**Trade in Services in imbalanced regional markets: Lessons from SADC for the AfCFTA**

*Extended Abstract*

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This paper examines options for the development of mutually beneficial services agreements among economic regions featuring substantial inequality of services capabilities. Building on prior work focused on the South African services market (Jules, Govender & Bridgman, 2021), the paper focuses on the Southern African Development Community (SADC) as a case study of the challenges and potential of developing services markets in highly imbalanced regional markets.

The African Continental Free Trade Agreement’s (AfCFTA) Trade in Services negotiations offer great potential for sustainable, shared regional growth; as well as significant risks and complexities. Africa’s services sector is expected to undergo exponential growth over the next three decades. With a rapidly urbanising middle class, underdeveloped service-client sectors like manufacturing and construction, and emergent capacities in key global sectors like ICT; Africa’s services sector holds substantial potential to drive growth and job creation, and provide a pathway to prosperity from the expected youth population boom.

Nevertheless, the continent remains a significant net importer of services. Traded services – such as business processing – are still often imported from outside the continent. Regionally, significant imbalances in service capacities and trade results in highly skewed distributions of benefits. Services hubs such as South Africa in SADC leverage more developed service-consumer sectors and their position as significant importers of skills from neighbouring markets to supply smaller regional partners. These imbalances often represent a more extreme version of the industrial inequalities that complicate the development of mutually beneficial trading arrangements under the AfCFTA.

To enhance regional integration and the creation of a regional single services market, measures taken by SADC offer an example of the development of mutually beneficial services agreements among economic regions featuring substantial inequality of services capabilities. Having begun more than a decade ago with its signing in 2012, the Protocol on Trade in Services (PTIS) entered into force in January 2022, providing a framework for a preferential trade agreement covering all commercial and tradable services in any services sector. Centred on a process of progressive liberalisation, the Protocol aims to incentivise intra-regional trade in services through the gradual removal of unnecessary regulation affecting the cross-border supply of services within the SADC region.

The PTIS is expected to lay the foundation for an agreement that covers all tradable services, which includes key service sectors such as finance, health, tourism, transport, communication, construction, distribution, energy, social, environmental, business, recreational, cultural and sporting services. This Protocol provides the framework for a preferential trade agreement covering all commercial and tradable services in any services sector. Furthermore, by ensuring that member states grant each other preferential access and fair treatment of foreign and domestic suppliers, it is hoped that the PTIS will go some way towards improving market integration amongst SADC member states. However, the presence of inequalities between countries continue to undermine the propensity for the PTIS to extend universal benefits to services markets in all member states. As a result, individual governments – such as South Africa, as the regional hegemonic service provider – are tasked with devising and implementing strategies to realise the benefits of integration. This becomes an even more pertinent consideration as we move towards pan-continental economic integration.

The first port of call is the establishment of a government unit dedicated solely to the promotion of the services sector. These dedicated services units can work with other branches of government to create a platform for dialogue between service providers and policymakers (Jansen van Rensburg et al., 2020). An additional team that must be formed is one dedicated to services trade negotiations as these are key to successful negotiations. Another key requirement is the clarification of roles and harmonization of work programmes of all services role players – an important consideration given the uncoordinated nature of government departments and entities in developing countries (Jansen van Rensburg et al., 2020).

The formulation of a national services strategy[[4]](#footnote-2) is also important. In addition to strengthening the capacity of a country’s services through policies and regulations aimed at specific service industries, national services strategies must account for shortfalls within the greater economic environment, including infrastructure gaps, restrictions on the movement of skilled persons, and misaligned licensing and educational requirements (Visagie & Turok, 2019; Jansen van Rensburg et. al., 2020). Due to the nature of services, it is imperative that these problems are addressed. ICT capabilities are of particular importance as it induces ease in delivering services, particularly those that are knowledge-intensive services. Correcting these shortcomings, and those in the regulatory and policy environment, will also improve services trade prospects (Jansen van Rensburg et al., 2020).

Enhanced service trade, however, requires an understanding of barriers, both domestically and abroad, and will require efforts to reduce domestic hurdles and enhance capabilities to overcome those abroad (Jansen van Rensburg et al., 2020). A clear stance on foreign direct investment (FDI) could prove beneficial for domestic services markets as allowing foreign service providers to establish a commercial presence in the domestic economy results in an influx of the scarce skills synonymous with knowledge-intensive services. An outward FDI stance could also prove beneficial as it would allow domestic services providers to establish a footprint abroad (Jansen van Rensburg et. al., 2020). FDI-based interventions would require a similar scoping of potential hurdles domestically and abroad, however.

The availability and use of trade in services data is another great necessity. Unlike trade in goods data, good-quality trade in services data is scarce. While there are various prominent platforms offering some type of services trade data, depth is lacking (Visagie & Turok, 2019; Jansen van Rensburg et al., 2020). As such, the implementation of legislative requirements to systematically capture services data will provide policymakers with the resources needed to make sound, evidence-based decisions.

Should developing countries follow the steps outlined above, they may see themselves transform into a regional services hub, as South Africa has within the SADC. In doing so, not only would there be a positive impact on the domestic economy, but it would also enable the flourishing of primary and secondary sectors within fellow regional economic community members through productivity gains Visagie & Turok, 2019).

**T**he potential of the SADC market for trade in services is limited by at least three core challenges. First, is the existence of a dominant regional services exporter, which complicates the scope for the development of key tradeable services in smaller emerging markets. Second, are a range of structural non-trade challenges that create barriers to the domestic development of services sectors, notably in the areas of skills development, ICT infrastructure, and underlying domestic market size. And third is the potential impact of the regional agreement, the PTIS, in a context in which the competitiveness gains from the agreement are generally less meaningful than the competitiveness advantages offered by more developed services ecosystems in more developed global providers.

Many of these basic characteristics are similarly of concern for the AfCFTA Services negotiations, albeit more complex at the continental level. As seen in Figures 1 and 2, while only Southern Africa features one major dominant services exporter, Central and Northern Africa are effectively duopolies in which two major markets dominate the vast majority of services exports both within their region, and from the region to the rest of the continent.

**Figure 1:** Share of regional services exports by major markets (OECD and WTO, 2021)

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| Region | Major Suppliers | Share of sub-region services exports |
| **To Region** | **To Africa** | **To World** |
| Central Africa | Congo, Cameroon | 82% | 75% | 69% |
| Northern Africa | Egypt, Morocco | 80% | 89% | 87% |
| Southern Africa | South Africa | 61% | 64% | 64% |
| Eastern Africa | Kenya, Tanzania | 49% | 43% | 36% |
| Western Africa | Ghana, Senegal | 38% | 36% | 29% |

This pattern is less obvious, but still apparent in the rest of the continent. The figures for West Africa likely underrepresent the importance of Ghana and Senegal, largely because Liberia’s role as global ship registration hub inflates their apparent services exports. East Africa appears to be the outlier to these imbalances, with multiple services exporters such as Rwanda and Mauritius adding to the strength of Kenya and Tanzania.

**Figure 2:** Ratio of exports to imports within sub-region, 2019 (OECD and WTO, 2021)

Many of these figures underestimate imbalances in many of the next-generation and professional services in which differences are most pitched. These imbalances are much more difficult to measure[[5]](#footnote-3), largely because they originate from underlying domestic conditions such welfare and infrastructure. An example of the scale of these inequalities can be seen in Figure 3, which demonstrates the number of individuals involved in coding activities, such as software development or data analysis. The bottom 42 countries have roughly as many ICT professionals as the top ranked market. And with most digital services being extremely mobile across borders, the scale of this domestic skills base is likely to entrench already steeply imbalanced skills in areas like the ICT sector, while also creating incentives that reinforce the domestic environment for skills development.

**Figure 3:** Estimated number of individuals who write code, by African market (Github, 2021)

AfCFTA services negotiations are nominally at the implementation stage, but with much of the underlying national offers yet to be agreed. The Services Protocol was technically signed as part of the “Agreement Establishing the African Continental Free Trade Area” in March 2018 (Member States of the African Union, 2018), and entered into effect in May 2019. However, as of writing services offers have been made by 48 of the 54 signatories, and only 14 have been finalised and adopted – meaning the services protocol is still very much a live document.

Initial negotiations on offers covering five priority sectors appear unlikely to be concluded on schedule in 2022. A second phase, covering outstanding sectors and regulatory frameworks, is expected to follow upon completion of the services offer; while a range of additional protocols of relevance to services, notably on investment and intellectual property, are underway in parallel to the services talks[[6]](#footnote-4).

As with much of the AfCFTA, the basic framework of the Services Protocol has been agreed, and the specific offers are at a suitably advanced stage as to not be liable to major future changes. The scope to extract additional value from the Services Protocol is therefore mostly vested in how the agreement is implemented, and how continental, regional, and national policies support the development of competitive service ecosystems.

Realistically, there is little evidence to suggest these efforts will be deeply coordinated at regional level. There is a high risk that the underlying challenges identified above could see a replication of the services approach seen in SADC, in which superficial regional policies belie development that is largely uncoordinated regionally and reinforces existing imbalances by leaving efforts in the hands of those states that are best able to support their domestic services base.

On balance, it appears likely that, regardless of the ultimate direction of policy, most high-value tradable services will cluster in a few key metropoles on the continent. While there are examples of more disaggregated structures for global services trade, most notably in the case of India, the natural gravity of the human and technical resources offered by the largest cities in the most developed markets tends to be difficult to escape. In Africa, the extreme differences in development evident from the data above would seem to suggest that a concentrated version of this pattern is likely. More domestically-focused mass services like retail may create more widely distributed opportunities, but realising the potential of the AfCFTA’s Services Protocol requires planning around this likely concentration of benefits from trade in services.

Given these considerations, an AfCFTA services framework or strategy should focus on a hub-and-spoke model of regional services trade, in which a handful of major centres serve the continent through a network of national offices and service providers. The spokes of these regional markets can be leveraged as a base to create adequate competitive scale for African services hubs to compete in global services markets. Again, this is broadly the model evident in Southern Africa, in which large service providers are headquartered in South Africa, but have networks of offices primarily located in other parts of the region.

While this model primarily benefits South Africa, it helps manage the natural imbalances of different levels of services development in the region, providing avenues for distributed benefits and pathways for entry into regional services networks for employees across the region, supporting secondary benefits such as strengthening regional remittance flows. A key lesson of this services production structure is its fragility, with South Africa’s restrictive immigration policies and prioritisation of its own domestic market limiting the capacity to create a regional base large enough to support global competitiveness.

Avoiding this situation developing in the rest of the continent will require an African strategy that maximises shared benefits within this hub-and-scope model. This should be based on four key pillars[[7]](#footnote-5): (1) streamlined movement of people for regionally active services firms, (2) regional alignment of services standards to create globally competitive scale, (3) adequate policy space for regulations requiring the presence of domestic operations in less developed states, and (4) varied treatment in national content rules for global and regional service providers.

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4. The full paper will examine additional strategies to develop services markets and enhance services trade. It will also investigate the compatibility of services markets within the context of a competitive regional services hub and identify workable routes to develop capacity in the face of these established regional hubs. [↑](#footnote-ref-2)
5. The full paper will include a more detailed examination of inequalities in the African services market, the underlying services ecosystems in AfCFTA member states, and the likely implications of these imbalances for the AfCFTA. [↑](#footnote-ref-3)
6. The full paper will conclude this brief overview of the AfCFTA services protocol, offers a more detailed examination of individual services offers (where available), and a comparison of the AfCFTA Protocol and the SADC Protocol. [↑](#footnote-ref-4)
7. The full paper will include a detailed exploration of the framework, focused on explaining and detailing these core pillars, and providing a possible implementation structure for the services framework. [↑](#footnote-ref-5)