



# Services as a Driver of Economic Growth and Job Creation in South Africa: Can the AfCFTA Assist?

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# Executive summary

This policy insight reviews the state of South Africa's service sector, casting light on the associated challenges and opportunities at national and regional level. It concludes that, in the short term, corporates cannot look to the African Continental Free Trade Area as a catalyst to boost services trade but must take advantage of changing markets post COVID-19. Steps towards this would include targeting new services niches based on information and communications technologies and supporting broad-based measures to grow the economy and merchandise exports that have strong links to services trade. It recommends the establishment of a coalition of service providers within South Africa, that information and communication infrastructure be updated as a matter of urgency and the obstacles limiting South Africa as a regional gateway be addressed. Over the medium term, true progress in building a continental services market will come only if and after significant cross-border relationships apply pressure to the negotiators representing many African countries.

## Introduction

As services have become the largest contributor to global gross domestic product (GDP),<sup>1</sup> the sector's importance in supporting growth has become increasingly clear. In many developing countries, the service sector has recently received attention for advancing employment, industrial upgrading, and broad-based economic development. The recent progress in information and communications technologies (ICT) has opened new avenues to integrate into the global economy at a low cost. As South Africa seeks to return to growth, the service sector offers an important element of the solution.

## Services as a catalyst for development

Among the classes of economic activity that contribute to GDP, the service sector is the most diverse and dynamic. Companies operating within this sector generate revenue by providing intangible goods and activities, making an all-encompassing definition of services difficult. The industries that typically dominate the sector include government and community services (health, education and security), financial services (banking and insurance), retail, communications, advertising, transportation and logistics services, tourism, food and hospitality services, and construction services. The growth of these industries points to the transformation of the global economic structure, where economic activity increasingly relies on digital inputs.<sup>2</sup> The accelerated creation of ICT infrastructure has

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1 In 2018, services contributed 61.2% to global GDP.

2 Sreeramana Aithal and Preeti Jeevan, "How Service Industries Can Transform Themselves into Green Business Industries", MPRA Paper 71767, Srinivas Institute of Management Studies, Mangalore, 2016.

reshaped value chains as trade has increasingly turned towards process optimisation rather than tangible end products. Although the production of goods remains the backbone of economies, the rationale for how companies deliver and capture value is experiencing a marked shift towards services.

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Recognising the importance of services, the World Trade Organization established the General Agreement on Trade in Services (GATS) with the intention of liberalising services trade.<sup>3</sup> The GATS distinguishes between four modes of services trade, set out in Table 1.<sup>4</sup>

Mode	Description	Import perspective example
<b>Mode 1: Cross-border trade</b>	Service is supplied from the territory of one member into the territory of any other member	User in country X receives services from abroad, such as consultancy reports or distance training, through telecommunications or post
<b>Mode 2: Consumption abroad</b>	Service is supplied in the territory of one member to the service consumer of any other member	Nationals of country X move abroad as students or tourists to consume related services
<b>Mode 3: Commercial presence</b>	Service is supplied by a service supplier of one member through commercial presence in the territory of any other member	Services are provided within country X by a locally established affiliate, subsidiary or representative office of foreign-owned and controlled companies, such as banks or hotel groups
<b>Mode 4: Presence of natural persons</b>	Service is supplied by service supplier of one member through the presence of natural persons of a member in the territory of any other member	A foreign national provides a service within country X as an independent supplier, such as a consultant or health care worker; or the employee of a service provider, such as a consultancy firm or construction company

Source: World Trade Organization

Compared to other members of the African Continental Free Trade Area (AfCFTA), South Africa enjoys a relatively strong infrastructure base and widespread use of English – the

3 WTO, "The General Agreement on Trade in Services (GATS): Objectives, Coverage and Disciplines", [https://www.wto.org/english/tratop\\_e/serv\\_e/gatsqa\\_e.htm](https://www.wto.org/english/tratop_e/serv_e/gatsqa_e.htm).

4 WTO, "Basic Purpose and Concepts: Definition of Services Trade and Modes of Supply", [https://www.wto.org/english/tratop\\_e/serv\\_e/cbt\\_course\\_e/c1s3p1\\_e.htm](https://www.wto.org/english/tratop_e/serv_e/cbt_course_e/c1s3p1_e.htm).

foundation of many new services niches. Creating productive employment opportunities is essential for poverty alleviation and inclusive development. As services jobs typically offer higher remuneration than other areas of the economy, and productivity gains tend to compound with technological progress, an efficient service sector has a positive impact on employment and output in other sectors. These spill-over effects are brought about through the backward and forward linkages that drive the sector's comparatively strong output multiplier, meaning that growth in services is a good indicator of overall economic growth. In addition, new ICT-based services niches help to overcome one of South Africa's largest developmental challenges – distance from major global markets, given its position on the southern tip of Africa.

Growth in services is a good indicator of overall economic growth

## Overview of South Africa's service sector

World Bank data for 2018<sup>5</sup> paints a picture of a relatively large South African service sector compared to its peers. South Africa's service sector contributes approximately 61% to national GDP, about 10% higher than typical middle-income countries. Despite this, the country has retained strong mining and agriculture sectors, and is the most industrialised economy in Africa. Although the recent decrease in employment in South Africa's mining and manufacturing industries has perhaps contributed to the strong performance of the service sector, South Africa clearly has opportunities. The relative labour-intensity of the country's service sector means it employs more than 5.5 million workers – roughly 71.5% of total employment.<sup>6</sup>

Table 2 shows the share of GDP contributed by South Africa's service sector, in comparison with two other countries, Mauritius and Thailand, as well as the average for lower-middle-income and upper-income countries. Historically, the service sector in South Africa has performed strongly, contributing 61% to GDP in 2010. This is comparable with the small

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5 World Bank Group, World Development Indicators database, <https://data.worldbank.org/indicator/SL.SRV.EMPL.ZS>.

6 World Bank Group World Development Indicators database.

island economy of Mauritius (62.9%), and significantly larger than averages in other developing countries. Less encouraging is that relative to South Africa's declining GDP between 2010 and 2019, services also decreased. Other countries that prioritised growing their services industries during this period grew their economies significantly, and even increased the share of services in GDP.

**TABLE 2 SELECTED CROSS-COUNTRY COMPARISON OF SERVICES CONTRIBUTION TO GDP, 2010-2019**

	Gross domestic product (\$ billion)			Services, value added (% of GDP)		
	2010	2019	% Change	2010	2019	% Change
South Africa	375	351	-6.4	61.0	61.2	0.3
Mauritius	10	14	40.0	62.9	67.7	7.6
Thailand	341	544	59.3	49.6	58.6	18.1
Lower-middle income	3 931	6 335	61.1	47.2	50.3	6.6
Upper-middle income	16 223	25 808	59.1	49.7	55.8	12.3
High income	45 586	55 141	21.0	69.0	69.6	0.9
World	66 126	87 799	32.8	63.2	65.0	2.8

Source: Authors' adaptation of data from World Bank Group, World Development Indicators, 2021

Many developing countries and high-income countries have strengthened the regulatory base underlying the strong growth of their service sector. The impact of this is seen in the significant overall growth in the size of the service sector in middle-income countries, and the high contribution of services to GDP in high-income countries – nearly 70%.

In South Africa, service-led growth has been explicitly prioritised within the broad industrial policy framework. Until recently, the major policy document guiding policy for leading sectors in the South African economy was the Industrial Policy Action Plan (IPAP).<sup>7</sup> First published in 2007 and updated periodically until 2018, the IPAP was aimed at promoting long-term industrialisation and diversification away from traditional commodities and non-tradeable services through expansion into high-value-added sectors with strong employment potential. The IPAPs concentrated on leveraging opportunities provided by labour-intensive sectors. More recently, there have been calls for the Department of Trade and Industry to develop a sector-specific strategic framework towards the promotion of services exports.<sup>8</sup> The 2015 *Integrated National Export Strategy* was a constructive step towards this objective, calling for a 'comprehensive strategic framework and action plan for the export development and promotion of South Africa's service sectors'.<sup>9</sup>

7 Although the IPAP remains relevant, it is slowly being replaced by industry-specific masterplans.

8 Susara J Jansen van Rensburg, Wilma Viviers, Ali Parry, Martin Cameron and Sonja Grater, "A Strategic Framework to Expand South Africa's Services Trade", *South African Journal of International Affairs*, Volume 27, Issue 3, 2020: 339-361, <https://doi.org/10.1080/10220461.2020.1825231>.

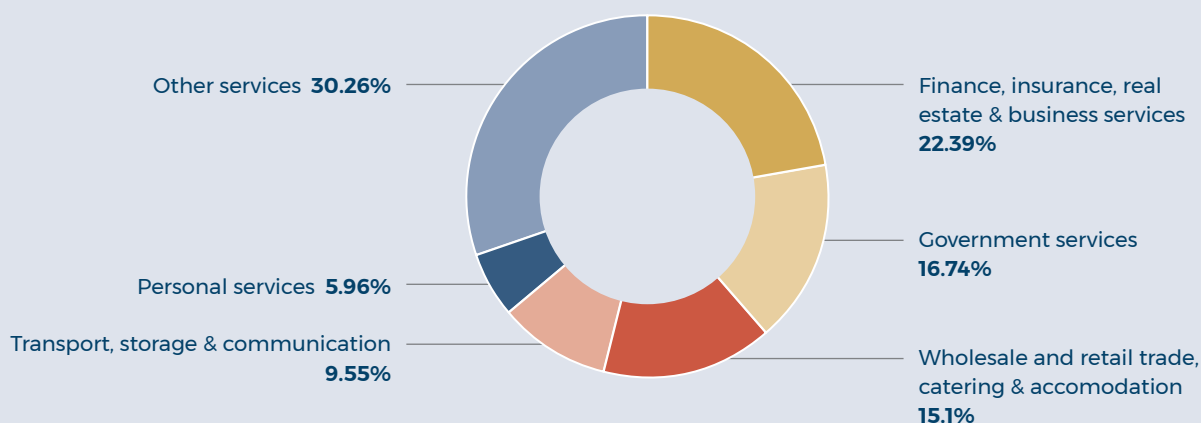
9 Government of South Africa, Department of Trade and Industry, "Integrated National Export Strategy (INES) or Export 2030", 2015.

Despite its growing position within the economy and its prioritisation within the state’s industrial policy framework, the service sector remains under-represented. The absence of a purposeful coalition is particularly concerning given that, as of 2019, the sector has grown to support almost 72% of the country’s employed workers.<sup>10</sup> South Africa has no unified coalition or business association to engage the state and other stakeholders to streamline the development of policy support for the sector. Although this role has typically been fulfilled by the National Economic Development and Labour Council (Nedlac) and organisations such as Business Unity South Africa (Busa), it lacks an integrated ‘services export’ subgroup.<sup>11</sup>

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A key challenge of the service sector is the difficulty categorising its subcomponents into a useful format and identifying specific trade interests. Figure 1 shows the subcategories of the service sector in South Africa. The broad categories, however, make it difficult to discern appropriate strategies to support growth.

**Figure 1 Percentage contribution of service sectors (2018)**



Source: Susara J Jansen van Rensburg, Wilma Viviers, Ali Parry, Martin Cameron and Sonja Grater, "A Strategic Framework to Expand South Africa's Services Trade", *South African Journal of International Affairs*, Volume 27, Issue 3, 2020: 339–361, <https://doi.org/10.1080/10220461.2020.1825231>

<sup>10</sup> World Bank Group World Development Indicators database, <https://data.worldbank.org/indicator/SL.SRV.EMPL.ZS?locations=ZA>.

<sup>11</sup> Nedlac is the vehicle through which government, labour, business and community organisations seek to cooperate, through problem-solving and negotiation, on the economic, labour and development issues, and related challenges facing the country. Busa is the first representative and unified organisation for business in South Africa.

Although the service sector has demonstrated it can energise employment and economic growth, more attention has observably been paid to the manufacturing sector than opportunities to grow South Africa's services exports in each of the IPAPs and the broader masterplan development process. Manufacturing is described as critical to attaining a sustainable growth trajectory, with the IPAPs designed to address the decline in industrial and manufacturing capacity.<sup>12</sup> In the context of leveraging strong potential for services exports, through relatively strong infrastructure and skills, as well as a strong financial sector, South African authorities have demonstrated a reluctance to address regulatory decisions required to make this a reality, as illustrated by the delays in issuing business visas and visas for scarce skills. The AfCFTA is not expected to exert pressure for these changes in the short term.

## The market for services: Demand and supply factors

The 2014/15-2016/17 IPAP<sup>13</sup> notes that a large proportion of services consumed domestically include those provided by the public sector through the provision of socioeconomic services and amenities. These include health, education, general government services, banking, telecoms, wholesale and retail trade, and much of the transport sector. The IPAP expresses concern over the high reliance on credit extension and retail consumption, as well as the growth in the private security industry<sup>14</sup> – both of which it cautions are at unsustainable levels.<sup>15</sup>

The AfCFTA has the potential to stimulate trade growth with the rest of Africa

With an overdeveloped domestic services market, growth must happen in the export market. However, the performance of South Africa's recent services trade has been poor. The AfCFTA has the potential to stimulate trade growth with the rest of Africa. Jansen van Rensburg *et al.*<sup>16</sup> note that South Africa has experienced a decrease in its overall trade in services since 2010, in contrast to the increase in services trade seen among its emerging-

12 Government of South Africa, Department of Trade and Industry, "IPAP Annual Report 2016/17", 2017.

13 Government of South Africa, Department of Trade and Industry, "Industrial Policy Action Plan: Economic Sectors and Employment Cluster IPAP 2014/15-2016/17", 2014.

14 Haroon Borhat, François Steenkamp, Nomsa Kanchingwe and Adrienne Lees, "Understanding and Characterizing the Services Sector in South Africa: An Overview", DPRU Working Paper 201803, October 2018, [http://www.dpru.uct.ac.za/sites/default/files/image\\_tool/images/36/Publications/Working\\_Papers/DPRU\\_WP201803.pdf](http://www.dpru.uct.ac.za/sites/default/files/image_tool/images/36/Publications/Working_Papers/DPRU_WP201803.pdf)

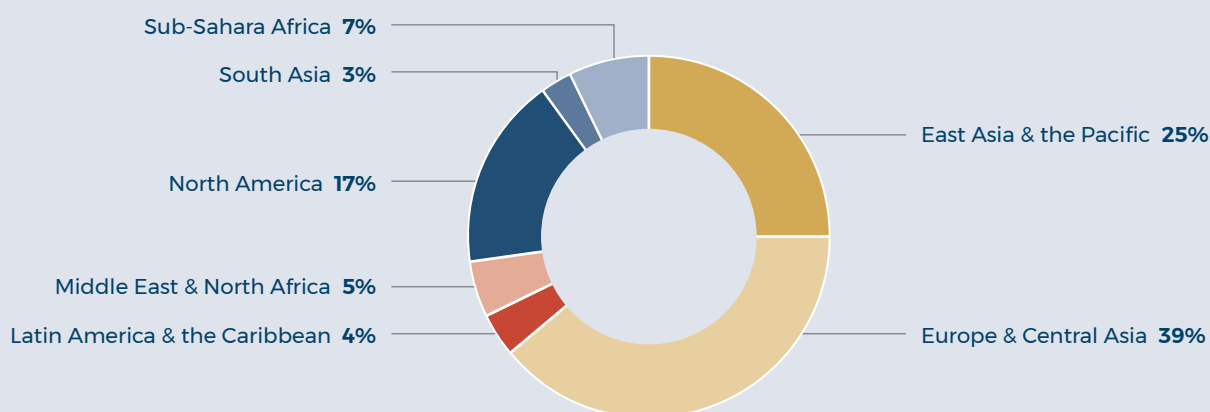
15 Borhat *et al.*, "Understanding and Characterizing

16 Jansen van Rensburg *et al.*, "A Strategic Framework".

market peers over the same period. Revenue generated by services exported from South Africa decreased from \$ 16 billion in 2010 to \$ 15.9 billion in 2018, whereas revenue from services imported to South Africa decreased from \$ 19.5 billion in 2010 to \$ 16.4 billion in 2018.

Figure 2 shows South Africa’s exports by region in 2019. Services exports to Europe and Central Asia (39%), East Asia and the Pacific (25%), and North America (17%) comprise more than 80% of services trade, while exports to our sub-Saharan neighbours account for only 7%.<sup>17</sup>

**Figure 2 Regional composition of South African services exports (2019)**



Note: The values used to generate the above diagram are the ‘reported value including estimates’ for 2019 in the Organisation for Economic Cooperation and Development (OECD) Balanced Trade in Services (BaTIS) dataset.

Source: OECD Balanced Trade in Services database 2021, [https://stats.oecd.org/Index.aspx?DataSetCode=TISP\\_EBOPS2010](https://stats.oecd.org/Index.aspx?DataSetCode=TISP_EBOPS2010)

Figure 3 shows the composition of exports to Africa. Travel and transport are the dominant sectors, together comprising about 70% of exports, with business services accounting for 12%.

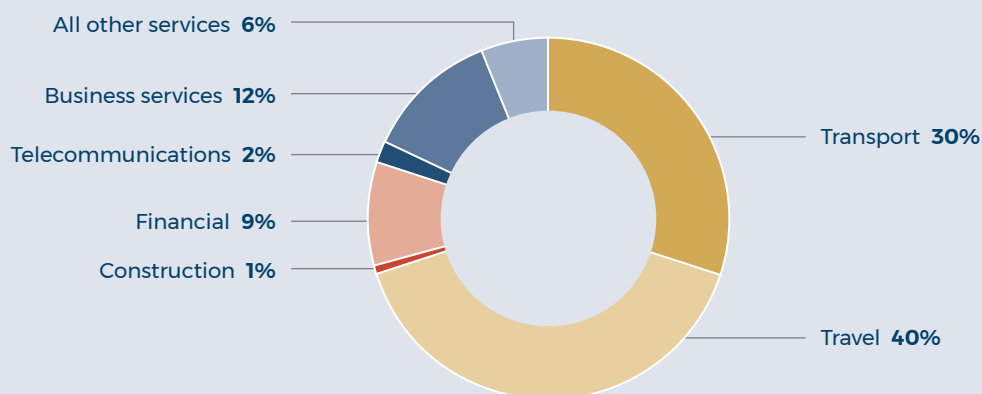
Figures 2 and 3 also show that services exports are the handmaiden of general exports – exports of transport services, finance and insurance, and some travel are typically provided with South African merchandise and commodity exports. This shows the dominance of

<sup>17</sup> Justin Visagie and Ivan Turok, “The Contribution of Services to Trade and Development in Southern Africa”, Working Paper 2019/37, UNU-WIDER, 2019, <https://www.wider.unu.edu/sites/default/files/Publications/Working-paper/PDF/wp-2019-37.pdf>



traditional markets in South Africa's export mix, which form the backbone of South Africa's tourist industry. These links could expect to be reflected in trade under the AfCFTA in the future.

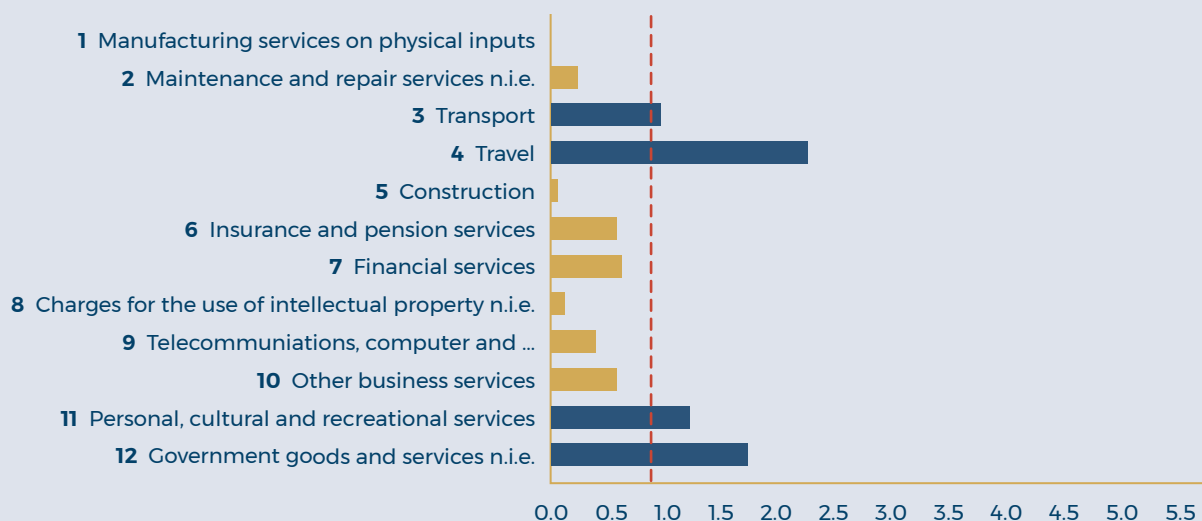
**Figure 3** Composition of South African service sector exports to Africa (2019)



Note: The figure above displays services exports to Africa only. The values used to generate the above diagram are the 'reported value including estimates' for 2019 in the OECD BaTIS dataset.

Source: OECD Balanced Trade in Services Database 2021, [https://stats.oecd.org/Index.aspx?DataSetCode=TISP\\_EBOPS2010](https://stats.oecd.org/Index.aspx?DataSetCode=TISP_EBOPS2010)

**Figure 4** RCA of South Africa's services exports



Source: Jansen van Rensburg et al., "A Strategic Framework".

To identify which sectors show promise for future growth, including under the AfCFTA, it is helpful to consider South Africa's revealed comparative advantage<sup>18</sup> (RCA) in services.

Figure 4 shows those services where exports are above or below the average for all sectors. There is strong growth in transport and travel, which attests to strengths in tourism and South Africa's services to transport exports and imports to and from its own market, as well as other regional markets served through South Africa. Compared to the overwhelming strength of these core sectors, financial and ICT-based services, for instance, appear less competitive within the RCA framework (Figure 4).

## Opportunities for growth and emerging sectors

The service sector will likely grow in pace with the overall growth of the domestic economy, and service sector exports alongside domestic exports. Consequently, the first priority for service sector growth must be to strengthen South Africa's overall economy, and to continue to grow merchandise exports. In addition, there are important drivers of service sector exports, which should be areas of focus: business process services, tourism, agri-processing, telecoms, business services and finance.

### Tourism

The tourism sector is a major provider of jobs, particularly for women and young people, across various skill levels, as well as for small, medium and micro enterprises. Employment can be generated in economically underdeveloped areas with pristine natural, cultural or historical attractions.<sup>19</sup> Tourism jobs are recorded across a range of subsectors, including travel, transport and accommodation. In 2018, tourism contributed 1.5 million direct and indirect jobs – 4.5% of South Africa's total employment.<sup>20</sup> This sector, however, has been severely affected by COVID-19, shedding more than 300 000 jobs as a result of lockdown measures in response to the pandemic.<sup>21</sup> Although South Africa offers a unique combination of natural beauty coupled with quality airports, roads and accommodation facilities, it remains to be seen how quickly long-haul tourism recovers.

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18 RCA is based on Ricardian trade theory's claim that 'patterns of trade among countries are governed by their relative differences in productivity'. Although such differences in productivity are difficult to observe, an RCA metric can be readily calculated using trade data to 'reveal' such differences. Although the metric can provide a general indication and first approximation of a country's competitive export strengths, applied national measures that affect competitiveness, such as tariffs, non-tariff measures and subsidies, are not considered in the RCA metric. United Nations Conference on Trade and Development statistics, "Data Exploration: Revealed Comparative Advantage", <https://unctadstat.unctad.org/en/RcaRadar.html>.

19 Bhorat et al., "Understanding and Characterizing the Services Sector".

20 Parliamentary Monitoring Group, "ATC190709: Report of the Portfolio Committee on Tourism for Budget Vote No 33: Tourism", <https://pmg.org.za/taled-committee-report/3843/>.

21 Ntwaagae Seleka, "Tourism Sector Has Lost Billions of Rands, Shed More than 300 000 Jobs – Deputy Minister", <https://www.news24.com/news24/southafrica/news/tourism-sector-has-lost-billions-of-rands-shed-more-than-300-000-jobs-deputy-minister-20210210>.

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## Agri-processing

Drawing on a range of associated economic activities, including transport and logistics, packaging, irrigation, agricultural equipment and maintenance, and a range of associated manufacturing and services activities, agri-processing strengthens demand for the underlying agricultural products. These comprise 10% of South Africa’s exports, a significant proportion of which are higher-value horticulture and other processed agricultural products. This sustains many geographically dispersed, high-value agricultural processing jobs in South Africa, and supports a range of service industries that are well placed to export across sub-Saharan Africa.<sup>22</sup>

## Business process services

The IPAPs identified this industry as having high growth potential, and detailed an incentive package to position South Africa as an attractive destination for offshore business process services. Constraints include limited skills and technical expertise in management positions, and growing competition from other emerging market economies, particularly African offshore locations.<sup>23</sup>

## Business services, banking and financial services, and telecoms

These are some of the major sectors in which South African business can service markets across sub-Saharan Africa. South Africa still has the largest stock exchange and provides the most sophisticated array of financial services in Africa. Other countries can leverage this expertise to access these services and deepen their own financial markets. South Africa provides a wide range of other business services, including regional offices for consultants, global auditing, legal, engineering, architectural and other high-value services. To date, South Africa has made little use of these opportunities to gain gateway status, owing largely to numerous regulatory constraints such as those on the movement of people and where respective accreditation may be applied. In addition, South Africa was an early mover in the mobile phone sector, enabling it to establish dominant players in the space, but regulatory and other constraints have limited the success of these players in providing services across Africa. Much growth is possible in these sectors, with limited public investment, and a

22 Seleka, "Tourism Sector Has Lost Billions."

23 Borat et al., "Understanding and Characterizing the Services Sector".

much more positive regulatory stance -- such as policy direction to expedite the allocation of spectrum.

## Infrastructure

A crucial driver of expansion in all service-related sectors is infrastructure. With many services integrated within a broader logistics framework, reliable ICT and power networks are critical. In South Africa, recurring power shortages and a failure to keep pace with requisite internet bandwidth expansions are major impediments to the development of the service sector. Policy certainty, labour-intensive investments in these sectors and a more accommodating business visa stance would strongly support the growth of service exports. South Africa should make this a cornerstone of its post-pandemic response. Leveraging the regional trade platforms would provide further opportunities. The AfCFTA agreement and the Southern African Development Community trade in services protocol have the potential to provide momentum in this regard.

Policy certainty, labour-intensive investments in these sectors and a more accommodating business visa stance would strongly support the growth of service exports

## Background and evolution of the AfCFTA

The AfCFTA is the largest free-trade area in the world in terms of the number of participating countries, making it an extremely complex agreement to negotiate. Its purpose is to address the economic fragmentation of the continent resulting from small markets, barriers to trade, and disjointed rules for stimulating competition and investment; and establish institutions to facilitate trade. The AfCFTA<sup>24</sup> envisages the phased-in implementation of six protocols, one of which focuses on trade in services. The free-trade agreement became effective from 1 January 2021, having been ratified by 36 countries.

So far, commitments to reduce tariffs have been made only in the trade in goods protocol, with commitments being phased in over the next 15 years. As negotiations of the other five protocols<sup>25</sup> are more complex than goods, no commitments have yet been reached.

24 Maryla Maliszewska and Michele Ruta, "The AfCFTA: Economic and Distributional Effects", 2020, World Bank Group, 1-15, <https://openknowledge.worldbank.org/bitstream/handle/10986/34139/9781464815591.pdf>.

25 Services, investment, intellectual property, competition and e-commerce.

Work is under way on the trade in services protocol, which outlines five priority areas on which initial commitments are sought: business services, communication services, financial services, tourism and travel, and transport.<sup>26</sup>

Although the services protocol defines principles to further liberalise the service sector, countries with GATS commitments might not have sufficient incentive to go beyond their existing AfCFTA commitments. There is no indication that there will be enforced progressive liberalisation of services trade.<sup>27</sup>

## Opportunity presented by the AfCFTA

Although the AfCFTA priority areas are well aligned with South African service exports, South Africa has not yet made any service sector commitments under the AfCFTA. It is expected that there will simply be a reiteration of the status quo in terms of the nation's rules for services trade under the GATS.<sup>28</sup>

Despite these low expectations, nations adhering to the status quo may provide other service providers with increased transparency and predictability. The anticipated growth in the trade of goods under the AfCFTA is also expected to support some trade in services. This is, however, unlikely to be sufficient to drive significant growth in services trade. For African trade to benefit, agreements will need to extend beyond a restatement of the status quo and address various market access and regulatory challenges.

## Important provisions for the AfCFTA to contribute to South Africa's growth in services trade

With trade in goods, the main stakeholders are business and labour. In contrast, trade in services negotiations is challenging as it requires engagement with a number of regulators, industry credentialing bodies, trade associations and chambers, and immigration authorities (as trade in services often entails the movement of people). The service sector is highly fragmented, with many smaller players driving trade. In South Africa, there are between one and three players in large services exports in each of the banking, telecommunications, retail, and freight and transport operator sectors, as well as hundreds of smaller operators

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26 Trade Law Centre, "Trade in Services Negotiations Under the AfCFTA", March 2020, <https://www.tralac.org/documents/resources/faqs/3190-trade-in-services-negotiations-under-the-afcfta-q-a->.

27 Tralac, "Trade in Services Negotiations"; Matthew Stern (Managing Director and Trade Economist, DNA Economics) interview by Tutwa Consulting Group, April 2021; Morigenie Pillay (Director of Trade in Services, DTIC) interview by Tutwa Consulting Group, April 2021.

28 Stern interview (telephonic).

in many subsectors. The markets of interest for each of these subgroups differ, as do the challenges they face in entering these markets. It is therefore challenging for trade negotiators to establish a shared position among key stakeholders within any subsector in a country, let alone negotiate a shared position with multiple other countries, each seeking to control standards for, and access to, its markets. There may be foreign resistance preventing South African traders from moving into the continent, and there are capacity constraints in communicating, implementing and monitoring agreed changes to the rules.

A typical lack of expertise required to deliver modern services creates a number of challenges. Even where expertise exists, such as in the cross-border production and consumption of services required by the movement of people, obstacles arise when the expertise located in one country needs to be applied in another country. Moreover, even when applied, immigration and visa restrictions on the movement of people are an impediment.<sup>29</sup>

Each of these issues signals a need for efforts to extend further than restating previous commitments. There is a need to address restrictions, including rules on foreign equity to establish a commercial base; varying standards and rules for licensing and professional accreditation; preferences in state-related contracts; and constraints on the movement of professional staff.<sup>30</sup>

It is necessary for national policymakers to incorporate services in industrial policy. Governments need to engage with private sector entities to develop an understanding of potential offerings and identify where local offerings fall short and how they could be improved, including how the introduction of a larger, more established service provider (of the same category) could improve opportunities for local players.<sup>31</sup>

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Liberalising the service sector could also complete the regional value chain in a manner that results in the development of regional clusters and increased employment. This is

29 Catherine Grant Makokera (Managing Director, Tutwa Consulting Group), interview by Tutwa Consulting Group, April 2021.

30 Visagie and Turok, "The Contribution of Services".

31 Pillay interview (telephonic).

another perspective through which governments, by engaging with the private sector, may mitigate local resistance to liberalising services trade.

Improvements in the quality of data on trade in services are important to initiate negotiations. This could begin with recording origin and destination markets for imports and exports.<sup>32</sup>

Trade negotiators in South Africa struggle to identify coherent questions from services exporters about their needs to grow services exports to Africa. Existing structures such as Nedlac or Busa are not fit for this purpose either. Service providers are dispersed among businesses and sectors, and are not well represented in these national structures.<sup>33</sup> As such, there is a need to establish a coalition of service exporters in South Africa to help drive service sector reform and liberalisation. Government needs to remain well informed and provide a platform for engagement with industry players so that service sector negotiations are not channelled through the same avenues as goods.<sup>34</sup> Previous attempts to establish such bodies in the country and the Southern African Development Community have been unsuccessful.

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Finally, services trade requires well developed connecting infrastructure. This includes roads, railways, airports, seaports, reliable ICT infrastructure and energy security to enable the smooth flow of products, people and information across the continent. The African Development Bank estimates that infrastructure development would require between \$ 130 billion and \$ 170 billion a year.<sup>35</sup>

## Conclusion

South Africa has a large and relatively well-developed service sector. The domestic service sector shows signs of becoming unsustainably large relative to overall GDP. During the

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32 Visagie and Turok, "The Contribution of Services".

33 Visagie and Turok, "The Contribution of Services"; Stern interview (telephonic); Pillay interview (telephonic).

34 Stern interview (telephonic).

35 Frank Kanyesigye, "Africa's Infrastructure Gap Poses Challenge to Success of Continental Free Trade Area: Experts", IOL, July 11, 2019, <https://www.iol.co.za/business-report/international/africas-infrastructure-gap-poses-challenge-to-success-of-continental-free-trade-area-experts-28991635>.

economic decline of the South African economy in the past decade, the market share of the service sector has stagnated, contrasting with robust growth in peer economies. The growth of this labour-intensive, geographically dispersed sector must come from increased services exports, and African countries present a prime export opportunity. South African service providers have much to offer other countries on the continent, and deeper integration of services across Africa would serve all participants.

The AfCFTA offers such an opportunity. However, given South Africa's failure to develop a strong service offering and the expectation that other countries will have a similar response, it seems unlikely to yield significant growth over the short or medium term. It is probable that a continental services market will be established only after sufficient pressure is exerted on major participating governments. The private sector must drive these cross-border initiatives.

Over the short term, four initiatives are evidently necessary to expedite export growth benefiting from AfCFTA.

- 1 A coalition of service providers must be established within South Africa to identify a unified agenda of priority actions to support the growth of services exports.
- 2 South African service providers must continue to reach out to build strong collaborations with similar service operators in other African countries.
- 3 Regulatory action is needed to urgently update and expand South Africa's ICT infrastructure so that South African service exporters can efficiently access foreign markets and support existing exporters.
- 4 South Africa can still serve as a major gateway for service providers and regional headquarter locations to serve Africa, provided the necessary priority is given to address the immigration and related obstacles that continue to limit this opportunity.



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## Cover image

Nelson Mandela Bridge at sunset, Johannesburg, South Africa (THEGIFT777/via Getty Images)

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