at the sub-sector level, Table 4.1 indicates the number of sub-sectors listed in members' schedules as a proportion of the total possible number of sub-sectors that could be committed. For the countries shown, the proportion of sub-sectors committed is highest for South Africa at 54.8%, followed by Egypt at 31.6% and Kenya at 27.1%.[83] By contrast, Tanzania made commitments in only one sub-sector (0.6% of the total), with Namibia, Uganda and Angola also listing very few sub-sectors out of 155. Kruger [84] goes further to explore the extent to which GATS commitments in listed sub-sectors reflect full or partial liberalisation. By this measure, the proportion of total possible commitments across all modes of supply for both market access and national treatment made by South Africa turns out to be 45.6%. The lowest proportion of commitments made by the countries in Table 4.1 using the Kruger measure were made by Tanzania and Namibia. However, most countries, other than Botswana and Mauritius, had significantly more sub-sectors that were fully liberalised than not.

As noted above, in addition to GATS commitments, unilateral liberalisation, REC services commitments and existing regulatory frameworks need to be considered in assessing the openness of services sectors in AU member states. This information is important for the AfCFTA services negotiations. The draft guidelines for services negotiations under the AfCFTA[85] indicate that the starting point for negotiating sector-specific commitments in the case of AU WTO member states will be GATS-plus, while the starting point for non-WTO AU states will be 'autonomous liberalisation at the national level'. Furthermore, the starting point for the development of regulatory cooperation frameworks will be an assessment of REC and AU protocols and regulations.[86]

A more recent picture than the GATS schedules of the openness of particular services sectors in selected AU countries can be obtained from the World Bank Services Restrictions Database.[87] The database provides information on policy measures and regulations in place for five broad services sectors (financial services, telecommunications, retail distribution, transportation and professional services), 19 sub-sectors and three modes of supply. The data is derived from surveys undertaken between 2008 and 2011 by domestic law firms in the respective countries. The database includes a Services Trade Restrictions Index (WB STRI), which is an aggregate of applied policy measures, with a higher index

83 It is interesting to note that two other SADC countries not in the sample, Seychelles and Lesotho, have comparatively large proportions of sub-sectors committed under the GATS, at 60% and 49.7 % respectively. Seychelles only acceded to the WTO in 2015, while the case of Lesotho is highly unusual since most LDCs made minimal commitments during the Uruguay Round (see Cattaneo N, 2017, *op. cit.*, pp. 18–19 for more detail).

84 Kruger P, 'Services Negotiations under the Tripartite Agreement: Issues to Consider', Working Paper, D11WP10/2011. Stellenbosch: Tralac (Trade Law Centre), June 2011, p. 4. Kruger's study looks specifically at the countries involved in the TFTA.

85 Issoufou M, 'Draft guidelines for services negotiations under the AfCFTA Protocol on Trade in Services', in *Report on the African Continental Free Trade Area (AfCFTA).* Addis Ababa: AU, February 2019, Annex 2, p. 3.

86 *Ibid.*, p. 8.

87 World Bank, 'Services Trade Restrictions Database', https://datacatalog.worldbank.org/dataset/services-trade-restrictions-database, accessed 20 September 2016. This World Bank database differs from the OECD Services Trade Restrictiveness Index Database, which does not cover any African countries except South Africa. Note that the World Bank Services Trade Restrictions Database used in the present study is currently being updated to the year 2016 in collaboration with the WTO – see Borchert I *et al.*, 'Applied Services Trade Policy: A Guide to the Services Trade Policy Database and the Services Trade Restrictions Index', WTO, 2019, https://www.wto.org/english/res_e/reser_e/ersd201914_e.pdf, accessed 14 February 2020.

interpreted as reflecting greater 'policy restrictiveness'. Table 4.2 depicts the STRIs for each broad sector and available mode of supply for a sub-set of the selected AU countries. Of the countries listed in the table, the overall index was highest for Ethiopia and Egypt, and lowest for Mauritius and Mozambique for the period in question.

TABLE 4.2 WORLD BANK SERVICES TRADE RESTRICTIVENESS INDEX 2008–2010

Country	Overall STRI				Financial services			Telecommunications		Retail		Transportation			Professional services			
	Overall	Mode 1	Mode 3	Mode 4	Overall	Mode 1	Mode 3	Overall	Mode 3	Overall	Mode 3	Overall	Mode 1	Mode 3	Overall	Mode 1	Mode 3	Mode 4
SADC																		
Botswana	38,3	55,6	31,3	60,0	30,3	36,7	25,0	50,0	50,0	25,0	25,0	54,8	75,0	50,0	47,0	75,0	25,0	60,0
Mauritius	16,9	30,4	14,6	40,0	9,0	25,9	9,7	0,0	0,0	0,0	0,0	30,5	37,5	20,0	42,0	33,3	40,0	40,0
Mozambique	18,6	36,0	10,8	55,0	17,2	34,7	15,3	75,0	75,0	0,0	0,0	5,8	25,0	0,0	30,0	41,7	0,0	55,0
Namibia	37,0	29,7	40,3	60,0	27,4	45,6	25,0	50,0	50,0	25,0	25,0	29,7	12,5	34,0	65,0	16,7	80,0	60,0
South Africa	34,5	1,8	37,1	75,0	19,5	0,0	25,0	25,0	25,0	25,0	25,0	40,6	12,5	47,9	62,0	0,0	60,0	75,0
Tanzania	30,7	10,0	29,7	65,0	22,7	9,7	25,0	25,0	25,0	25,0	25,0	29,4	37,5	23,6	51,5	0,0	50,0	65,0
Zambia	21,0	13,7	21,3	50,0	8,4	19,4	9,7	75,0	75,0	0,0	0,0	9,5	50,0	0,0	44,0	0,0	50,0	50,0
Non-SADC																		
Egypt	52,1	24,0	54,9	95,0	42,8	16,2	50,0	25,0	25,0	50,0	50,0	49,7	25,0	55,6	81,5	33,3	80,0	95,0
Ethiopia	88,2	84,9	93,2	80,0	89,7	87,1	100,0	100,0	100,0	100,0	100,0	72,9	37,5	87,5	84,0	100,0	80,0	80,0
Kenya	29,5	35,6	30,1	65,0	23,4	9,7	28,2	25,0	25,0	0,0	0,0	31,0	37,5	22,2	73,0	66,7	80,0	65,0
Rwanda	25,0	5,8	23,1	45,0	19,5	0,0	25,0	75,0	75,0	0,0	0,0	36,7	75,0	20,3	32,0	0,0	25,0	45,0
Uganda	34,5	29,4	28,2	55,0	27,7	46,4	18,5	25,0	25,0	50,0	50,0	21,1	75,0	6,8	38,0	0,0	30,0	55,0
Zambia	21,0	13,7	21,3	50,0	8,4	19,4	9,7	75,0	75,0	0,0	0,0	9,5	50,0	0,0	44,0	0,0	50,0	50,0

Source: Table derived from Cattaneo N, 'Trade in Services Negotiations: A Southern African Perspective', Issue Paper. Geneva: ICTSD (International Centre for Trade and Development), May 2017, Table 3.2, based on the World Bank Services Trade Restrictions Database

The highest indices at the main sector level are those for professional services and telecommunications, while the lowest are for retail and financial services. However, numerous differences exist across countries and sub-sectors. The indices for professional services are relatively high since this is the only broad sector where Mode 4 measures are included in the index. One advantage of the index is that it is based on an examination of existing laws and regulations at the time of the surveys, unlike a number of other such indices based on perceptions. However, a shortcoming of the dataset is that it includes in its restrictiveness measure policies and regulations that are essential components of the domestic regulatory landscape. Furthermore, public policy measures that may be a fundamental part of a country's domestic development objectives form part of the index. In addition, the database provides information on measures applicable during the survey years 2008–2011.[88] It is, however, in the process of being updated to take account of changes in the policy and regulatory landscape since then.

It is evident that the openness of the services sectors of AU member states that undertook GATS commitments during the Uruguay Round could differ significantly from what is reflected in their GATS schedules owing to unilateral liberalisation and domestic regulatory changes in the past two decades. Nonetheless, as the guidelines for the services negotiations under the AfCFTA emphasise, the GATS schedules of AU WTO member states are an important base from which schedules of specific commitments for the AfCFTA will be built. The wide range of existing GATS commitments and the unequal levels of development of the AU countries may make it difficult for an AfCFTA services agreement to meet the provisions of GATS Article V governing services trade agreements. Under Article V(1) of the GATS, regional services agreements should have 'substantial sectoral coverage' in terms of the 'number of sectors, volume of trade and modes of supply'.[89] Services agreements must also provide for 'the absence or elimination of substantially all discrimination' with respect to national treatment within a reasonable period, through 'the elimination of existing discriminatory measures' and 'the prohibition of new or more discriminatory measures'.[90]

However, Article V(3) of the GATS provides for 'flexibility' in meeting the provisions of Article V(1) in the case of services agreements among developing countries, particularly with respect to 'the elimination of substantially all discrimination' and the relevant time frame. The AfCFTA Protocol on Trade in Services will evidently make use of such flexibilities. For example, Article 3.2(g) of the AfCFTA Protocol sets out as one of its objectives 'to pursue services liberalisation in line with Article V of the GATS by expanding the depth and scope of liberalisation and increasing, improving and developing the export of services, w*hile fully preserving the right to regulate and to introduce new regulations*'.[91] At the same time, the

88 See Cattaneo N, 2017, *op. cit.*, p. 21 for more discussion.

89 WTO, 1994, *op. cit.*, Article V(1).

90 *Ibid.*

91 AU, 'AfCFTA Protocol on Trade in Services attached to the Agreement Establishing the African Continental Free Trade Area', legally scrubbed May 2018 version, https://www.tralac.org/documents/resources/cfta/1998-afcfta-agreement-legally-scrubbed-signed-16-may-2018/file.html, accessed 14 October 2019 (emphasis added).

draft AfCFTA guidelines for services negotiations under the protocol provide that 'there shall be no *a priori* exclusion of any service sector or mode of supply' in the AfCFTA negotiations. Furthermore, with respect to schedules of specific commitments for the first five priority sectors, member states will have to commit to a 'minimum threshold of sectors and sub-sectors' reflecting 'substantial liberalisation' and 'effective elimination of barriers to trade in services'.[92]

> LDCs and other countries with minimal GATS commitments may have greater policy space and negotiating leverage in regional and continental negotiations among developing countries

Unlike the case of Article XXIV of the GATT with respect to goods trade agreements, it seems there is no specific understanding or consensus on the interpretation of GATS Article V provisions, particularly with respect to what constitutes 'substantial sectoral coverage' and 'substantially all discrimination'. In the case of services agreements between developed and developing countries this means that LDCs, for example, may find themselves having to make substantial commitments for the agreement to meet the requirements of Article V(1) of the GATS. In addition, it is not clear what degree of 'flexibility' is acceptable in the case of services agreements among developing countries.[93] One important flexibility, however, set out in Article V(3b) of the GATS, permits preferences granted in terms of a developing country services agreement to be limited to service providers 'owned or controlled by natural persons of the parties to such an agreement'.[94] This could be an important provision for African countries intending to develop regional or continental frameworks in particular services sectors before engaging in broader North–South services negotiations. In any event, LDCs and other countries with minimal GATS commitments may have greater policy space and negotiating leverage in regional and continental negotiations among developing countries.[95] On the other hand, countries with more extensive GATS commitments

> [C]ountries with more extensive GATS commitments could find it more difficult to make GATS-plus offers at the REC or continental level by comparison

92 Issoufou M, *op. cit.*, pp. 2–4.
93 See Cattaneo N, 2017, *op. cit.*, pp. 23–24 for more discussion.
94 WTO, 1994, *op. cit.*, Article V(3b).
95 Kruger P, *op. cit.*, p. 9.

could find it more difficult to make GATS-plus offers at the REC or continental level by comparison.

4.2 From GATS to TiSA: The shift to plurilateral services trade negotiations

One of the consequences of the impasse in the Doha Round of multilateral trade negotiations has been the emergence of single-issue plurilateral negotiations. These may theoretically be applied on an MFN or non-MFN basis, but the concern has been that if the countries involved account for a large proportion of global production and trade then non-participating countries may be obliged to conform to their provisions. Discussions on a plurilateral trade in services agreement were initiated in 2013 outside of the WTO framework. Powerful services sector coalitions in the US and Australia led the call for a group of interested countries to move forward with negotiations in this area. Some developing countries have been wary of the move towards single-issue plurilateral agreements, arguing that they undermine the single undertaking by de-linking the negotiation process from agriculture and other Doha Development Agenda issues of particular interest to developing countries. Despite this view, a number of developing countries joined the Trade in Services Agreement (TiSA) negotiations, although Mauritius was the only African country participating.[96] The negotiations have currently stalled, however, and a group of WTO members has recently begun plurilateral negotiations on domestic services regulation, after an announcement following the 2017 Buenos Aires WTO Ministerial Conference.

The TiSA process would likely have emerged as a GATS Article V services trade agreement, although the EU reportedly sought to include more WTO members in the negotiations and improve the transparency of the process with a view to the eventual multilateralisation of the agreement. Nevertheless, the TiSA negotiations were heavily criticised for being secretive, as they took place outside of the ambit of the WTO, with neither the Secretariat nor other WTO members reportedly permitted to attend as observers.[97] The European Commission has stated that TiSA was to be based on the GATS, with similar core disciplines on market access, national treatment and exemptions to facilitate its possible multilateralisation.[98] The impact on those outside of the plurilateral process (most African countries, MERCOSUR [the Southern Common Market] and the BRICS, for example) would depend on whether or not the agreement was eventually multilateralised on an MFN basis.

In the case of the TiSA draft texts, released up to 2016 via Wikileaks,[99] a particular issue was the lack of provisions that consider the needs and imperatives of developing countries, as

96 The following 23 WTO members are participating in the negotiations: Australia, Canada, Chile, Chinese Taipei, Colombia, Costa Rica, the EU, Hong Kong China, Iceland, Israel, Japan, Korea, Liechtenstein, Mauritius, Mexico, New Zealand, Norway, Pakistan, Panama, Peru, Switzerland, Turkey and the US.

97 Cronjé JB, 'Talks on a Plurilateral Trade in Services Agreement', Discussion Note. Stellenbosch: Tralac, 7 August 2013.

98 See EC, 'Trade in Services Agreement (TISA)', http://ec.europa.eu/trade/policy/in-focus/tisa/, accessed 10 November 2019.

99 See WikiLeaks, 'Trade in Services Agreement', https://wikileaks.org/tisa/, accessed 10 November 2019.

well as the absence of special and differential treatment provision. Kelsey[100] also notes that the exclusion in the draft text on government procurement of services was weaker than in the GATS. Other commentators[101] raised concerns about provisions that would bind the status quo across sectors and automatically extend liberalisation to new services that may emerge (standstill and ratchet provisions). Chapters on financial services and state-owned enterprises (SOEs) in such agreements require special analysis to examine their implications for the right to regulate financial flows and their potential impact on the public policy role of SOEs.

African countries, RECs and the AU should remain informed of the development of annexes and chapters in plurilateral negotiations that go further than the GATS, REC and AfCFTA negotiations, potentially limiting developing country policy space

It is advisable for the AfCFTA countries to stay informed about existing plurilateral negotiations outside of the ambit of the WTO, whether the TiSA negotiations are revived or not. This is particularly the case with respect to plurilateral negotiations in areas such as domestic services regulation and digital trade. African countries, RECs and the AU should be prepared by developing their own national, regional and continental frameworks in these areas before engaging in negotiations on these issues in North–South configurations. Where possible, countries should remain informed of the development of annexes and chapters in plurilateral negotiations that go further than the GATS, REC and AfCFTA negotiations, potentially limiting developing country policy space.

100 Kelsey J, 'Updated Analysis of the Leaked 'Core Text' from July 2016'. Auckland: University of Auckland, 2016, pp. 4–6.

101 See ITUC (International Trade Union Confederation), 'Global Union statement of priorities for the 10th WTO Ministerial Conference (MC10)', 26 November 2015, http://www.ituc-csi.org/global-union-statement-of?lang=en, accessed 12 November 2019.

CHAPTER 5

Services trade negotiations under the AfCFTA

Although the existing GATS commitments of AU member states are important for the AfCFTA services trade negotiating process, the draft guidelines for the negotiations under the AfCFTA Services Trade Protocol acknowledge that a GATS-type approach alone will be insufficient to provide a meaningful services trade agreement among the parties. The context section of the guidelines states that members 'recognise that market access and national treatment commitments may not, by themselves, allow AU service suppliers to operate effectively in other AU markets' and 'agree that regulatory cooperation frameworks may facilitate common regulatory principles intended to boost intra-African trade'. In addition to building on what has been achieved in the RECs, the services negotiations 'will, where appropriate, take account of sectoral policy and regulatory framework initiatives where binding on all AU Member States'.[102]

This section examines the proposed trade in services negotiations under the AfCFTA in more detail. Where relevant, comparisons are made with selected services trade negotiating processes at the REC level, particularly in SADC. The coherence and sequencing of some of the regional processes with the AfCFTA process is considered. The importance of relevant AU protocols on specific services sectors for the AfCFTA services negotiations will be highlighted, as well as the development of cohesive domestic, regional and continental regulatory frameworks. The focus will be on the prospects for the emergence of a developmental services trade strategy for the continent under the AfCFTA framework.

There has been much emphasis in the recent literature on the AfCFTA on the importance of a development integration approach at both regional and continental levels.[103] Development integration goes further than a focus on trade integration alone, recognising that increasing intra-regional or intra-continental trade is not an end in itself. Rather, the focus should be on market integration, infrastructure development and industrialisation collectively, with an emphasis on the development of the continent's productive capabilities and RVCs. In the context of the AfCFTA, a development integration approach includes an emphasis on negotiating modalities that take account of the unequal levels of development of AU member states. It is therefore not surprising that the draft guidelines for negotiations on trade in services set out an approach that differs from a simple GATS-type process in a number of important ways.

In the lead-up to the publication of the draft guidelines, a number of possible alternative approaches to the basic GATS-plus scheduling method were discussed in the literature on

102 Issoufou M, *op. cit.*, Annex 2, p. 1.

103 See, for example, Ismail F, 'A "Developmental Regionalism" Approach to the AfCFTA', Working Paper. Pretoria: TIPS (Trade and Industrial Policy Strategies), 2018.

the AfCFTA.[104] It was seen as unlikely that limited expansion of existing GATS commitments at the continental level would be an adequate approach to achieving a meaningful developmental services agreement, and the discussion favoured a mixed approach, combining GATS-type sector-specific commitments with regulatory cooperation and, where required, sector specific annexes. As it stands, the Protocol on Trade in Services provides the framework agreement for the negotiations, covering the usual provisions such as scope and objectives, general obligations and disciplines, progressive liberalisation and institutional provisions. It also includes clauses on special and differential treatment, the right to regulate and to introduce new regulations, and other provisions recognising the unequal development levels of parties to the negotiations. Article 28 of the protocol provides that member states 'may develop annexes for the implementation of this Protocol' related, among others, to the schedules of specific commitments, MFN exemptions and 'a framework document on Regulatory Cooperation'.[105]

The draft guidelines for the services negotiations stipulate more specifically that member states agree on the need for regulatory cooperation frameworks to encourage common regulatory principles to facilitate services trade on the continent. The regulatory frameworks aim 'to complement and facilitate implementation of market access [and] national treatment commitments in all service sectors', and to 'guide the implementation of national laws, regulations and policies, while respecting Member States' right to introduce new regulations … in so far as such regulations do not impair any rights and obligations arising under this Protocol'. It is therefore evidently envisaged that sectoral regulatory frameworks will be negotiated as annexes to the framework agreement. These would not aim at across-the-board harmonisation, but could involve provisions such as mutual recognition of standards and qualifications.[106] A sector-by-sector approach and appropriate sequencing are important, given the complex and sensitive nature of services sector liberalisation and regulation.

The AfCFTA services negotiating guidelines provide information on the negotiating approach and procedures, as well as the roadmap for the completion of the negotiations. As noted in Section 4.1, in the case of AU WTO member states negotiations will build on existing GATS commitments with a view to final schedules of commitments that are GATS-plus. For AU countries that are not WTO members, the starting point will be 'autonomous liberalisation at the national level'. Specific commitments will be negotiated following the request-offer approach. Following initial offers, improvements or adjustments may be requested by other member states. Requests may be made to individual countries, a

104 See, for example, Sawere V, 'Pro-Competitive Services Sector Regulation: A Possible Direction for the AU CFTA Agreement?',Working Paper, S16WP03/2016. Stellenbosch: Tralac, 2016; Cronjé JB, 'What Negotiating Modalities Should Be Adopted to Achieve CFTA Objectives?', Discussion Note. Stellenbosch: Tralac, 28 September 2016; Cronjé JB, 'Preparing for Trade in Services Negotiations in the Context of a Comprehensive CFTA', Discussion Note. Stellenbosch: Tralac, 9 September 2015; Cattaneo N, 2017, *op. cit.*, pp. 29–30.

105 AU, 'AfCFTA Protocol on Trade in Services', *op. cit.*, p. 53.

106 For more discussion, see Sawere V, 'AfCFTA Trade in Services: A General Guide and Issues for Negotiations on Mutual Recognition Agreements'. Stellenbosch: Tralac, 26 October 2019; Erasmus G, 'What Is the AfCFTA Approach to the Regulation of Trade in Services?'. Stellenbosch: Tralac, 26 October 2019.

group of countries or all other member states. A positive list approach has been adopted for scheduling, with provision made for horizontal and sector-specific commitments as in the GATS. As indicated previously, member states are required to make commitments in the five initial priority sectors that reflect 'substantial liberalisation of sectors/sub-sectors'.[107] However, the 'minimum threshold' required and the meaning of 'substantial liberalisation' are not specified.

The timeframe for the services trade negotiations is set out in detail in the roadmap for the AfCFTA negotiations.[108] The submission of revised offers on the five initial priority services sectors is due in February/March 2020, and the final adoption of schedules of specific commitments is set for January 2022. Even if some of the interim deadlines are not met, the strong impetus for the AfCFTA negotiations, signalled by the close oversight of the AU ministers of trade and regular reporting to the AU Heads of State, suggests that meaningful progress can be expected in the next two years. However, a key question is whether the timetable allows for sufficient time for consultation with key stakeholders regarding the requests and offers to be made in the negotiations.

Chaytor[109] discusses the importance of key stakeholder consultations to inform the request-offer process. She explains that the purpose of the request-offer documents is to ensure that national and regional interests are reflected in the negotiating positions adopted as part of the negotiation process. These positions should take into account national development strategies, industrial development imperatives, export strategies and regional integration goals.[110] The request necessitates information for stakeholders on current and potential exports to the partner country, market access barriers, export opportunities, competitiveness and the potential for RVC development, among others. Consultations with the private sector, both larger exporters and smaller enterprises, are important in order to obtain information on their offensive interests, given the opportunities that may have been identified by these stakeholders. The input of export councils, services coalitions and business associations will be essential in this process.

In the offer process, domestic sensitivities are more prominent and broader consultation is needed. Consultation with business, labour and civil society stakeholders is particularly important to secure support for negotiating positions in services sectors, owing to the wide range of activities falling under each priority sector and their importance for domestic policy goals and employment. An in-depth understanding of the domestic regulatory landscape in the priority sectors is required in the offer process, together with a clear picture of the potential impact on suppliers, consumers and jobs. The interaction between government and regulatory bodies is a key part of the process, as is consultation and collaboration with government departments responsible for particular services sectors and

107 Issoufou M, *op. cit.*, Annex 2, pp. 2–7.
108 *Ibid.*, Annex 1.
109 Chaytor B, 'Creating a Single African Market on Trade in Services: Negotiating the Schedules of Specific Commitments under the Protocol on Trade in Services'. Stellenbosch: Tralac, 26 October 2019.
110 *Ibid.*, p. 3.

with the central bank. As Chaytor points out, 'the risk of economic and social dislocations arising from inadequately considered liberalisation commitments are real and can have harmful long term domestic impacts'.[111]

The roadmap for the finalisation of the AfCFTA negotiations does provide for time for national and regional consultations in the development of final negotiating offers, but the question is whether this time is sufficient and whether countries have adequately identified the necessary key stakeholders to involve in the process. The deadline for the development of regulatory cooperation frameworks for all services sectors is set for April–June 2021. National consultations with regulators and other stakeholders are especially important in this step of the negotiating process because of the potential implications for the domestic regulatory landscape in member states.

It is interesting to consider the recently concluded first round of the SADC services trade negotiations under the SADC Trade in Services Protocol to highlight lessons that may be drawn for the AfCFTA process currently underway. The negotiations were initiated in November 2011 by the SADC ministers of trade with a focus on the liberalisation of six priority sectors, namely communication services, construction services, energy-related services, financial services, tourism services, and transport services. Four of these (communication, financial, tourism and transport) overlap with the AfCFTA priority sectors. Final lists of commitments in these four (out of the six) priority sectors were approved by the SADC CMT in July 2018. The following cross-cutting annexes were also adopted: the Annex on Substantial Business Operations, the Annex on Interim Arrangement relating to Commitments on Subsidies and the Annex on Movement of Natural Persons 'Mode 4'. Furthermore, three 'pro-trade' regulatory annexes on Financial Services, Telecommunication Services and Tourism Services were also adopted.[112] The first round of SADC services negotiations was concluded in June 2019. The sectoral annexes developed in the SADC trade in service negotiations draw on the provisions of existing sectoral SADC protocols. This approach appears to be similar to that intended for the AfCFTA, which will also draw on relevant AU protocols for specific services sectors.

It has been noted that when the SADC priority sectors were identified for Round 1 of the SADC services negotiations, officials did not have the industrialisation imperative in mind.[113] The SADC RIDSP had not yet been updated to reflect the renewed emphasis on industrialisation, nor had the SADC industrialisation strategy been released. Therefore, business services, for example, were not identified as a priority sector in the first round of SADC services negotiations. By contrast, the AfCFTA Services Trade Protocol makes explicit reference in Article 3.2(e) to the objective of accelerating industrial development efforts and the development of RVCs. The inclusion of business services in the initial priority sectors

111 *Ibid.*, p. 4.

112 See SADC, '39th TNF-Services meeting to be held on 20–24 May 2019 at Birchwood Hotel, OR Tambo, Johannesburg', https://tis.sadc.int/english/tis/documents-and-resources/records-meetings/forth-coming-tnf-services/, accessed 3 November 2019, for more detail.

113 Personal interview, dti official, Pretoria, 10 September 2019.

under the AfCFTA negotiations reflects this objective, as well as other goals set out in Article 3 of the AfCFTA Protocol.

The draft negotiating guidelines for the second round of SADC services negotiations[114] link the Round 2 services negotiations to the SADC industrialisation strategy. Greater recognition of the importance of services as part of an industrialisation strategy and for the development of RVCs is evident, given SADC's renewed emphasis on a development integration approach. Round 2 guidelines also indicate that what is offered in SADC must be at least the same or more than what is offered in the AfCFTA services negotiations. It is likely that the impetus driving the AfCFTA negotiations helped to accelerate the SADC services negotiations process, which had been initiated much earlier, in 2011. As in the AfCFTA negotiation schedule, the work programme for Round 2 of the SADC services negotiations indicates time permitted for consultations with private sector groups such as transport associations. The SADC Round 2 work programme deadline for the exchange of initial requests and offers is January–June 2020, with a view to finalisation by May 2021. This overlaps with the AfCFTA services negotiations as well as potentially with the TFTA services negotiations, if they proceed.

The implications of parallel services negotiations, particularly for the SADC countries that could potentially be participating in SADC Round 2, TFTA and AfCFTA processes simultaneously, need further investigation

The implications of parallel services negotiations, particularly for the SADC countries that could potentially be participating in SADC Round 2, TFTA and AfCFTA processes simultaneously, need further investigation. It will be difficult and costly to negotiate these at the same time where there are differing modalities, guidelines and sectors under negotiation. The modalities and guidelines, as well as the framework agreements, need to be compared for the three processes, and the different options for the TFTA process in particular should be carefully considered.[115]

114 SADC, 2019, *op. cit.*

115 See UNCTAD, 'Services Trade Liberalization in the Tripartite Free Trade Area (TFTA): Possible Options for Engagement in Light of Continental Free Trade Area (CFTA) and Other Development Considerations', Issues Paper. Geneva: UNCTAD (undated).

CHAPTER 6

Conclusion and recommendations

This report examined the growth and structure of trade in services on the African continent with reference to a sub-set of AU countries engaged in services trade negotiations under the AfCFTA Trade in Services Protocol. Following an assessment of key broad trends and the EBOPS services sub-components driving those trends, trade complementarity indices were computed between South Africa and selected AU partners to assess the potential for increased services trade following the formation of an AfCFTA services agreement. The importance of services value added in gross exports was examined for the case of South Africa, given the importance of the trade-in-value-added literature for the role of services in GVCs. The significance of the services sector in FDI on the continent, as well as the proportion of services firms listed on African stock markets, was explored to provide a picture of the supply of services via commercial presence. The report also considered the GATS commitments of the selected member states and critically examined a more recent measure of the openness of services sectors for some of these countries – the World Bank's STRI.

The importance of the development of regulatory cooperation frameworks as part of the AfCFTA process was emphasised, together with the need for regional and domestic regulatory frameworks to facilitate the evolution of a developmental services trade strategy

The discussion then moved to the nature and direction of the AfCFTA negotiations on services trade, with an emphasis on some of the key factors to take into account in the formulation of requests and offers in the services trade negotiations. The importance of the development of regulatory cooperation frameworks as part of the AfCFTA process was emphasised, together with the need for regional and domestic regulatory frameworks to facilitate the evolution of a developmental services trade strategy. The recently concluded first round of services trade negotiations in SADC was briefly examined in comparison to the AfCFTA process. Finally, the need for further investigation of the implications for the SADC countries of parallel negotiations on trade in services in three different configurations, SADC Round 2, the TFTA and the AfCFTA, was highlighted.

A number of recommendations emerge from the study:

- A 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. In particular, an improvement in the number of EBOPS sub-components reported in the BoP data is essential, together with the reporting of services trade by country of origin and destination. In the absence of FATS data to estimate Mode 3 supply of services, improved FDI data by partner and sector should be made available. Efforts should be made to begin the collection of FATS across the continent. In this regard, a good starting point would be to examine the FATS estimates accompanying the new experimental TiSMoS dataset released by the WTO in July 2019. With respect to the importance of services in value added trade, the statistics and documentation available for the UNCTAD-EORA value chain analysis database need to be improved, and the OECD-WTO TiVA database needs to be extended to include more African countries.

- Alongside the greater availability of services trade data at a more disaggregated EBOPS sub-component level, further work is needed on the skill intensity, value added and productivity levels of traded services activities to build on the work of Bhorat *et al.* and Visagie and Turok.[116] In examining the ability of services to contribute to growth-enhancing structural transformation and the development of RVCs, it is important to be able to distinguish higher value services activities, particularly those that are important facilitators of industrial activity (broadly defined to include both agro-processing and high-value agricultural production). At the same time, services for lower-skilled employment creation should not be neglected, provided the appropriate social protections are in place.

- From the perspective of international negotiations on trade in services and the pressures on developing countries to open up their services markets to developed economies, developing countries need to track what is unfolding in the plurilateral trade negotiations landscape and ensure that national, regional and continental frameworks are developed before negotiations in North–South configurations take place. In particular, further work is needed on the implications of current trends in digital trade and the challenges of the digital economy more broadly in this regard.[117]

- Regarding continental services trade negotiations, two key challenges should be addressed. First, AU member states should ensure that they avoid a disjuncture between what is negotiated in the initial priority sectors and what is needed by key stakeholders in terms of domestic development priorities, whether at home or in the export market. The roadmap for the AfCFTA services negotiations should provide ample space for consultation with stakeholders and domestic regulatory agencies with respect to both offers and requests in order to improve the prospects for a developmental services trade agreement on conclusion of the negotiating process. Second, the implications of parallel services negotiations in the RECs, TFTA and the AfCFTA should be investigated to harness opportunities and address potential problems that may arise from the duplication of negotiating processes.

116 Bhorat H *et al.*, 2018, *op. cit.*; Visagie J & I Turok, *op. cit.*

117 See Banga R, 'Growing Trade in Electronic Transmissions: Implications for the South', Research Paper, 29. Geneva: UNCTAD, 2019.

APPENDIX 1 AU COUNTRIES: INCOME PER CAPITA, LDC STATUS, MARKET SIZE, MEMBERSHIP OF RECs AND THE WTO

AU country	WB (UN) classification	GDP per capita $ (2017) [b]	GDP $bn (2017) [c]	COMESA	EAC	SADC	UMA	CEN-SAD	ECCAS	ECOWAS	IGAD	WTO
Algeria	UMC	4048	167,555				■					
Angola	LMC (LDC) [a]	4096	122,124			■			■			■
Benin	LIC (LDC)	827	9,247					■		■		■
Botswana	UMC	7894	17,407			■						■
Burkina Faso	LIC (LDC)	642	12,323					■		■		■
Burundi	LIC (LDC)	293	3,172	■	■				■			■
Cameroon	LMC	1422	34,923						■			■
Cape Verde	LMC	3295	1,771							■		■
Central African Republic	LIC (LDC)	472	2,168					■	■			■
Chad	LIC (LDC)	664	9,976					■	■			■
Comoros	LMC (LDC)	1312	1,068	■		■		■				
Congo	LMC	1703	8,701						■			■
Côte d'Ivoire	LMC	1557	38,054					■		■		■
DRC	LIC (LDC)	467	38,019	■		■			■			■
Djibouti	LMC (LDC)	1954	1,845	■				■			■	■
Egypt	LMC	2441	235,369	■				■				■
Equatorial Guinea	UMC	9738	12,290						■			
Eritrea	LIC (LDC)	582	2,608	■				■			■	
Ethiopia	LIC (LDC)	768	81,716	■							■	
Gabon	UMC	7213	14,893						■			■
The Gambia	LIC (LDC)	673	1,489					■		■		■
Ghana	LMC	2026	58,997					■				■
Guinea	LIC (LDC)	822	9,915							■		■
Guinea-Bissau	LIC (LDC)	737	1,347					■		■		■
Kenya	LMC	1568	78,757	■	■						■	■
Lesotho	LMC (LDC)	1233	2,578			■						■
Liberia	LIC (LDC)	699	3,285							■		■
Libya	UMC	5792	38,116	■			■	■				
Madagascar	LIC (LDC)	448	11,466	■		■						■
Malawi	LIC (LDC)	357	6,303	■		■						■
Mali	LIC (LDC)	829	15,340					■		■		■

AU country	WB (UN) classification	GDP per capita $ (2017) [b]	GDP $bn (2017) [c]	COMESA	EAC	SADC	UMA	CEN-SAD	ECCAS	ECOWAS	IGAD	WTO
Mauritania	LMC (LDC)	1162	4,975				■	■				■
Mauritius	UMC	10485	13,259	■		■						■
Morocco	LMC	3036	109,709				■	■				■
Mozambique	LIC (LDC)	442	12,652			■						■
Namibia	UMC	5646	13,566			■						■
Niger	LIC (LDC)	376	8,120					■		■		■
Nigeria	LMC	1969	375,745					■		■		■
Rwanda	LIC (LDC)	762	9,135	■	■				■			■
Saharawi ADR	na	na	na									
São Tomé & Príncipe	LMC (LDC) [a]	1811	0,375						■			
Senegal	LMC (LDC)	1367	21,082					■		■		■
Seychelles	NOC	15684	1,503	■		■						■
Sierra Leone	LIC (LDC)	499	3,740					■		■		■
Somalia	LIC (LDC)	309	4,509	■				■			■	
South Africa	UMC	6121	348,872			■						■
South Sudan	LIC (LDC)	759	9,015		■						■	
Sudan	LMC (LDC)	3015	123,053	■				■			■	
eSwatini	LMC	3942	4,434	■		■						■
Tanzania	LIC (LDC)	1005	53,321		■	■						■
Togo	LIC (LDC)	619	4,766					■		■		■
Tunisia	LMC	3494	39,952	■			■	■				■
Uganda	LIC (LDC)	632	25,995	■	■						■	■
Zambia	LMC (LDC)	1535	25,868	■		■						■
Zimbabwe	LMC	1602	22,813	■		■						■

Notes: World Bank classification is by GNI per capita; NOC = high income non-OECD, UMC = upper middle income, LMC = lower middle income, LIC = low income (World Bank 2019)
LDC = least developed country (UN 2019)

a Graduates from LDC status in 2021 in the case of Angola and 2024 in the case of São Tomé & Príncipe

b 2011 for Eritrea and 2015 for South Sudan

c 2016 for Eritrea and South Sudan

SACU countries: Botswana, Lesotho, Namibia, South Africa, eSwatini

TFTA countries: COMESA, EAC and SADC member states

Source: Author's compilation from World Bank World Development Indicators 2019; https://www.un.org/development/desa/dpad/wp-content/uploads/sites/45/publication/ldc_list.pdf; and REC websites and UNECA REC lists; WTO (2019)

APPENDIX 2 SOUTH AFRICA'S BILATERAL SERVICES TRADE ESTIMATES WITH SELECTED PARTNERS ($ MILLION)

SADC partner	Exports to Angola		Imports from Angola		Exports to Mauritius		Imports from Mauritius		Exports to Tanzania		Imports from Tanzania	
	1995	2012	1995	2012	1995	2012	1995	2012	1995	2012	1995	2012
Total services	43,85	273,48	4,32	100,69	19,96	50,15	11,28	93,44	16,46	43,08	5,77	68,36
Transportation	5,18	22,04	1,73	36,19	7,35	12,30	1,91	12,54	0,65	1,26	1,59	21,36
Travel	3,44	42,00	0,92	23,01	7,38	18,73	8,48	62,72	0,96	6,65	3,73	37,37
Communications services	0,13	1,03	0,30	10,61	1,18	4,29	0,27	6,91	0,04	0,30	0,12	1,30
Construction	11,20	92,06	0,47	2,35	0,74	2,18	0,06	2,19	0,05	0,31	0,004	5,40
Insurance services	0,30	0,52	0,05	0,005	0,10	0,06	0,003	0,28	0,04	0,06	0,0008	0,10
Financial services	0,39	3,16	0,02	0,14	1,08	3,15	0,15	0,60	0,02	0,24	0,02	0,002
Computer and information services	0,07	2,83	0,002	0,18	0,03	0,29	0,10	1,56	0,01	0,23	0,01	0,13
Royalties and licence fees	0,03	0,21	0,04	2,18	0,004	0,02	0,002	0,05	0,00	0,00	0,0001	0,004
Other business services	21,65	102,23	0,33	21,11	1,63	7,96	0,25	4,58	12,78	31,06	0,08	1,33
Personal, cultural & recreational services	0,32	2,91	0,00	0,01	0,08	0,56	0,03	1,07	0,01	0,03	0,07	0,05
Government services, n.i.e.	1,14	4,49	0,45	4,90	0,38	0,62	0,04	0,94	1,89	2,94	0,14	1,31

Non-SADC TFTA partner	Exports to Egypt		Imports from Egypt		Exports to Ethiopia		Imports from Ethiopia		Exports to Kenya		Imports from Kenya	
	1995	2012	1995	2012	1995	2012	1995	2012	1995	2012	1995	2012
Total services	9,25	35,36	24,64	181,28	1,61	13,92	0,71	10,86	27,75	61,47	12,46	33,91
Transportation	2,97	11,74	10,34	77,64	0,17	0,62	0,20	4,57	9,30	17,70	4,88	14,11
Travel	3,68	13,63	11,24	77,85	0,51	6,29	0,32	2,77	12,80	29,72	6,61	15,95
Communications services	0,11	0,61	0,72	10,39	0,02	0,28	0,02	0,99	0,32	0,55	0,04	0,27
Construction	0,08	0,34	0,01	3,94	0,01	1,18	0,01	0,04	0,02	0,11	0,01	0,05
Insurance services	0,37	0,48	0,08	0,92	0,08	0,23	0,005	0,01	0,73	1,35	0,15	0,29
Financial services	0,09	0,82	0,27	0,62	0,004	0,07	0,01	0,02	0,37	1,31	0,03	0,23
Computer and information services	0,13	1,84	0,01	1,56	0,0003	0,004	0,001	0,002	0,04	0,16	0,02	0,01
Royalties and licence fees	0,03	0,09	0,04	0,52	0,00	0,00	0,003	0,13	0,04	0,07	0,001	0,01
Other business services	1,33	4,79	1,51	4,68	0,23	1,15	0,01	0,52	2,94	8,82	0,55	2,47
Personal, cultural & recreational services	0,02	0,07	0,01	0,20	0,38	2,93	0,0002	0,001	0,05	0,10	0,01	0,04
Government services, n.i.e.	0,43	0,96	0,42	2,96	0,20	1,17	0,14	1,81	1,12	1,58	0,17	0,47

Other AU partner	Exports to Ghana		Imports from Ghana		Exports to Morocco		Imports from Morocco		Exports to Nigeria		Imports from Nigeria	
	1995	2012	1995	2012	1995	2012	1995	2012	1995	2012	1995	2012
Total services	6,42	50,77	2,13	118,06	7,71	13,43	3,65	30,94	47,55	201,96	18,34	119,35
Transportation	1,32	8,52	0,35	29,02	3,01	4,69	1,36	11,50	11,56	48,27	7,45	69,30
Travel	2,33	26,12	1,54	75,19	2,13	4,31	1,51	10,33	19,21	109,73	3,87	20,16
Communications services	0,06	0,59	0,02	1,58	0,14	0,39	0,21	2,94	0,68	2,82	0,59	3,13
Construction	0,001	0,01	0,0004	0,04	0,004	0,02	0,002	0,04	0,55	3,88	4,81	16,21
Insurance services	0,03	0,06	0,00	0,00	0,21	0,17	0,08	0,35	0,50	0,63	0,10	0,70
Financial services	0,06	0,59	0,004	0,17	0,03	0,12	0,01	0,11	0,23	1,78	0,05	0,20
Computer and information services	0,01	0,10	0,012	0,47	0,02	0,20	0,11	2,13	0,17	1,28	0,03	0,05
Royalties and licence fees	0,004	0,03	0,0002	0,10	0,025	0,02	0,02	0,41	0,07	0,20	0,02	0,43
Other business services	1,89	11,98	0,02	5,97	0,82	2,04	0,21	2,38	12,05	26,74	1,06	7,48
Personal, cultural & recreational services	0,03	0,11	0,05	1,05	0,01	0,03	0,01	0,04	0,14	0,52	0,02	0,03
Government services, n.i.e.	0,69	2,66	0,13	4,47	1,30	1,44	0,14	0,70	2,39	6,11	0,34	1,66

Source: OECD-WTO BaTiS database (final balanced value)

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