ASSESSING REGIONAL INTEGRATION IN AFRICA

AFRICA'S

SERVICES TRADE LIBERALIZATION & INTEGRATION UNDER THE AfCFTA

ARIA X

United Nations
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Foreword

Services play an increasingly important role in the economic performance and overall development of countries across the globe. In recent years, the contribution of the services sector to countries' trade, investment, employment, poverty reduction and gross domestic product has outpaced that of such traditional sectors as agriculture and manufacturing. Services offer opportunities to diversify production away from traditional economic sectors. And a strong and efficient services sector is a key precursor to manufacturing competitiveness and a contributor to the ease of doing business and trading across borders. Low-cost, high-quality services give countries opportunities to integrate and participate in local, regional and global value chains—and enhance their prospects of achieving structural transformation and other development outcomes.

Services have grown tremendously in importance in Africa in recent years, accounting for a significant proportion of the continent's economic activity and output. For example, in 2018-19, services were the major driver of economic growth in 25 of 54 African countries, accounting for more than 50 per cent of real economic growth. On average, services contribute about 58 per cent of GDP in Africa, South of the Sahara, compared with 46 per cent in the Middle East and North Africa. Services have also been found to account for much of the value in the prices of final commodities and products traded by many Africa countries, reaching 60–80 per cent of final product prices for such Ethiopian exports as roses and teff.

Despite the growing importance of Africa's services, they have continued to face challenges. Among others, the levels of awareness are low both within governments and the private sector about the potential for trade in services, partly because of a lack of information and shortages of data, as well as poor infrastructure, unsupportive policies, weak institutions and inappropriate regulatory frameworks. Invariably, unlocking the potential of services trade requires that its potential be understood and supported in African policy-making processes at all levels.

Over the years, African countries have signed up to myriad policy instruments and frameworks geared towards liberalizing trade in services. At the global level, there are the General Agreement on Trade in Services (GATS) and the service-specific and related targets of the Sustainable Development Goals. At the continental level, there is the Framework to Boost Intra-African Trade and its implementation plan, as well as sector-specific cooperation instruments such as the Single African Air Transport Mechanism. At the regional level, members of various regional economic communities have signed treaties and protocols establishing regional free trade areas with provisions for liberalizing services trade. And by 2017, African countries concluded well over 165 bilateral investments treaties.

The continent has, however, been unable to consolidate these frameworks into a viable continent-wide regime, and to optimize the benefits of liberalization of the sector, such as greater contributions to GDP, better integration into value chains and broader diversification and industrialization. The persistent fragmentation of Africa's policy landscape has been a major contributor to Africa's weak competitiveness in global services trade. For example, African service providers continue to face barriers to exporting services: few African countries have scheduled service commitments, and fewer still are net service exporters. So, African services exports amount to just 2 per cent of global trade in services.

The signing and implementation of the AfCFTA, which has trade in services as one of its three protocols, provides a veritable platform for liberalizing and integrating Africa's services. Given the sector's complexity, the AU Assembly at its July 2018 Summit approved five priority sectors for the first round of negotiations: transport, communications, financial services, tourism and business services. AU member states are currently preparing specific offers for each of them. In the meantime, initial work on the impacts of trade in services liberalization in Africa highlights the great potential, with estimates suggesting that the benefits could match or even exceed the benefits of goods liberalization under the AfCFTA. Therefore, services trade liberalization and way various stakeholders approach it is clearly an important policy issue. Adopting the right approaches requires balancing the need for countries to access the most efficient services inputs available against the imperative of benefiting from the growth in their own services.

The tenth edition of the report analyses the types of approaches that have the most potential to support Africa's post-Covid-19 pandemic recovery and its overall development: by enhancing intra-African trade in services, enabling better and more effective integration into regional and global value chains, enforcing both public and private sector capacities, and boosting competitiveness in an increasingly digital global economy.

The report presents important findings: First, it establishes that, although the AfCFTA does not automatically guarantee trade, it does generate incentives that make trade more attractive. And it creates structures to harmonise and rationalise rules and procedures that would bring more certainty and predictability to private sector participation in cross-border commerce and investment.

Second, the restrictions on services trade remain a major dampener to services trade among African countries and a deterrent to investment. So, countries should adopt and implement services trade liberalization policies that foster services trade and growth—by adjusting trade regulations, reducing barriers and promoting non-discriminatory measures as envisioned in the AfCFTA.

Third, the efforts by African countries to establish or join regional and global value chains have been very ineffective, as evidenced in their inability to guarantee uninterrupted supplies of equipment, medicines and even vaccines to fight the Covid-19 pandemic. Explaining this result are the shortage of skilled human capital, the lack of competitive logistics and telecommunications, the lack of cost-effective transport infrastructure, the absence of a conducive business environment and the weaker frameworks for the protection of intellectual property, among others. The report thus makes a strong case for adopting and deploying national and regional public policies dedicated to develop value chains, including those that would enable the continent to transition from reliance on natural resources and commodities to value-added and growth-generating sectors, such as services.

Fourth, the Protocol on Trade in Services is an important negotiating platform with the potential to ensure greater regulatory cooperation among African countries and regional economic communities in a global context where value chains and complex production relationships have become significant. More specifically, negotiations for liberalizing services in the five priority sectors and beyond are essential for removing the regulatory, institutional, and policy barriers and restrictions hindering services trade and realising its full potential among African countries and regions.

Fifth, the increasing use of digital trade and e-commerce during the Covid-19 pandemic points to the growing importance of digital technologies in the global trading system and for African countries' participation in regional and global value chains. Implementing the Trade in Services Protocol will help mitigate the effects of the Covid-19 pandemic and create a pro-growth recovery services trade environment in the post-pandemic period.

The AfCFTA services trade negotiations should ensure harmonisation, synchronisation and cooperation in regulatory frameworks, especially in the priority subsectors identified by African Heads of State.

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Executive Summary, Key findings, Policy recommendations and road-map/guide to ARIA X

This executive summary presents key findings and policy recommendations of the ARIA X report, Africa's Services Trade Liberalization and Integration under the AfCFTA, for the top-most policy makers. Those policy makers and other stakeholders in the development sphere are encouraged to read this publication to unravel and address the difficulties and challenges associated with trade in the priority services: transport, communications, financial services, tourism, and business services.

CHAPTER 1

Chapter 1, "The Status of Regional Integration in Africa," tracks progress and trends in regional integration by individual African countries, the eight African Union–recognized regional economic communities (RECs) and the African continent. Building on achievements reported in previous ARIA reports, the chapter focuses on trade integration, social integration; productive integration; macroeconomic integration; services trade liberalization; free movement of persons; infrastructure and energy; and governance, and peace and security.

Regional trade agreements are key in assisting African countries to build their comparative advantages in the global market, sharpen their bargaining power and enhance industrial efficiency for greater competitiveness. The March 2018 signing of the Agreement Establishing the African Continental Free Trade Area (AfCFTA) by 44 African Heads of State and Government was one of the most notable achievements in Africa's recent integration history. To date, 54 of 55 African countries have signed the agreement (all but Eritrea). It commits African countries to liberalize 97 percent of tariff lines on goods. If successfully implemented, it will create a single African market for goods and services of 1.3 billion consumers (projected to rise to 1.7 billion by 2030) with a total gross domestic product (GDP) of more than $3 trillion. The agreement has the potential to unleash an unprecedented era of growth and development for the continent.

Africa currently ranks near the bottom in competing in the global economy, mainly due to its fragmented economies, as the analysis in the chapter shows. Output growth decreased to -3.4 per cent in 2020 from 4.2 per cent in 2019 and 5.4 per cent in 2018, as a direct consequence of the pandemic. Even so, African economies showed great resilience to global volatility at a time of rising uncertainty and escalating trade and tariff wars between China, the United States, and others. Even with Brexit, the EU is Africa's main trading partner. Africa's productive integration score is only 0.201 out of 1.000, based on the African Regional Integration Index report, with 33 countries scoring below that average. Production is not evenly spread across the continent, and countries are not benefiting from their comparative advantage. For African countries to improve their productive integration, the role of services and services trade in supply chains, regional value chains, and global value chains is critical.

Macroeconomic convergence is essential to the RECs' pursuit of monetary unions. Some RECs have achieved higher targets, particularly annual inflation 3 per cent or below, a budget deficit–to-GDP ratio of 3 per cent or below and a public debt–to-

GDP ratio 60 per cent or below. At present, five of the eight African Union–recognized RECs have macroeconomic convergence criteria: the East African Community (EAC), the Economic Community of West African States (ECOWAS), the Economic Community of Central African States (ECCAS), the Southern African Development Community (SADC) and the Common Market for Eastern and Southern Africa (COMESA). Three of the RECs (ECCAS, ECOWAS, and SADC) have smaller monetary unions within them: the Central African Economic and Monetary Community, the West African Economic and Monetary Union and the Common Monetary Area. Even so, some RECs have faced numerous challenges in meeting their own targets.

Sound infrastructure, a bedrock of development, contributes to economic growth, poverty reduction and attainment of the United Nations Sustainable Development Goals (SDGs). A fundamental catalyst for increased regional trade, it reduces the costs of doing business by providing linkages between African countries. Infrastructure plays a key role in achieving Agenda 2063, Africa's blueprint for transforming into the global powerhouse of the future. But the continent continues to suffer from a huge infrastructure gap that threatens the achievement of social and broad economic goals. The African Development Bank (AfDB) has estimated Africa's infrastructure requirements at \$130–170 billion a year, with a financing gap in the range of \$68–\$108 billion.

Healthcare integration is central to improving the health and well-being of the African people, including achieving Aspiration 1 and Goal 1 of Agenda 2063. Healthcare integration is being implemented at continental, regional and national levels, but the synchronization and coordination of these initiatives differs from one region to another. This has appeared in addressing the Covid-19 pandemic. Efforts are being made to improve health systems in Africa through the African Union Commission (AUC), with the Africa Centres for Disease Control and Prevention (CDC) providing commendable leadership and forging partnerships with key partners and stakeholders to support the fight against the pandemic. Under CDC leadership, the continent developed the online African Medical Supply Platform, which enables the supply of Covid-19-related critical medical equipment in Africa.

Africa's governance, peace and security landscape has continued to present a very mixed picture, with progress in some countries and regions, stagnation in others and retrogression in yet others, with grave implication for the AfCFTA. The AUC and RECs, alongside the United Nations and other stakeholders, are trying to prioritize and strengthen governance systems and promote peace and security on the continent. For instance, in 2019, the African Union (AU) adopted as its theme of the year, "Silencing the guns in Africa by the year 2020," to creating conditions that would facilitate a conflict-free, integrated and prosperous Africa, as envisioned in Agenda 2063.

The continent continues to advance the free movement of people through such initiatives as Agenda 2063. The free movement of people is a priority of African leaders outlined in several policy frameworks, including Africa's continental and regional migration policies and actions. Yet, free movement of people remains a challenge in many African countries.

The service sector is increasingly vital for economic development and structural transformation. In 2019, it accounted for 65 per cent of value added to global GDP and 49 per cent of value added to African GDP, indicating that it has room for continued growth. The sector will also be critical in the AfCFTA. Still, services trade liberalization remains a challenge to many African countries.

Chapter 1 concludes by acknowledging the commendable progress RECs have made in implementing their regional integration agendas. But further collective efforts are required by all key partners and stakeholders in the integration project. **OTHER KEY MESSAGES** in the chapter include the following:

- The AfCFTA has the potential to increase employment opportunities, generate more income and promote economic growth. It is expected to lift millions of people out of poverty.
- The RECs continue to trade more with the outside world than among themselves, with the European Union taking the lion's share of Africa's exports and imports, though the EU's leading trading position is likely to change with the advent of Brexit.
- The service sector is increasingly playing a vital role in the economic development and structural transformation of the continent. It both complements the manufacturing sector, providing necessary services such as logistics and financing, and provides jobs in tourism, transport, healthcare and education.
- Advancing the free movement of people within the continent remains a key priority of African leaders as outlined in several policy frameworks, including the African Continental Free Trade Area agreement and regional migration policy frameworks.
- The pursuit of regional integration both at the sub-regional and regional levels in Africa continues to be influenced by the continent's governance, peace and security realities and dynamics within the context of the close nexus between governance, peace and security and development. In view of Africa's huge infrastructure deficit, infrastructure development and financing are key for Africa's integration and development. Commitments for infrastructure in 2018 reached $100.8 billion, an increase of 24 per cent over the commitments reported for 2017.
- The African airline industry supports more than 6.2 million people in Africa directly and indirectly, including in tourism and other sectors. Tourism alone accounts for 8.5 per cent of Africa's GDP, and as much as 38 per cent in some small island developing states. It has been severely disrupted by Covid-19.

CHAPTER 2

Chapter 2 provides a conceptual overview of the key features and characteristics of services trade and services trade policies in Africa. It highlights the following **KEY FINDINGS**:

- In 30 of 54 African countries, the services sector was an important driver of growth. In 30 of the 45 countries where services' share of output increased, manufacturing's share contracted.
- The services sector has been an important source of employment, accounting for 32.4 per cent, but the sector's predominant informality remains a structural impediment to employment growth across African economies.
- Services trade in Africa has an important gender dimension: women do not enjoy the same access as men to the full spectrum of services jobs and occupations.
- Although Africa's services sector has been growing faster than the world average, the continent remains a marginal player in value-added global services trade. And although services exports from African countries are increasing, the continent's role in the export and import of services is marginal.

- The RECs have made modest but ongoing and gradual progress in liberalizing regional services trade in line with the pan-African objective of promoting the free movement of goods, people, capital and services.
- Continental services trade has shown important developments as part of a wider AU agenda in realizing the goals of Agenda 2063, the African Economic Community, and the AfCFTA. The AfCFTA Protocol on Trade in Services represents an important services trade vision and a strategic framework for further negotiations.

The **KEY MESSAGES** that emerge from the chapter are as follows:

- The social and economic effects of the Covid-19 pandemic will undermine the envisaged progress in developing the services trade. Growth contracted to -3.4 per cent in 2020 as a direct consequence of the pandemic.
- Implementing the Trade in Services Protocol will be important for mitigating the pandemic's effects and creating a post-pandemic pro-growth recovery in the services trade environment. The negotiations based on the protocol must take into account digitalization and the mode 5 services trade embodied in exporting such goods as design, software and engineering.
- The negotiations for liberalizing services in priority sectors and beyond should remove the regulatory, institutional, and policy barriers and restrictions to unlock opportunities among African countries and regions.

Pertinent **RECOMMENDATIONS** include:

- The Protocol on Trade in Services, an important negotiating platform, should increase regulatory cooperation among African countries and RECs in a global context where value chains and complex production relationships have become highly significant.
- The growth and increasing importance of services trade in Africa should be recognized, the challenges of informality addressed and greater gender and social equity in services trade promoted since services account for much of African countries' GDP and employment and provide a major impulse for the continent's structural transformation.
- The increasing use of digital trade and e-commerce during the Covid-19 pandemic, showing the need to promote knowledge-intensive opportunities in Africa, should be channelled to enhance African countries' participation in regional and global value chains. Doing so will require building strategic linkages for developing and expanding digital economic activity at national, regional and continental levels.

CHAPTER 3

Chapter 3, "Impacts on Development of Services Trade Restrictions: The Case for Liberalization and Integration" provides the framework for the thematic section of ARIA X. It combines rigorous literature review, empirical analysis and a case study approach. It thoroughly explores evidence linking services trade restrictions to economic outcomes both directly and indirectly through the role of services trade in the efficient production of goods, as well as in some other services. The chapter also points to services' contribution to joining regional value chains (RVCs) and global value chains (GVCs) and upgrading integration into them. It also emphasizes the role and place of digitalization in the relationship between services and development.

The service sector, contributing about half of Africa's gross domestic product (GDP) and providing about a third of formal employment, is critical to sustainable and inclusive economic development. It contributes to the social sector in many ways—most importantly through the healthcare and education sectors. Although healthcare and education traditionally have been dominated by public provision, recent developments have shown the scope for private sector participation, especially in the framework of public–private partnerships. The service sector's greatest contribution to economic development appears indirectly through services embedded as components in other economic activities.

The service sector is equally important to achieving the SDGs, especially inclusive development, due to the composition and structure of services' employment and stakeholder groups. Digitalization allows micro, small and medium enterprises (MSMEs) and vulnerable groups to access and participate affordably in services trade.

The service sector's great potential in the continent's economic development is yet to be fully realized. Strengthening it by increasing its backward and forward linkages with the primary and secondary sectors and its linkage with trade can support a comprehensive development strategy for any country. Services trade is the new frontier for enhancing developing countries' participation in international trade. Optimal performance requires attention to factors in its small share in the global services trade to realize the latent complementarity between services trade and trade in goods. Similarly, an efficient service sector would boost the structural transformation of the continent since services promote the creation of regional value chains and integration into global value chains. For the sector to deliver, the barriers to services trade must be assessed.

Regulations are central to the optimal performance of services and services trade, ensuring that service markets work properly by remedying asymmetric information and market failure. Regulations usually target specific issues. Examples include financial sector regulations to ensure financial stability and protect customers' savings from excessive risk-taking by financial institutions, telecommunications regulations to ensure that there are enough telecommunication providers, tourism regulations to prevent environmental degradation from overuse of natural resources, and so on.

But regulations can become cumbersome and burdensome and impede socioeconomic development. These often unintended effects may require complementary policies, such as technology policy to promote services-driven digitalization. Similarly, infrastructure policy is central to transport services.

To optimize the benefits of liberalizing services trade requires tailored regulations incorporating various parameters, such as comparative advantage, the country's development goals and aspirations, the levels of development in other sectors of the economy and, more important, the nature and characteristics of services subsectors. Simply put, there is no-one-size-fits-all policy.

KEY MESSAGES from the analysis are as follows:

- Services industries enhance the performance of downstream economic activities and are thus essential to a strategy for promoting growth and reducing poverty.
- Services trade restriction index (STRI) related negatively to service exports in 2016. They particularly hindered financial service exports and transport service exports. That effect was more pronounced for transport services in 2016, it was greater for financial services in 2008.

- STRI also had a negative impact in 2016 on aggregate service imports. They dampened financial service imports in 2008, but not in 2016. Their effect on communication service imports was negative in 2016, and the negative effects outweighed the positive ones in 2008. They created a drag on transport service imports in both 2016 and 2008, with a greater effect in 2016.
- The role of RECs was small in STRI effects on service exports and imports at the aggregate and disaggregated levels. The effect of STRI across the RECs was higher in 2016 than in 2008.
- The STRI effect on growth was negative, suggesting that services trade restriction supresses economic growth.
- Digitalization promotes growth by bypassing services trade restrictions. Services trade serves as a growth catalyst in African countries.

Some **POLICY IMPLICATIONS** can be derived. First, because services trade restrictions largely dampen services trade among African countries, those countries must relax their services trade policies. Liberalizing services requires adjusting trade regulations, lowering barriers and promoting non-discriminatory measures in the AfCFTA. These steps will benefit services trade and improve productivity within the continent, boosting the financial, business, communication and transport services trade.

Second, the continent should take advantage of transport services by initiating trade policies to attract significant investments to the sector across the countries.

Third, the continent needs to leverage digitalization to fast-track the removal of services trade restrictions to enhance the effectiveness of information and communications technology (ICT) policy, which would improve development outcomes and increase productivity. Most services trade activities are not physical, so maximizing ICT connectivity to boost services trade across sectors is critical. Exploring these approaches will go a long way in boosting African services trade and overall development in the continent.

Finally, concerted efforts should be deployed to ensure that African countries fully participate in the global development of STRI.

CHAPTER 4

This chapter, "Intra-African Trade in Financial Services," presents the current state of international trade in financial services in Africa. Then the chapter explores the regulations that promote and hinder the cross-border financial services trade. It supports closer integration and cooperation between states to create a true pan-African financial service sector, as afforded by the bigger market space within the AfCFTA, and the growth of digital trade and fintech across the continent.

The financial service sector, a foundation for any economy's access to funds, serves as a platform for central banks to implement monetary policy, for governments to enact fiscal policies and for consumers to make payments. An inter-connected intra-African financial services sector could be the key to the economic development and overall integration of the continent, enhancing savings and financial inclusion and facilitating international trade in other sectors. Average financial system deposits as a percentage of GDP in Africa are a relatively low 35 per cent, compared with the world average (60 per cent) and the 2017 shares in Brazil (62.3 per cent), India (64.9 per cent) and China (54.7 per cent).

Regional integration offers significant benefits to financial service inclusion, including market efficiency, optimal utilization of infrastructure, common frameworks and standards and improved regional liquidity. Financial integration and cross-border banking could yield portfolio diversification and reduce risks, as innovations and increased efficiency emanate from regional financial centres. But regulatory conditions, payment systems, information management and functional financial service infrastructure are prerequisites to financial deepening in the AfCFTA to remove vulnerability and uphold stability and resilience in the financial landscape.

Most cross-border banking and financial service trade in Africa has internationalized but not globalized, regionalized but not integrated. These services operate only in a stand-alone fashion, have altogether failed to include the financially excluded and could not achieve the liquidity and financial deepening needed for the financial development of the continent. Despite such concerns for AfCFTA financial services trade, a financially diversified continent can promote the desired continent-wide integration, especially under well-synchronized regional and country-specific conditions.

The **KEY MESSAGES** are:

- The financial sector in Africa has witnessed a host of country- and REC-driven financial sector reforms, including financial market development, interest rate liberalization since the 1990s, a transition to open market operations, commercial bank reforms with an increased capital base to ensure solvency and strengthened financial market supervision and prudential guidelines. These steps have facilitated cross-border banking operations and borderless financial transactions, even as Africa's financial services activities continue to slowly evolve.
- The regulatory frameworks for trading financial services in Africa have limited harmonization, though they were instituted to promote and protect domestic and international financial sector transactions. This explains the existence of dissimilar trade policies regarding cross-border supply, consumption abroad, commercial presence and movement of natural persons, for both market access (entry laws) and national treatment.
- Many RECs do not have a common policy and regulatory framework to direct intra-Africa financial services trade, largely focusing on subregional trade integration and leaving financial issues for later.
- Financial service sector in many countries does not perform well on measures such as bank profitability, and depth of the financial system and the number of bank branches per capita. Intra-African financial service exports and imports, though relatively low, are improving. Most African countries must improve financial technology to ease banking operations, such as promoting electronic payments.
- Trade in financial services is constrained by domestic regulations, which increase costs and reduce participation.
- Reducing cross-border restrictions will improve total financial services trade, insurance services trade, and banking services trade considerably, while sustained digital innovation would fundamentally change the financial service industry.
- Improved regulatory quality can also increase digitalization. So, states should consider reducing trade restrictions and improving regulatory quality in financial services to boost financial services trade.

- Increasing banking services trade, insurance services trade and financial development can boost the economies of Central, North, East, Southern and West Africa. The channel for this is a rise in savings and investment, leading eventually to economic growth by improving access to financial services and the efficiency of financial intermediaries.

The **RECOMMENDATIONS** for regulating and facilitating intra-African trade in financial services include:

- Financial services trade should be boosted through a holistic review of domestic regulations to remove cross-border constraints that increase costs and reduce participation by financial services trade partners.
- The regulatory framework should consider significantly improving the depth of the financial system, streamlining regulations and encouraging banks to pursue regional organic growth across African markets to raise efficiency and competition.
- Fair and functional market access and national treatment financial services–related laws should be prioritized to allow more pan-African banks to emerge and grow in line with the AfCFTA agreement, which underscores the need for clear, transparent, predictable and mutually advantageous rules among state parties to govern investment, competition policy, intellectual property and trade in goods and services.
- African countries and RECs should view financial services trade as being as important as trade in goods and should fast-track the implementation of free trade areas to speedily approach monetary union. Before monetary union, domestic regulations can be positively tinkered with to generate almost similar gains through strong political will and meticulous planning and execution.
- Reform of domestic stock exchanges should precede integrating them through cross-border listing and sharing information and technology, progressing gradually to a single integrated African stock market.
- African countries need to better promote the use of fintech (electronic channels deployed to ease financial services) by not investing in it and exploring ways to cooperate with other regions in regulating its use in cross-border transactions in a way that encourages widespread acceptance.
- For financial services trade to boost African economic growth, African countries should reassess the licensing of financial institutions, posing economic needs tests to establish foreign banks, using banking services abroad, and restricting foreign ownership with a view to harnessing the intra-African financial services trade for the overall success of the AfCFTA.

CHAPTER 5

Chapter 5 focuses on liberalizing and regulating transport services trade. Liberalizing transport services will reduce the cost of transport, enhance connectivity, create jobs and boost the contribution of the sector to the GDP of African countries. The chapter presents the state of transport services in Africa, highlighting challenges and opportunities related to youth and gender, the condition of landlocked countries and emerging trends in transport. It discusses Covid-19 in the context of trade and transport facilitation in Africa. It makes the case for liberalizing transport services and explores progress in liberalization in the context of AfCFTA, highlighting key lessons from liberalizing air transport markets in Africa in the framework of the Yamoussoukro Decision (YD) and the Single African Air Transport Market (SAATM).

The success of the AfCFTA hinges on establishing an efficient, cost-effective transport services sector. Shipping goods and services at competitive prices will foster the growth of intra-African trade. In 2017, a third of the value of global trade in transport ($529 billion) related directly to the cost of shipping goods across economies, by sea or by air. Transport services are critical inputs to producing goods and providing sales and after-sales services. Logistics services are essential for the development and optimal functioning of regional value chains (RVCs) and global value chains (GVCs), both expanding over the past 30 years.

KEY MESSAGES of the chapter include:

- The transport services sector in Africa remains fragmented and expensive. The continent's road, rail and port networks are generally ill-adapted to its economic development aspirations.
- Of the 44 African Union member states that are World Trade Organization members, 17 have made commitments to expand investment in at least one mode of transport.
- The continent lacks effective and affordable air connectivity. Despite the strong determination to liberalize air transport services under the Yamoussoukro Decision and the SAATM, the AfCFTA Protocol on Trade in Services (like the WTO General Agreement on Trade in Services), excludes air traffic rights and services directly related to the exercise of air traffic rights. The protocol applies to measures affecting aircraft repair and maintenance services and selling and marketing air transport services.

The chapter's **RECOMMENDATIONS** are the following:

- The AUC, RECs, member states and other relevant stakeholders should strengthen weak regulatory and institutional frameworks for transport and trade facilitation at continental, regional and national levels by:
    - Strengthening the capacities of member states to enforce regional transport policies.
    - Addressing the fundamental issues facing the transport sector, such as the extent to which competitive markets in transport infrastructure and operations should be encouraged and the purpose and scale of regulatory and licensing controls through regulatory agencies.
    - Participating in transport and transit facilitation programmes.
    - Expediting the implementation of corridor agreements and applying transit facilitation instruments, such as facilitating the speedy processing of goods and harmonizing documents with trading partners.
- The AUC, RECs, member states and other relevant stakeholders should harmonize continental regulatory frameworks for the different modes of transport—road, rail, maritime and inland waterways—and establish bodies for monitoring and executing continental regulations. They should also develop tools for assessing the performance of governments and service providers in implementing continental regulations for the different modes of transport.
- The AUC and the AfCFTA Secretariat should work with the RECs and other relevant stakeholders to incorporate services of all modes of transport in AfCFTA by including their regulatory frameworks as annexes to the AfCFTA Protocol on Trade in Services.
- All AU member states should sign the Solemn Commitment to SAATM and fully implement its provisions.

- The AUC, RECs, AfDB, the African Union Development Agency¬–New Partnership for Africa's Development, development partners and other relevant stakeholders should facilitate the physical, economic and social integration of Africa in support of the AfCFTA by:
    - Accelerating the implementation of regional infrastructure projects in Africa, particularly Trans-African Highways, Programme for Infrastructure Development in Africa, and the AU's Agenda 2063 flagship projects.
    - Mobilizing public and private financing for regional infrastructure projects.
    - Involving the private sector in investment and the operation of infrastructure projects.
    - Addressing governance issues and creating an enabling regulatory environment for infrastructure investment.
    - Introducing regional or continental licensing procedures to facilitate the movement of people, goods and vehicles in Africa.
- African countries should ratify UN conventions on cross-border transport facilitation and improve cooperation between governmental authorities. They should:
    - Create consistent transit mechanisms and efficient border controls throughout the continent.
    - Support further digitalization of trade and customs procedures to make data exchange more efficient and enhance contactless customs clearance.
    - Take a risk-based approach to restoring air, inland and maritime connectivity with minimal restrictions.

CHAPTER 6

This chapter concerns the communication sector as a priority for the AfCFTA negotiations. It concisely surveys the sector and its core trends and issues and proposes a regulatory framework reform strategy so the AfCFTA can unleash the sector to become more vibrant and to enable other sectors dependent on it. The communication sector can thus motivate the continent toward digital societies and economies. The chapter highlights connectivity and the role of communication services in enhancing economic growth and transformation as countries pursue integration within the framework of the AfCFTA in the context of a digitalizing global economy. The chapter also analyses trade in communication services in Africa, its current regulation, and possible improved and harmonized regulation through the AfCFTA. The nexus of digital trade, digitalization and communication suggests ways to use the AfCFTA process to pursue a more integrated and affluent continent.

The single most important issue unleashing trade in communication services, plus the multiplier effects of communications for other trade sectors, is to develop or update the regulatory frameworks for inter-relationships between industry and government. Those frameworks are primarily national but also need regional harmonization among member states as steps towards a continent-wide free trade area. The chapter sets out core principles for both the overall sector and specific subsectors, such as telecommunications and broadcasting. It notes incompletely addressed areas for regulatory harmonization, such as foreign ownership restrictions (common in broadcast and also present in telecommunications) and content quotas and restrictions based on distinguishing national and foreign origin. To widen the space for intra-African investment and trade, AfCFTA states should recognize an additional category: African but not national.

The AfCFTA process has proceeded amid the Covid-19 pandemic, which has affected everyone's lives on the continent and upended business and economic activity. The emergency highlights the need for reliable and affordable communications—the lifeblood of economic activity for countries under pandemic-related restrictions—and has in fact led to the sector's growth despite a general recession. If the AfCFTA succeeds in creating a more vibrant, continent-wide market for communication services, trade and economic activity will increase in many other sectors and promote much-needed poverty alleviation and social development.

The next steps in realizing the AfCFTA concern "market access requests" to participating states. Policy makers, in addition to considering the regulatory framework principles set out in this chapter, should take flanking measures to guide states in creating market and regulatory environments consonant with the AfCFTA's goals and inviting foreign and intra-African investment and trade in communication services. Those measures include:

- Regulatory audits sufficiently detailed and thorough to provide a baseline for AfCFTA states in analysing the extent required for legal and regulatory reforms to reach a framework for harmonized good practice. That analysis might also consider the varying transitional periods before AfCFTA states could implement sectoral commitments.
- Sectoral training of high-level negotiators and sectoral technical experts from the AfCFTA states in the remaining six-months before business proposals have to be made to AfCFTA state officials.

CHAPTER 7

Chapter 7 concerns tourism. It empirically establishes strategic, regulatory and policy-related interventions to facilitate intra-African tourism in the context of the AfCFTA services trade liberalization agenda. Tourism has become a priority service sector across the African continent with potential to advance the continent's economic diversity and resilience. It includes tangible components, such as transport systems and hospitality services (accommodation, food and beverage, tours and souvenirs, and so on) and intangible components, such as culture, escape, adventure and rest and relaxation. With a strong pan-African orientation, the Agenda 2063 approach to developing tourism focused on its largely untapped internal potential in terms of products and markets. The agenda envisages the tourism industry's contribution to GDP increasing five-fold by 2063.

Over the past 10 years, new tourist destinations have recorded the highest growth rates—such as Lesotho, São Tomé and Príncipe, and Togo—while the destinations with slowest average growth have been South Africa (0.9 per cent annually), Egypt (1.3 per cent), Mauritius (1.8 per cent) and Nigeria (1.9 per cent).

As an export-oriented sector, tourism is an important source of foreign exchange earnings and a positive contributor to the balance of payments for several countries. It attracts six per cent of total investment to the continent, presenting immense opportunities to global hotel chains.

Investment in tourism, a labour-intensive industry, generates about 40 per cent more employment than a similar investment in the agricultural sector and 50 per cent more than an investment in mining. It has a multiplier factor, generating indirect employment 3.2 times that generated by the education, communication or financial services sector. Its average growth rate has been four per cent over the past two decades for both direct and total employment.

The chapter's other **KEY MESSAGES** are:

- The tourism industry is a major source of direct, indirect and induced employment in the continent, in particular of women, who are more than 65 per cent of employees.
- Africa's share of global tourism is small (just 1.9 per cent) and is projected to remain so, despite great potential. The current pace of tourism development in Africa is also not on par with the rest of world's.
- Average spending per tourist in Africa ($626) is lower than the global average (more than $1,000), showing the underdevelopment of the industry in availability of activities that encourage spending.
- Africa has a narrow range of tourism products, which are somewhat homogenous across the continent—mainly safari and coastal resources, though African cities are to be considered as potential growth opportunities.
- Intra-Africa tourism is below the global norm for regional tourism—80 per cent of global tourism is regional, but 48 per cent is regional in Africa. This could reflect the ease of movement of persons, goods and services, the cost of travel and the nature of tourism products.
- Nurturing intra-Africa tourism could boost intra-Africa trade. In general, the higher the tourist traffic between two countries in the same region, the higher the proportion of trade. So, investing in the tourism industry could be an avenue for pursuing the AfCFTA's goals.
- Africa harbours a huge untapped tourist market. Sustained economic growth and development in Africa over the past few decades have yielded a growing middle class with increased disposable incomes. That market is currently estimated at more than 300 million Africans—a great opportunity for the tourism industry.
- Participation of AfCFTA states in global tourism value chains is low, while regional tourism value chains are mostly weak. Due to issues related to underdeveloped economies, the participation of African countries in global tourism value chains has been minimal. So, especially given the low level of intra-Africa trade, regional tourism value chains are also almost non-existent.
- Adoption of ICT could boost intra-Africa tourism. The widespread heavy investment in ICT infrastructure across the continent, rapid growth of internet penetration and massive rise in mobile and smart phone ownership provide opportunities for tourism suppliers to tap into the emerging African tourist market.

The chapter **RECOMMENDS THE FOLLOWING**:

- Develop tourism products suitable for the African tourist market. Given the homogeneity of the extant tourism products, developing products with a continental appeal is urgent. The continent has enough natural and cultural resources to support a reorientation of existing approaches.
- Formulate a continental tourism marketing strategy. Along with tourism product development and the recommendations of the African Strategic Tourism Framework, a continental marketing strategy targeting the African tourist market should be formulated.
- Address the dearth of human capital in the tourism industry. A general lack of skills and knowledge is a major challenge facing the tourism industry in Africa, so building human capital will be key to ensuring its competitiveness. A continental approach is recommended to identify existing centres of excellence and, if necessary, establish additional ones.

- Establish tourism standards to ensure the quality of tourism products across the continent. Guaranteeing value for money should be emphasized to enhance the continent's price-competitiveness. Regional efforts by RECs such as EAC and SADC in establishing classification criteria for accommodation facilities could be scaled up to the continental level.
- Foster research to inform tourism development. In other sectors, such as agriculture, where appreciable investments in research have led to, say, the development of new plant varieties suitable for given types of environments. But the tourism industry in Africa has benefitted from little tourism, producing little innovation. Tourism data are also limited, making it difficult to ascertain the level of investments required to realise the industry's full potential. To address the data issues, construction of a continental tourism satellite account will be necessary to measure the economic contributions of tourism consumption to the economy.
- Establish a continental tourism crisis management framework. The tourism industry has faced the global financial crisis, the Ebola outbreak and the Covid-19 pandemic, so it should be anticipated that there will be other crises in future.
- Encourage full implementation of continental tourism-related policies and protocols. Several continental instruments, directly and indirectly relevant to the tourism industry, could boost intra-Africa tourism if fully implemented.
- Establish a continental coordinating mechanism, which the foregoing policy recommendations will require. Establishment of an African Tourism Organisation should be prioritised. The lack of clear continental leadership during the Covid-19 pandemic indicates the urgency of the need for such an organization.

CHAPTER 8

The chapter reviews the business service sector in Africa and examines the regulatory frameworks facilitating and constraining the trade in business services. From the perspective of countries and RECs, it evaluates the restriction of business services trade in selected countries, its effect on trade composition, and the impact of the regulatory, institutional and trade policy environment on trade in business services and business service subsectors. The chapter focuses on facilitating business services trade, challenges faced by African countries and best practices in the services policy framework, using country and firm examples.

The importance and role of the business services sector cannot be overemphasized. Globally, the business services market was estimated at $5.7 trillion in 2018, having grown 7.4 percent a year since 2014. With growth projected to be by 13.6 percent anually over the next decade, the sector is one of the top three sectors that received foreign direct investment, including real estate and software and information technology services. In Africa, the business services market is projected to grow 13.1 percent annually. Rising demand for professionals and expertise in law, accounting, engineering, and business consultancy has boosted the cross-border activity by many business service firms, with about 16 percent already engaged in exports.

The **KEY MESSAGES** of the chapter include:

- Regulatory heterogeneity, a limited capacity to train professionals and inflexible immigration rules have contributed to the under-development of the business service sector in Africa, despite significant government and policy efforts directed towards the sector at the country and regional levels.

- African countries have different business services trade policies due to varied policy direction and strategic visioning of sector development. This also creates differences among the RECs, some of which do not have common protocols for business services while their member states have distinctive trade policy frameworks.
- Inequalities such as gender gaps exist in business services, especially among media professionals, despite easier access to demographic-specific media contents related to gender, religion and ethnicity for targeted audiences.
- Most African countries are net importers of business services. The exceptions are Ghana, Lesotho, Mauritius, Morocco and Tunisia. The five largest importers of business services in Africa are Algeria, Egypt, Morocco, Nigeria and South Africa, while the five largest exporters of business services are Algeria, Egypt, Ghana, Morocco and South Africa.
- Computer and engineering services represent a significant part of business service exports and imports in virtually all African countries, including Egypt, Morocco and South Africa, where computer services are also a significant part of business service exports. Legal services are also important exports in Egypt, accounting services in Lesotho and advertising services in Algeria.
- A positive correlation between business services trade (exports and imports) appears in selected African countries. Business service exports and imports in higher- and middle-income countries are more heterogeneous. Algeria, Egypt, Lesotho, Mauritius, Morocco and South Africa have higher exports, while Algeria, Congo, Egypt, Ghana, Morocco, Nigeria and South Africa have above-average imports. Many countries in Africa have low business service imports and exports relative to their level of development.
- Some business services trade are more important in contributing to development than others that do not correlate equally with development. Legal, accounting and advertising trade, and research and development services trade appear less important as a country's income level rises. But architectural, computer and engineering services trade are positively correlated with development.
- In 2016, Egypt, Kenya and South Africa reduced their overall business services trade restrictiveness. Restrictions on business services trade reduced in South Africa by about 14 points on the Services Trade Restrictiveness Index, compared with 2.4 points in Kenya and 1.5 points in Egypt, representing reductions of 22 per cent in South Africa, 3 per cent in Kenya and 2 per cent in Egypt. Tunisia's restrictions increased by 3.7 points in 2016, or 5 per cent higher than in 2008, while Nigeria's restriction index score in business services trade widened by 24.1 points in 2016, or 67 per cent than in 2008, being one of the most highly restrictive countries in business services trade.
- Egypt, Kenya and South Africa stand out as countries that have reduced restrictions associated with accounting services in their countries. In Nigeria and Tunisia, accounting services face higher restrictions. High levels of trade restrictions reduce the ability of firms in countries with higher scores to engage in productive services.
- The trade policy environment in Africa as measured by the service trade restriction index has a significant negative effect on overall business services trade and on five of its subsectors—computer, architectural, engineering, marketing and advertising, and research and development services.
- Services trade restrictions significantly reduce cross-border movement of natural persons working in computer, advertising, engineering, architectural, legal and accounting, and research and development services

- Digital adoption has significant and positive impact on legal and accounting services for mode 1 supply (cross-border trade) and advertising service for mode 4 supply (temporary movement of natural persons).
- Trading total business services, computer services, engineering services, legal and accounting services, and architectural services have significant positive effects on the African continental economy.

Some policy **RECOMMENDATIONS** are:

- African governments should endeavour to remove regulatory heterogeneity, increase capacity to train professionals and render immigration rules flexible to develop the business service sector at country and regional levels. The AfCFTA services trade negotiations should ensure harmonization, synchronization and cooperation in services regulatory frameworks especially in those subsectors considered priorities by the Heads of State.
- Although country heterogeneity, varied policy trajectory and diverse visioning of strategic sector development might limit the vision to harmonize regulations in Africa, the need to speed integration in the continent should be an impetus to African governments. They should embark on rules harmonization to ensure a coherent and consistent business services trade policy framework. They should pursue a balance between liberalization and public service/public goods, especially in the areas of health, water and sanitation. Lessons should be drawn from the Covid-19 experience with respect to capacities, infrastructure and the need to encourage investments in these critical sectors, especially to provide access, while also recognizing the public goods role they play.
- A peer-learning framework for business services trade should be constructed in areas where some African countries already have significant exports, such as advertising, legal and accounting, and computer and engineering services. A similar approach should be adopted in business services important to development such as architectural, computer and engineering services—in which trade was positively correlated with development. Advertising, legal and accounting, and research and development trade appear less important to African development but should be analysed to learn lessons how they contribute.
- Some countries, such as Egypt, Kenya and South Africa, have reduced overall business services trade restrictions. Other countries such as Tunisia and Nigeria should learn how reduced restrictions can contribute to development. The services trade restriction index has a significant negative correlation with development for business services trade overall and five subsectors (computer, architectural, engineering, research and development, and advertising and marketing services) and for cross border supply mode and the movement of natural persons.
- African governments should improve trade in health services among themselves through export promotion strategies in such areas as attracting foreign patients, providing high-quality health services at competitive prices, cultivating direct foreign investment in the country's health sector, sending health personnel abroad on short-term remunerated work, providing quality medical education to foreign students at specialized clinics, and conscious investment in health system infrastructure such as clinics, laboratories, biotechnology research, telemedicine technology and health information services. African governments should also provide social security, especially for the less privileged, and create gainful employment for the middle-class to ensure that they could afford, at least, minimal health care services and healthy living.
- For best practice in business services trade in advertisement and media communication, quality media training and literacy framework should be established to seek maximum bene-

fits in digital communication. African governments should enhance their oversight of internet service providers to ensure the affordability of infrastructure and data subscription to remove barriers to internet access. Net neutrality needs to be adopted to eliminate inequalities in digital communication.

CHAPTER 9

The past few years have seen increased interest across the world in global value chains. Several countries and regions have made considerable efforts to integrate into GVCs to increase the capacity of their economies. GVC integration enables economies to concentrate their assets on activities where they have a competitive edge without having to construct an entire supply chain. Firms achieve this by purchasing intermediate goods from various nations, which they add value to and then re-export or sell to domestic markets.

Upgrading to GVCs cannot be effective without liberalizing trade in services. Chapter 9, to support the successful implementation of the AfCFTA, advocates such liberalization. Using the mining sector, which has engaged in efforts to integrate into GVCs, but faced numerous challenges in doing so, it analyses value chain efforts by African RECs, such as harmonizing their national policies, laws, and regulations and developing common standards to create a uniform business environment for investors. The chapter also discusses the need to implement the AfCFTA efficiently and to create credible databases on services and to improve both government and private sector capacity in negotiating the liberalization of services, establishing regulatory structures and regulating services.

The AfCFTA Protocol on Trade in Services can support the deployment of ICT through state party schedules of specific commitments. AfCFTA states will have to develop regulatory frameworks to facilitate cooperation and coordination across sectors and to reduce the digital divide. Thus, certain guiding policies need to be formulated on the following: investment, infrastructure, entrepreneurship, local firm development, workforce development, GVC-oriented trade, industry institutionalization and liberalization of services trade. If these policies are harmonized across the AfCFTA state parties, there will be hope for creating successful and effective value chains. African countries must invest in strengthening these capacities locally, regionally, and internationally to facilitate implementation of the AfCFTA. Some **KEY MESSAGES** from the analysis are:

- Although a new trade agreement does not guarantee trade, it enhances the incentives to make trade more attractive. The AfCFTA has the potential to address many of the challenges bedevilling intra-African trade. A successful AfCFTA will bring such benefits as structures for harmonization, rationalized rules and procedures, and certainty and predictability for private sector participation in cross-border commerce and investment. In most cases, deeper integration will bring tangible benefits in the form of stability and economic growth.
- Trade in services has considerable potential to benefit all stakeholders on the continent. Service liberalization in Africa ought to be pursued proactively, since the service sector provides immense potential for the growth of the continent's economy. But the continent must transition from relying on subsistence and non-tradable resources to producing goods with added value that bring growth. This requires implementing efficient regional value chains in identified sectors—that will propel the continent to higher development.

Some policy **RECOMMENDATIONS** are:

- Because conventional trade statistics are inadequate to explain the role of services in value chains, a mixture of techniques could be useful in evaluating them, both value chains that specialize in service delivery and those that use services as intermediate inputs. The techniques include qualitative approaches, analyses of comparative advantage and net value-added by trade, input-output (I/O) analyses, and harmonized input-output tables of different countries.
- Development of GVCs must be complemented with services liberalization. Therefore, liberalization of trade in services is required to facilitate the development of value chains and boost the capacity of key stakeholders across the continent.
- Processes should be integrated with technologies to refine current systems, build new market possibilities and change supply chains and the geography of trade. To create more resilient and versatile value chains, the best mix of technologies, resources, people and solutions is vital when businesses revisit their strategies to boost end-to-end visibility, resilience and productivity in the supply chain.
- AfCFTA state parties will have to develop regulatory frameworks to not only facilitate cooperation and coordination across sectors, but also formulate regulations to resolve issues raised by the digital divide.
- African countries have made several efforts to join GVCs, but challenges have made those value chains ineffective. Solving the challenges depends on national and regional public policies dedicated to this goal. They must support skilled human capital; high quality, competitive logistics and telecommunications; cost-effective transport infrastructure; a conducive business environment and proper protection of intellectual property. RECs could play a leading role in solving bottlenecks in financial, transport, communication, distribution and energy service infrastructure that restrict value chain capacity.
- AfCFTA should ensure the harmonization of policies across the region and coordination across all levels of governance to solve the challenges of service liberalization in RECs.
- Integration should involve all stakeholders at national, regional and continental levels in a collaboration to empower subregional or regional institutions, strengthen the capacity of national regulators, promote coordination and the exchange of information and draw support from intergovernmental and other regional institutions.
- The AfCFTA, African Union and REC member states should use working teams, multi-stakeholder dialogue mechanisms and inter-ministerial and legislative cooperation committees to create cohesion across critical agencies. Those agencies support services and share responsibility with national bodies for liaison and cooperation with such local institutions as civil society, domestic regulators, private sector representatives and academia and think tank representatives. The mechanisms and committees should start early and be integrated into the entire process of policy implementation, monitoring and evaluation.
- To construct effective GVCs, Chapter 9 proposes consolidating three approaches that have dominated the practical formulation of GVCs:
    - Liberalizing trade in goods and services and promoting foreign direct investment (under the sponsorship of various multilateral organizations) as a way to connect with multinational enterprises.

- Using the GVC framework to examine how vulnerable and disadvantaged actors in African countries such as women and minority groups can secure entry into the value chains (for example, through promotion by development agencies).
- Taking a comprehensive global–local approach based on governance and upgrading—the core concepts of value chain theory. This is achieved by drawing on both global and local considerations, analysing the current role of developing countries, including African countries, in GVCs and identifying factors that enable them to compete in these chains.

- These approaches are not inflexible. Differences in such factors as product, type of service, firm characteristics and country characteristics prevent recommending a one-size-fits-all solution to GVC policies. But guiding policies to support GVCs need to be formulated, including:
  - GVC-oriented trade policy.
  - Investment policy.
  - Trade policy.
  - Local firm development and entrepreneurship policies.
  - Workforce development policies.
  - Infrastructure policy
  - Industry institutionalization policy.
- Enhancing the capacities of state and non-state actors, especially those negotiating and implementing services trade agreements, is crucial. To do so requires strengthening the leadership capacities at the AfCFTA Secretariat, African Union Commission and RECs through immersion in strategic vision development and change management.
- African countries also need to ensure the following:
  - Investing in enhancing competencies in civil services—specifically, strengthening capabilities, processes and systems in policy organs such as finance, economic planning, trade negotiation and implementation.
  - Creating dedicated budgets for capacity development in the services trade sectors for long-term gains in Africa's trade and development.
  - Establishing measures for building social capital and strengthening services trade networks for transformative leadership that embrace political leaders, top public sector managers, civil society organizations, trade unions, business associations, professional standards organizations, academic and research institutions and think tanks.
  - Developing initiatives to enhance the skills of women and youth through inclusive capacity building exercises.

ROAD-MAP/GUIDE TO ARIA X

Services play an increasingly important role in shaping countries' economic performance and overall development. They make a major contribution to gross domestic product (GDP)—53 percent of Africa's GDP in 2017—and to trade, employment, poverty reduction and even foreign direct investment (FDI). A strong and efficient service sector is a key precursor to manufacturing competitiveness and realizing latent comparative advantage in producing goods. Trade in services enables goods and service exports. Transport, financial services, and information and communication services are key contributors to the ease of doing business and trading across borders. Access to low-cost, high-quality services provides countries opportunities to integrate and to participate in local, regional and global value chains. It thus enhances their prospects of achieving structural transformation.

Despite various efforts at different levels—the General Agreement on Trade in Services under the World Trade Organization, service-specific and trade-related targets under the United Nations Sustainable Development Goals and various continental and regional initiatives, including the African Union's Boosting Intra-African Trade and Single African Air Transport Market, among others—the performance of Africa's services sector remains below its potential. The sector continues to face such challenges as capacity constraints; poor infrastructure; a lack of good policies, strong institutions and appropriately enabled regulatory frameworks; and low awareness within governments and the private sector about the potential of trade in services. Unlocking the potential of services trade requires that its potential be understood and its capacity to contribute to expanded production and economic growth be better appreciated and supported in African policy-making processes at all levels.

The need to harmonize and integrate efforts cannot be overemphasized. The signing of the African Continental Free Trade Area (AfCFTA) agreement and the beginning of trade under it on 1 January 2021 provide a platform for liberalizing and integrating Africa's services trade. Given the complexity of the service sector, the African Union (AU) Assembly, at its July 2018 summit, approved five priority service sectors—transport, communications, financial services, tourism and business services—for a first round of negotiations, and specific offers concerning those sectors are being prepared by AU member states.

Assessing Regional Integration in Africa X (ARIA X) therefore focuses on issues in Africa's services trade liberalization and integration in the context of the AfCFTA. It builds on earlier related works to deepen our understanding and appreciation of the critical roles of services—especially in the digital era—in trade, production and the economy in Africa. The report critically analyses approaches to liberalizing trade in services and to regional regulatory cooperation that have the most potential to support Africa's development, including through enhancing intra-African trade in services. The establishment of regional value chains to enable more effective integration into global value chains and greater competitiveness in the services sector's digitalizing global economy are of prime concern.

ARIA X report has ten chapters organised under three main sections. The first is the introductory and conceptual section, comprising of a traditional chapter that tracks progress and trends in regional integration on the continent since the last edition, ARIA IX (chapter 1); a chapter that surveys services trade and services trade policies in Africa, as well as highlights the difficulties in capturing services trade data on the continent and in strengthening discussion on various approaches to services trade policies (chapter 2); and a transitional chapter that reviews insights from literature on the impacts of services trade restrictions on development, examines both direct evidence linking services trade restrictions to economic outcomes and indirect evidence on costs of expensive service inputs and how they affect development. It uses quantitative analyses complemented with case studies to gauge these impact and makes a case for greater services trade liberalization and integration. This chapter sets the tone/provides a framework for the thematic section of the report (chapter 3). The second is the thematic section, which focuses on analysing liberalisation and regulation in five priority sectors in the AfCFTA agreement, namely; financial services, transport services, communication services, tourism, and business services.

Cross-border financial services trade is the focus of Chapter 4. It presents the current state of international trade in financial services in Africa, explores regulations that promote or hinder cross-border financial services trade and presents examples from other states, including some outside the continent, that have successfully integrated their financial service sectors within their respective regions. Overcoming the challenges of illicit fund transfers, as afforded by the bigger market space within the AfCFTA and the growth of digital trade and fintech across the continent, boosts the case for closer integration and cooperation between states to create a pan-African financial services sector.

Chapter 5 on transport services trade begins by reviewing literature on frameworks for regulating and facilitating that trade and presenting major challenges and opportunities. The chapter deploys case studies to show how transport and transit facilitation within Africa's regional groupings, especially air transport liberalization, has influenced international trade in goods in Africa. It examines the impact of the Yamoussoukro Decision—Africa's open skies treaty—on regulation of competition, consumer protection and dispute settlement. Regulatory reforms in road and rail transport in Africa, particularly cross-border rail services, are also examined.

For a concise overview of the communications sector as understood in the AfCFTA context, Chapter 6 sketches core developments, particularly developments in policy and legal/regulatory liberalization. It argues for the importance of general good practice regulatory framework principles for liberalization, rather than service-specific commitments. The chapter singles out the development or update needed in regulatory frameworks for the inter-relationships between industry and governments—primarily at the state (national) level but also as a harmonization at the regional level among member states as steps towards a continent-wide free trade area.

The focus of Chapter 7 is how to encourage intra-African tourism, indicating the sector's importance in Africa. It presents a quantitative analysis of the determinants of intra-African tourism, including a review of the literature on its potential benefits. The chapter suggests how the ongoing formulation of the Continental Tourism Strategy and the establishment of the African Tourism Organization can be aligned with the AfCFTA Protocol on Trade in Services to ensure that the AfCFTA agreement speaks to the specific realities of African people.

For trade in business services, Chapter 8 examines the regulatory and facilitating frameworks in the business services sector. It reviews the state of the business service sector in Africa and analyses how regulations can support the mutual recognition of professional qualifications or mutual recognition of regulatory compliance for professional service providers.

The **third** section discusses the development of services value chains and building of both public and private sector capacities, including in the negotiation of services trade liberalisation, as well as the establishment and effective implementation of regulatory structures and frameworks for the AfCFTA (chapter 9). The section also has a chapter on the overall conclusion and recommendations (chapter 10).

Chapter 9 first draws together the analyses of Chapters 4 through 8 to map out channels for the developing regional value chains. It argues the case for liberalizing through tariff schedules and regulatory frameworks. The chapter discusses measuring and quantifying service value chains and addresses the linkages and inter-dependence between service sectors. A review of regional economic community (REC) services value chain efforts and initiatives, including the linkages that RECs have attempted to establish between the service sector and their industrialization strategies, and offers lessons for effective and profitable service sector liberalization within the AfCFTA.

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CHAPTER 1
The Status of Regional Integration in Africa

Regional integration, a key priority for Africa, aims to transform and accelerate the integration of the continent's fragmented small economies so they can reap the benefits of economies of scale for production and trade. Integration is an important channel for equitable economic growth and development as outlined in the Abuja Treaty establishing the African Economic Community (1991) and the Constitutive Act of the African Union (2000). The Abuja Treaty, adopted and signed by African Heads of State and Government, stipulates the guiding principles and a path leading to continental unity.

The implementation of the regional integration agenda, including the recently launched African Continental Free Trade Area (AfCFTA), has been supported by Africa's regional economic communities (RECs). They are the pillars and building blocks for establishing the African Economic Community—just as REC free trade areas are the building blocks of the AfCFTA.

Regional and continental integration have made progress, but challenges persist. They include inadequate financial resources; poor infrastructure networks; a lack of appropriate mechanisms tracking progress; and limited implementation of policies and agreements on regional integration. Properly tracking the progress of integration is critical for African governments, regional organizations and other stakeholders to shape and implement policies to attain integration objectives. In response, Pan-African institutions have developed and rolled out several integration monitoring frameworks and tools, including the *Assessing Regional Integration in Africa* report *(ARIA)*, African Regional Integration Index (ARII), Africa Visa Openness Index, and African Continental Free Trade Area Country Business Index (ACBI).

This chapter appraises progress in key dimensions of integration at continental, regional and country levels. It starts with a review of progress in productive integration, followed by an examination of developments in infrastructure and energy, regional and national trends in macroeconomic integration; governance, peace and security trends on the continent, progress in trade integration, the free movement of persons in RECs and AU member states, and social integration. Finally, the chapter briefly explores REC efforts at services trade liberalization as a prelude to more detailed analysis in the following chapters.

PRODUCTIVE INTEGRATION IN RECs AND AT THE CONTINENTAL LEVEL

Productive integration is the extent to which a country has productive capacities complementary to those in other countries in its region so that it can specialize in the production stages in which it has a comparative advantage and so benefit from economies of scale (ECA, AfDB and AUC, 2019). Productive integration entails the country's involvement in regional supply and value chains.

The productive integration dimension of ARII uses three indicators to evaluate a country's involvement in regional supply and value chains. The first is the share of intra-regional intermediate exports—the country's exports of intermediate (semi-finished) goods to the region as a percentage of all the country's exports of goods to the region. The second is the share of intra-regional intermediate imports—the country's imports of intermediate (semi-finished) goods from the region as a percentage of all the country's imports of goods from the region. The third is the merchandise trade complementarity index, which compares a country's export profile to the export profile of the region.

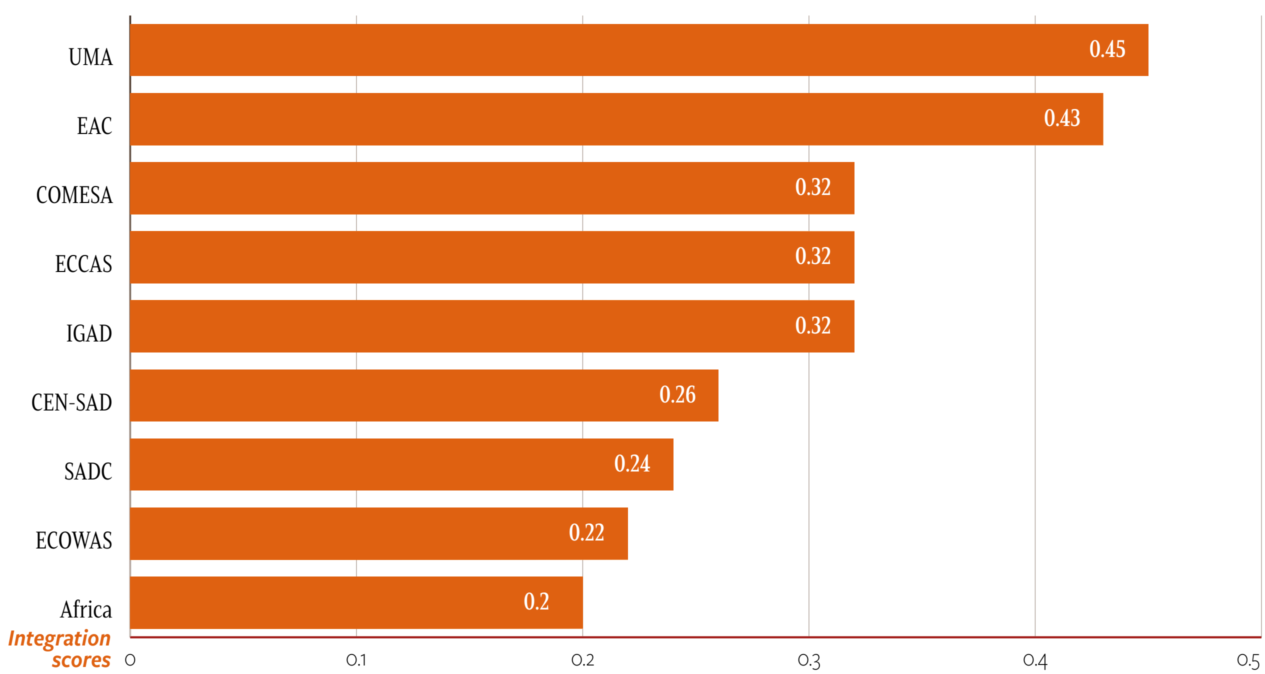
African countries' average score for productive integration on ARII is only 0.20 of 1.0, with 33 countries scoring below the average. All the RECs scores for productive integration are above the continental average, with the Economic Community of West African States (ECOWAS) lowest at 0.22 and the Arab Maghreb Union (AMU) highest at 0.44, respectively, representing the lowest and highest regional scores respectively (**FIGURE 1.1**). This finding implies that production is not evenly dispersed across the continent and that countries are not reaping the benefits of their comparative advantage. This could be due in part to poor or non-existent logistics.

South Africa is the continent's leader in productive integration (scoring 1 on the ARII), followed by Nigeria (0.36) and Angola (0.34) (**FIGURE 1.2**). At the bottom are Congo (scoring 0.05 on ARII), Lesotho (0.05) and Ethiopia (0.07). The crippling effects of Covid-19 strengthens the case for Africa to leverage the opportunities of economies of scale created by the continent-wide AfCFTA market space to move towards enhanced production of African finished goods and services that can readily be traded across the continent and beyond. To improve the production dimension of African integration, the 2019 ARII recommends building innovative, regional value-chain frameworks in different sectors using improved technology, higher-quality inputs and updated marketing techniques. For African countries to improve on their productive integration, the role of services and services trade in supply chains, regional value chains and global value chains is critical.

Productive integration, services trade and regional/global value chains

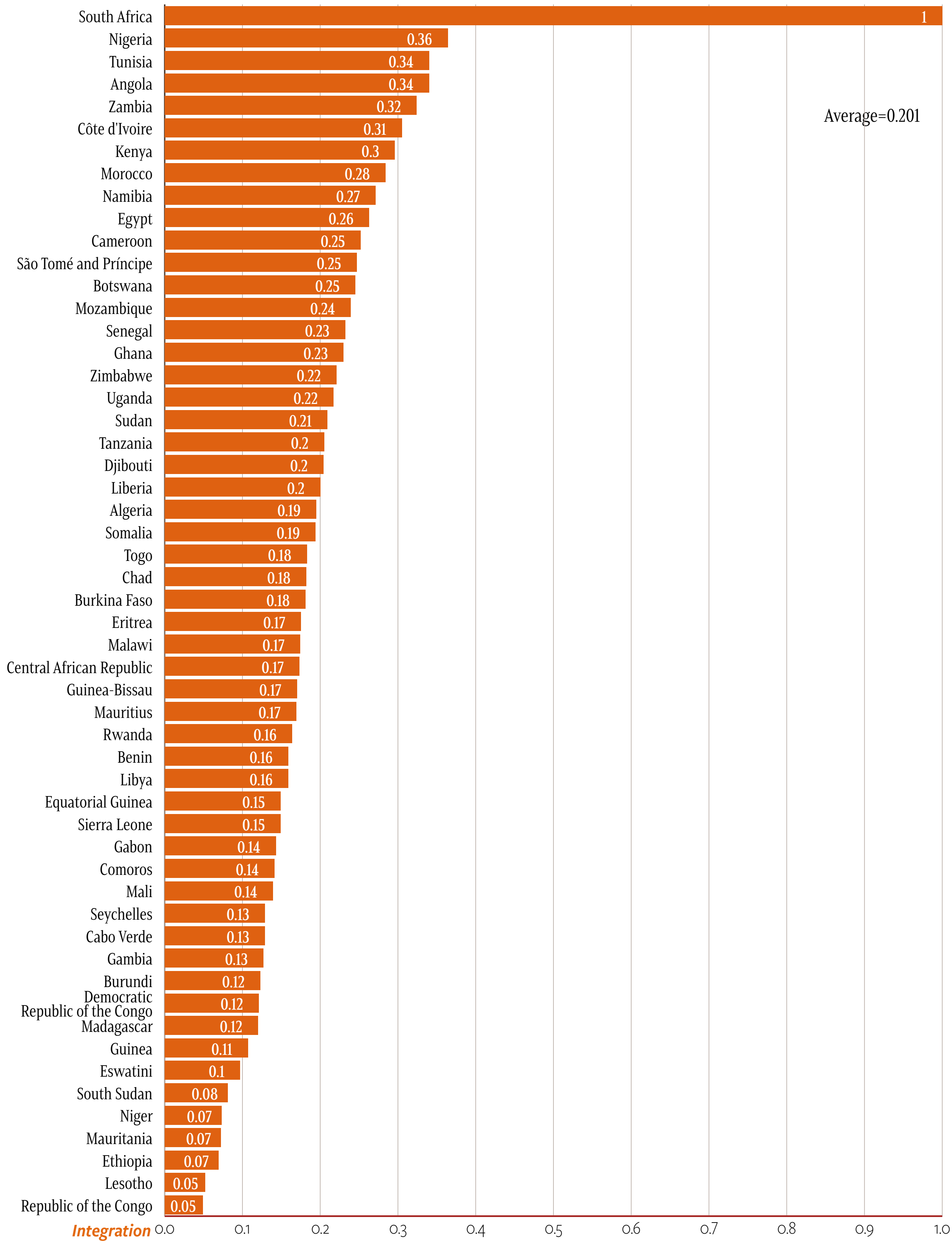
There is much on-going debate concerning services and regional (R/GVCs) and global value chains (GVCs), particularly the critical role of services in GVCs. Services are crucial in the transformation of international trade and investment patterns. Nearly 65 per cent of global trade consists of trade in services and intermediate goods are incorporated at various stages into the production of goods and services for final consumption. The importance of services in GVCs goes beyond their large share of value added. Service linkages are necessary to coordinate dispersed production blocks through transportation, telecommunication, and such producer services as business and financial services. Despite its key role in production, the role of services in GVCs is often poorly understood and underappreciated, especially in Africa.

FIGURE 1.1 PRODUCTIVE INTEGRATION SCORES BY REC



Source: Based on the 2019 Africa Regional Integration Index.

FIGURE 1.2 **PRODUCTIVE INTEGRATION SCORES BY COUNTRY**



Source: Based on the 2019 Africa Regional Integration Index.

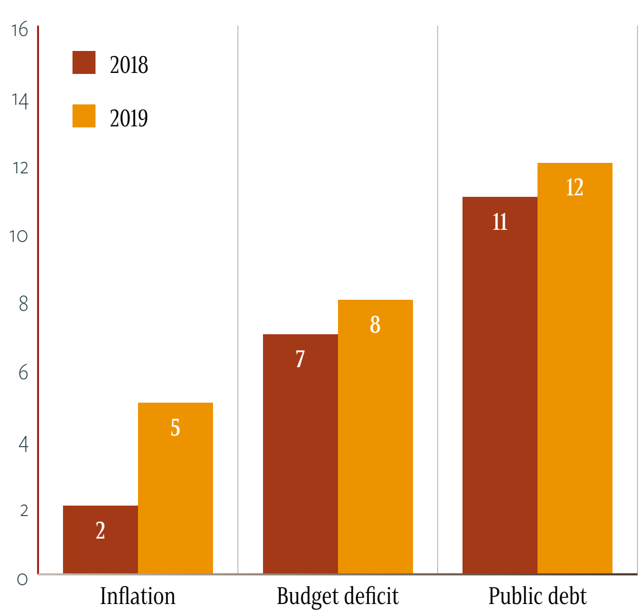
Well-functioning logistics are necessary for regional supply chains. African countries need urgently to improve their productive capacities by better coordinating pan-African trade and investment policies and fostering better cooperation between public and private sector stakeholders. The AfCFTA provides a mechanism to foster productive integration and to transform African economies. Defragmenting Africa under the AfCFTA aims to boost competitiveness and integrate African economies into the regional and global economy. That could happen if the AfCFTA agreement begets a more dynamic trade and economic environment that expands manufacturing bases and sustains the growth of agro-processing industries fit for value chain integration.

MACROECONOMIC CONVERGENCE AND INTEGRATION

In macroeconomic convergence, countries seek to reduce the differences between their monetary and fiscal policies. It is an essential step in achieving regional integration that can promote intra-regional trade, enhance regional macroeconomic stability and advance greater public accountability. With many RECs in Africa hoping to establish or enhance monetary union, macroeconomic convergence is essential for a long-term successful common currency to further reduce costs of intra-regional trade in both goods and services. While increased openness and trade liberalization will help countries achieve convergence (Nawaz Hakro and Fida, 2009), fiscal policy also helps countries to catch up and narrow pricing disparities and differences in purchasing power.

At present, five of the eight AU-recognized RECs (ECOWAS; the East African Community, or EAC; the Economic Community of Central African States, or ECCAS; the Common Market for Eastern and Southern Africa, or COMESA; and the Southern Africa Development Community, or SADC) have macroeconomic convergence criteria. Within three are smaller monetary unions—the Central African Economic and Monetary Community in the ECCAS; the West African Economic and Monetary Union in the ECOWAS and the Common *Monetary Area* in the SADC. The convergence criteria largely consist of inflation targets and fiscal deficit, public debt and current account deficit ceilings. Some RECs also have secondary convergence criteria to promote greater fiscal accountability and foreign exchange stability. Each REC encounters peculiar challenges in achieving its own criteria—some governments run regular trade deficits, while others have less room to set fiscal policies to meet the criteria.

FIGURE 1.3 SADC STATES MEETING PRIMARY CONVERGENCE TARGETS, 2018-19



Source: International Monetary Fund.

The SADC outlined its macroeconomic convergence goals in the Protocol on Finance and Investment (2006), which mandates cooperation on economic policies to promote stability in the region. It has three main criteria: annual inflation of no more than 3 per cent, a budget deficit–to-GDP ratio of no more than 3 per cent, and a public debt–to-GDP ratio of no more than 60 per cent. SADC also has three secondary convergence targets to further enhance economic stability: foreign currency reserves to cover at least 6 months of imports, real GDP growth of at least 7 per cent and a current account deficit–to-GDP ratio of no more than 9 per cent.[1] Neither inflation nor budget deficit criteria were met in 2018 (**FIGURE 1.3**).

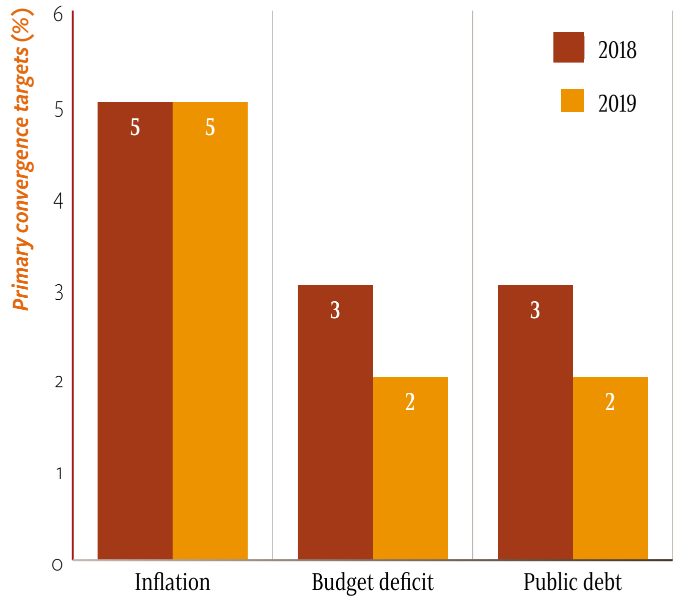
In 2014, the EAC adopted the Protocol on the Establishment of the East African Community Monetary Union with the goal of establishing a common currency (EAC, 2014). The four convergence criteria outlined in the protocol are annual inflation of no more than 8 per cent, a budget deficit–to-GDP ratio of no more than 3 per cent, a public debt–to-GDP ratio of no more than 50 per cent and foreign currency reserves to cover at least 4.5 months of imports. EAC states that met inflation, budget deficit and public debt ratio criteria in 2018 and 2019 (**FIGURE 1.4**).

The COMESA set up a COMESA Convergence Council, which created a road map to a monetary union. But at the Second Meeting of the Committee of Experts on Finance in September 2019, officials called for revising the convergence criteria to better coordinate member state macroeconomic policies to promote stability and enhance the sustainability of regional integration.[2] The original criteria are annual inflation of no more than 3 per cent, a budget deficit–to-GDP ratio of no more than 3 per cent, foreign currency reserves to cover at least 6 months of imports and the elimination of central bank financing of budget deficits, and the revised criteria are not yet finalized. COMESA has nine secondary criteria to promote stability in the region; they include implementation targets for the agreed Action Plan for Harmonization of Bank Supervision for the COMESA region and the Adherence to the Core Principles for Systemically Important Payment Systems (COMESA, 2017). Both the inflation and budget deficit criteria were missed in 2018 and 2019 (**FIGURE 1.5**).

The ECCAS made limited progress in macroeconomic convergence. The CEMAC, a six–member state monetary union using the Central African CFA franc, has made progress in achieving macroeconomic convergence. The primary criteria for CEMAC are largely in line with other RECs: annual inflation of no more than 3 per cent, a budget deficit–to-GDP ratio of no more than 1.5 per cent and a public debt–to-GDP ratio of no more than 70 per cent. But with a high concentration of oil-exporting countries, CEMAC has modified its criteria by excluding commodity price impacts, so the secondary criteria include maintaining a primary fiscal balance using non-oil GDP (IMF, 2017).

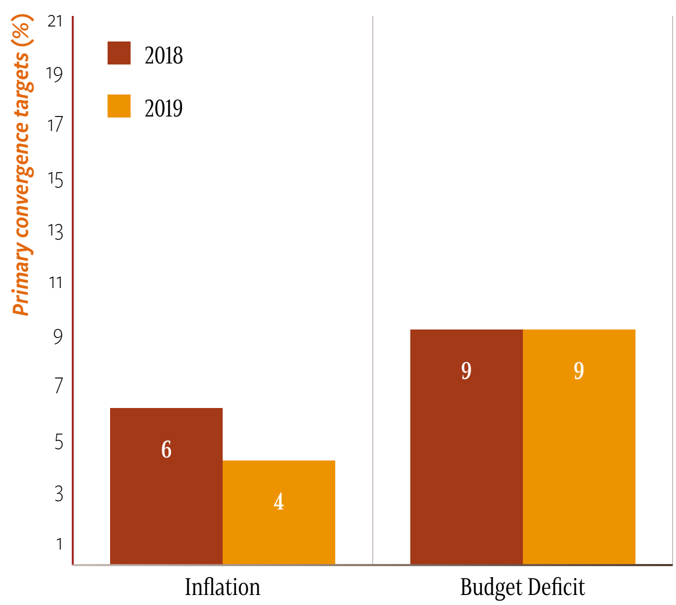
The ECOWAS adopted a primary and a secondary set of convergence criteria, though the criteria are more closely adhered to by the West African Economic and Monetary Union (WAEMU) states, which collectively use the West African CFA franc as currency. The ECOWAS has plans to merge the smaller monetary union with the larger REC to expand the monetary union, but convergence issues remain. The primary criteria include: annual inflation of no more than 5 per cent, a budget–deficit-to GDP ratio of no more than 3 per cent, a public debt–to-GDP ratio of no more than 70 per cent and a stable exchange rate with up to 10 per cent variation. The secondary criteria include: foreign currency reserves to cover at least 3 months of imports and central bank financing of budget deficit limited to 10 per cent of tax revenues. Only the public debt criterion was met in 2018 (**FIGURE 1.6**).

FIGURE 1.4 EAC STATES MEETING PRIMARY CONVERGENCE TARGETS, 2018-19



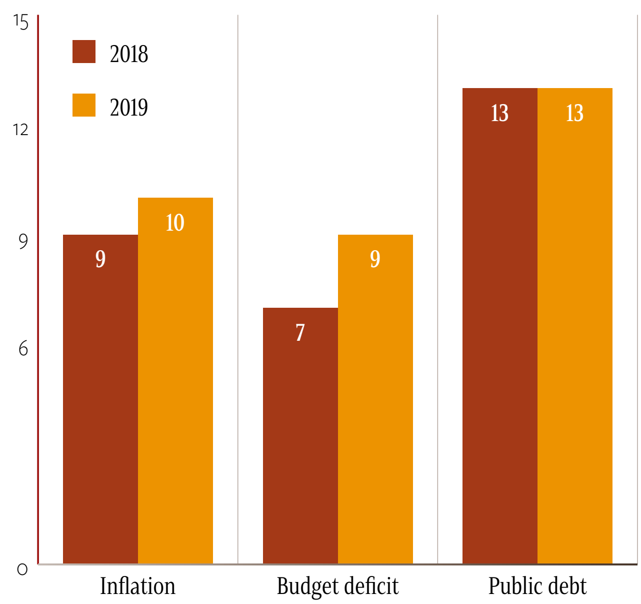
Source: International Monetary Fund.

FIGURE 1.5 COMESA STATES MEETING PRIMARY CONVERGENCE TARGETS, 2018-19



Source: International Monetary Fund.

FIGURE 1.6 ECOWAS STATES MEETING PRIMARY CONVERGENCE TARGETS, 2018-19



Source: International Monetary Fund.

DEVELOPMENTS IN INFRASTRUCTURE AND ENERGY

Modern infrastructure is a major contributor to economic growth, poverty reduction and attainment of the United Nations Sustainable Development Goals. It catalyses increased regional trade in both goods and services and reduces the cost of doing business by providing linkages within and between African countries. Infrastructure will play a pivotal role in achieving Agenda 2063, the Africa Union's (AU) blueprint for transforming Africa into the global powerhouse of the future. And huge opportunities for structural transformation created by the growing transport service economy transformed by disruptive technology and the digital economy are tradeable and are catalysts for creating regional and global value chains. Even so, Africa continues to suffer from a huge gap between infrastructure needs and realities that threatens the achievement of social and broad economic goals. There is a significant disparity in infrastructure development in Africa, with North African countries, South Africa, Seychelles and Mauritius diverging from the rest of the continent (FIGURE 1.7A). Much more development is clearly needed across the continent to bridge this gap.

Investment in infrastructure accounts for more than half the past decade's improvements in economic growth in Africa and could contribute much more, given a conducive environment (African Development Bank, 2020). The African Development Bank (AfDB) has estimated Africa's infrastructure needs at $130–170 billion a year with a financing gap (infrastructure needs minus the total financing committed by all development partners) in the range of $68–$108 billion. The shortfall extends across energy, transportation, and water and sanitation infrastructure, though energy and transportation are among the most pressing for economic development. The push for ratifying and implementing the AfCFTA by all African countries and realizing its full potential hinges on a supportive and facilitative infrastructural environment, with road, rail, air, water, energy and information and communication technology (ICT). The outbreak of Covid-19 with its unprecedented socioeconomic impact has further widened the gap.

African leaders have continued to collectively pursue key regional and continental initiatives for infrastructure development. Notable efforts include those guided by the AU Programme for Infrastructure Development in Africa (PIDA) Steering Committee, which is mandated to monitor progress on infrastructure development in the context of Agenda 2063.[3]

Road transport

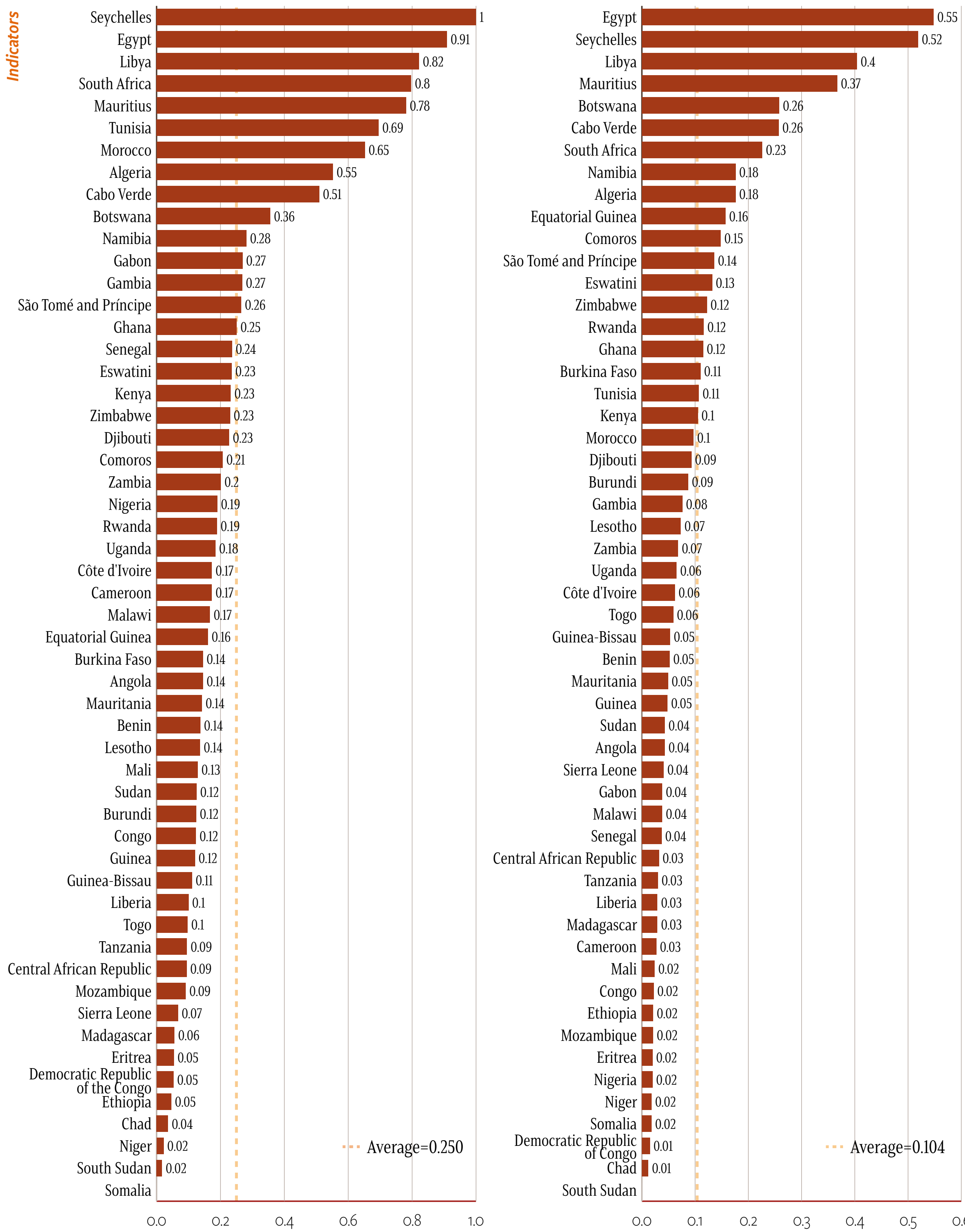
Initiatives such as the Trans-African Highway—a network with nine highways amounting to 56,683 kilometres—comprises transcontinental projects aimed at promoting trade through highway infrastructure development and the management of road-based trade corridors. The roads are about 60 percent complete, while about 40 percent comprises missing links. Road densities in Africa excluding North Africa are approximately a third of those of South Asia. Only a quarter of all roads are paved, so travel times are two to three times longer than in comparable corridors in Asia (Amoah-Darkwah and Reboredo, 2020). The transport composite index which measures the total paved roads (kilometre (km) per 10,000 inhabitants) and total road network in km (both paved and non-paved) indicates that Egypt ranks highest in Africa with South Sudan at the bottom (FIGURE 1.7B).

The economic effects of the pandemic will only add to the existing difficulties in infrastructure development. Fortunately, projects like the Abidjan–Lagos road corridor are in the planning/formulation stages, and the AfDB recently released about $13 million to

FIGURE 1.7 AFRICA'S INFRASTRUCTURE AND TRANSPORT INDICATORS

A AfDB COMPOSITE INFRASTRUCTURE INDEX

B TRANSPORT COMPOSITE INDEX 2020



Source: Africa Regional Integration Index, 2019.

complete feasibility studies. And in September 2020, the World Bank approved a grant of $130.8 million from the International Development Association (IDA) to ease the movement of goods and people and improve access to social services and job opportunities in the refugee-hosting districts in the West Nile subregion of Uganda.

Rail transport

Agenda 2063 identified the railway network as a critical land transport mode of choice for the future of Africa. Among flagship programmes approved for implementation under the first 10-year implementation plan is the African Integrated High-Speed Railway Network (AIHSRN). This will connect African capitals and commercial centres to facilitate the movement of goods, services and people, reduce transport costs and relieve the congestion of current infrastructure systems. To date, the entire African railway network is estimated at about 75,000 kilometres on a surface of 30.2 million square kilometres, translating to a density of about 2.5 kilometres per 1,000 square kilometres—far below the density in other regions or the world average of 23 kilometres per 1,000 square kilometres.

Among national developments is Nigeria's $1.5 billion railway line linking Lagos to Ibadan, which was just commissioned despite delays due to Covid-19. That line, built by the China Civil Engineering Construction Corporation, was completed in early January 2021, instead of May 2020 as planned. Nigeria's economy has been damaged by the pandemic, and spending cuts are likely, with the government moving to offset the effects of the oil price collapse. In Kenya, input costs have risen 5–10 per cent since the start of the crisis, and the Chinese contractor that operates the country's standard gauge railway recently furloughed 4,013 Kenyans and 471 Chinese nationals. Another Kenyan megaproject, the $3.1 billion Lamu Port, is continuing as planned, with strict epidemic control at the worksite.

Air transport

The African airline industry supports more than 6.2 million people—directly, as a service in its own right, and indirectly, as an enabler of other service sectors such as tourism, leasing, regulation, distribution, manufacturing and infrastructure provision, based on demand. The Covid-19 pandemic has harmed the air transport sector.[4] Within the African market, domestic flights represent 28 per cent of market share, with regional markets accounting for 17 per cent, and international markets for 55 per cent.

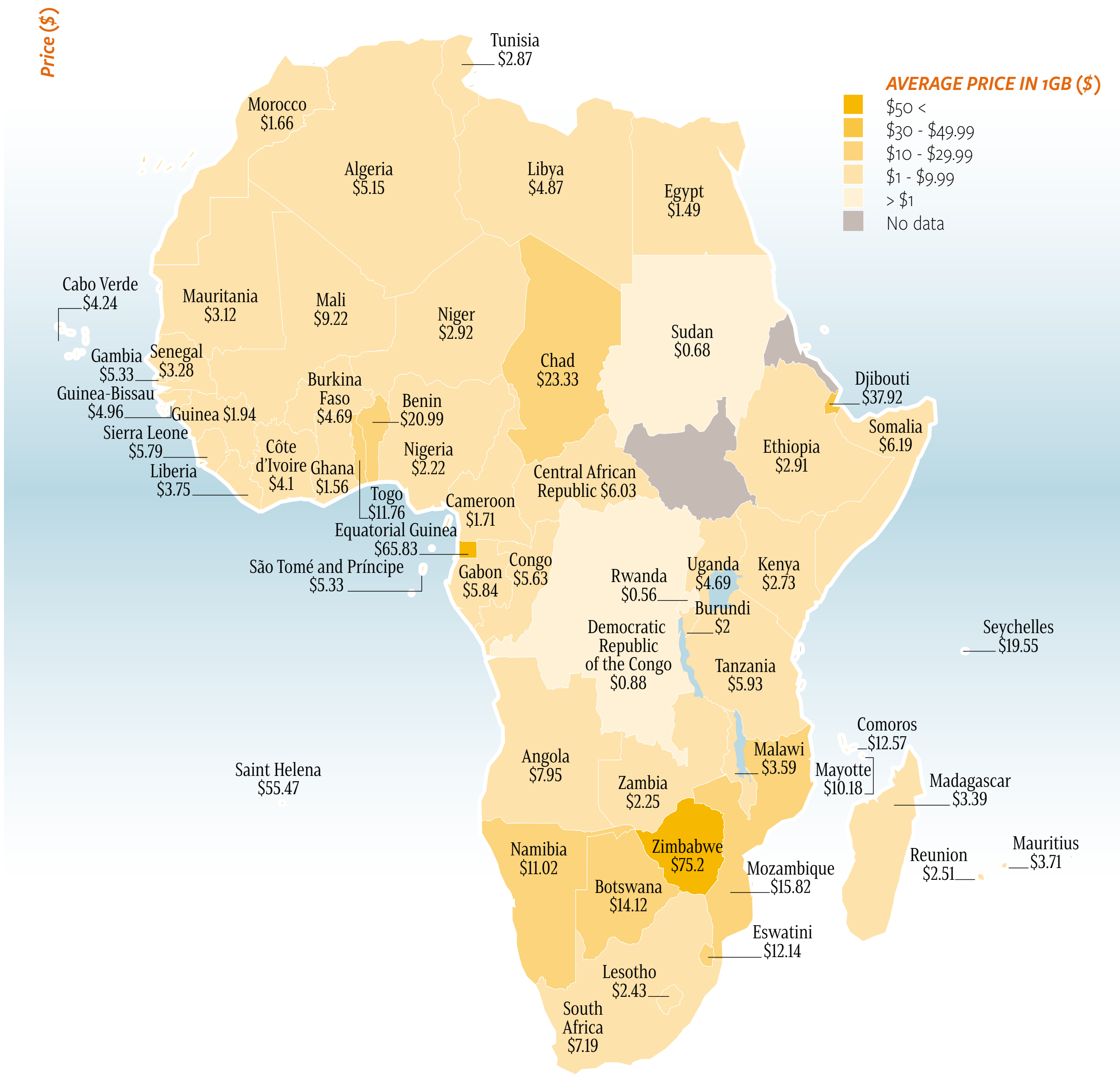
The Covid-19 crisis has presented indirect opportunities for more partnerships and for regional cooperation. The biggest opportunity is implementing the Single African Air Transport Market (SAATM), a flagship project of the African Union Agenda 2063 to create a unified air transport market to advance the liberalization of civil aviation in Africa that serves as an impetus to the continent's economic integration.

Information and communication technology

Covid-19 has laid bare the need for a digital economy in Africa that has potential to boost labour demand, supply and intermediation, if properly applied. The global crisis has the potential to accelerate the continent's digital transformation and to create decent and resilient digital jobs. Even before the crisis, an estimated 230 million digital jobs were projected to be created in Africa by 2030. According to the AfDB, ICT emerged as the main driver of improvements on the Africa Infrastructure Development Index for the past decade, demonstrating the increasing importance of digital technology in Africa.

Africa continues to experience high prices for ICT services (**FIGURE 1.8**). African countries in the southern part of the continent pay the most for data. Zimbabwe pays the highest price in the world

FIGURE 1.8 THE PRICE OF MOBILE INTERNET IN AFRICA, 2019



Source: https://howmuch.net/articles/the-price-of-mobile-internet-worldwide-2019.

($75.20 per gigabyte), followed by Equatorial Guinea ($65.83) and Djibouti ($37.92). Conversely, Sudan ($0.68) and the Democratic Republic of the Congo ($0.88) both pay less than $1 per GB. Chapter 6 of the *ARIA*, on liberalization and regulation of communication services, provides further details.

Energy

Access to reliable and sustainable energy is crucial. It is even more important today for supporting essential services during the global Covid-19 crisis. In a crisis such as the current one, continuous electricity supply is essential to preserve strategic infrastructure. Yet, generation capacity in Africa is about half that in Southeast Asia, with around 600 million people lacking access to electricity and around 900 million lacking access to a clean source of energy for cooking (IEA, 2019). Such issues create barriers for the market entry of private sector operators and for regional integration, while increasing national vulnerability to macroeconomic shocks.

For those who have access to electricity, the quality and reliability are generally poor, and the average per capita consumption of about 200 kilowatt-hours per year is unacceptably low compared with that in other regions of the world. Per capita consumption is below 100 kilowatt-hours per year in such countries as Benin, Ethiopia and South Sudan and over 1,500 kilowatt-hours per year in only a few countries, such as Botswana, Egypt, Libya, Mauritius, Namibia and South Africa.[5] Access to reliable, secure and affordable energy has huge development implications in key areas—such as health, industry, education and agriculture—that are needed for Africa's long-term development.

Infrastructure financing

Africa is the continent of the future. To realize its potential, Africa must reduce its massive infrastructure deficit to achieve goods and services market integration and structural transformation. But the continent has faced a challenge in securing financing to meet its infrastructure needs. Total commitments for infrastructure in 2018 amounted to $100.8 billion—an increase of 24 per cent over the total commitments reported for 2017 and an increase of 33 per cent over the 2015–17 average (ICA, 2018). This is the first time that commitments have passed the $100 billion mark, the result of concerted efforts by all financing sources (ICA, 2020). But a financing gap of $53–93 billion a year there remains (ICA, 2020).

By sector, $43.8 billion was allocated to energy in 2018, which received nearly 44 per cent of all funding; $32.5 billion to transport (32 per cent); $13.3 billion to water (13 per cent); $7.1 billion to ICT (7 per cent) and 4.1 billion to multi-sector investments (4 per cent). Of commitments, private sector financing amounted to $11.8 billion, the highest figure to date. African governments committed $37.5 billion, the largest share (37 per cent) of 2018 financing, followed by China with $25.7 billion (26 per cent) and Infrastructure Consortium for Africa members with $20.2 billion (20 per cent). Of the total $100.8 billion in commitments in 2018, West Africa accounted for $25.7 billion (26 per cent), North Africa for $19.9 billion (20 per cent), South Africa for $18 billion (18 per cent), East Africa for $14.2 billion (14 per cent), Southern Africa, excluding South Africa, for $13.7 billion (14 per cent), and Central Africa for $7 (7 per cent) (ICA, 2020).

Africa's landlocked developing countries (LLDCs) constitute half of world's LLDCs. Their inherent geographic disadvantages contribute to poor performances in economic, social and even political growth because of their remoteness from regional and international markets. The 2014 Vienna Programme of Action seeks to respond more coherently to specific LLDC needs and problems. Lockdowns and border closures due to Covid-19 affect LLDC trade and investment links disproportionately since they cannot turn to direct sea transport, the mode that carries an estimated 80 percent of global trade. In several LLDCs, the lockdown disrupted regional and global value chains, reducing their export-oriented operations. Disruptions in sourcing equipment and machinery for manufacturing have affected many LLDCs, which depend on imported equipment that must cross land borders. Even so, African LLDCs have maintained a steady share of world merchandise exports since late 2000s, contributing 0.21–0.23 per cent consistently since 2010.[6]

SOCIAL INTEGRATION

Healthcare

Healthcare cooperation and integration are critical in improving the health and well-being of the African people, including in achieving Aspiration 1 and Goal 1 of Africa's Agenda 2063. Healthcare integration is being implemented at continental, regional and national levels, as evidenced by the establishment of many regional cooperative health initiatives.[7] But inadequate coordination and synchronization of these initiatives has impaired their effectiveness, including in responding to Ebola Virus Disease and the unfolding Covid-19 pandemic (ECA Press Brief 2020).

The pandemic has strengthened coordination and integration responses to international health crises, including mobilizing existing resourcing and operationalizing frameworks and mechanisms. Although most African countries initially reacted to the Covid-19 pandemic by looking inwards and acting alone—particularly through national border closures—they subsequently recognized that more regional health integration has much potential to enhance both better coordination and greater consistency.

At the continental level, the African Union Commission, through the Africa Centres for Disease Control and Prevention (CDC) provided commendable leadership, including forging partnerships with key stakeholders and partners to support the fight against the pandemics. Key continental Covid-19 strategy initiatives led by the CDC and jointly pursued with various stakeholders included regional coordination and synergy building; health, governance, political and socioeconomic impact assessments; capacity building and knowledge sharing, including in surveillance and boosting testing capabilities; risk communication strategies, sensitization campaigns and social engagement; and supply chain management, including pooled procurement.

The African Medical Supplies Platform (AMSP) is a key pooled procurement initiative by CDC to overcome Africa's acute medicine supply shortages, launched on 18 June 2020 by the African Union chairperson and South African president, Cyril Ramaphosa. The platform is an online marketplace that furthers the supply of Covid-19–related critical medical equipment in Africa. The AMSP is a part of the AfCFTA-anchored Pharma Initiative—built on the principles of pooled procurement, localized production of medical equipment and supplies, and harmonized regulatory and quality standards to help buyers access quality products, to help suppliers access a larger market, to reduce the cost of medicines for African consumers, and to enhance transparency and efficiency. Although AMSP is in place, the continent continues to face challenges over the quality of medicines and medical supplies. This has heightened the urgency of African Union member states ratifying and operationalizing the African Medicines Agency (AMA) to regulate and harmonize medical products to reduce the circulation of substandard medicines and so preserve lives.

CDC established five regional coordination centres (RCCs) linked directly to national health systems. In West Africa, the RCC is embedded in the pre-existing ECOWAS/West African Health Organization Regional Centre for Surveillance and Disease Control. (The West African Health Organization, or WAHO, is a specialized agency of ECOWAS. The other four RCCs are not embedded in the AU-recognized RECs, nor is their coverage aligned with REC memberships, and REC-CDC-RCC engagement during Covid-19 has varied. In both the EAC and SADC responses to Covid-19, RCCs appear to have played a major role. Overall, REC responses to Covid-19 revolved around four main areas: information and communication, nudging and guidance, coordination of actions and collective action. Some RECs have operated in all four areas, while others could play only limited roles shaped by such factors as different regional experiences and realities, and existing RECs structures and institutions (Medinilla, Byiers, and Apiko, 2020).

Overall, the cross-border scale of health pandemics such as Covid-19 renders narrowly focused national responses inadequate and even short-sighted. Collaborative action using regional and continental frameworks and instruments such as the CDC, the AMA and REC mechanisms hold promise for greater effectiveness. But regional and continental instruments need to be strengthened, properly resourced and afforded the requisite legitimacy through state ratifications and domestications to fulfil their roles (ECA, Press Briefing, 2020).

GOVERNANCE, PEACE AND SECURITY AND AFRICA'S INTEGRATION

The pursuit of regional and continental integration and socioeconomic development in Africa is influenced by the continent's governance, peace and security realities and dynamics. Although the signing and coming into force of AfCFTA remains one of the biggest integration achievements of the past decade, its effective implementation will be shaped by the evolution of the continent's governance, peace and security landscape, which present a mixed picture. Many countries and regions have made progress, but others have seen stagnation or retreat. The number and intensity of armed conflicts have fallen, but threats from armed non-state actors persist. New hot spots of poor governance and conflict (often arising from inconclusive elections) have emerged in some parts of the continent, and the scourges of terrorism, violent extremism, human trafficking and transnational organized crime are growing. Terrorism, hitherto concentrated in the Sahel, the Lake Chad Basin and the Horn of Africa, is beginning to spread, making it one of the primary threats to governance, peace and security institutions and to integration and development on the continent.

African Union, regional economic communities and United Nations efforts to promote governance, peace and security in Africa

The African Union, the RECs and various regional mechanisms for conflict prevention, management and resolution, alongside the United Nations and other stakeholders, have continued to prioritize and intensify efforts towards strengthening governance systems and promoting peace and security on the continent. The African Union adopted "Silencing the guns in Africa by the year 2020" as its theme of the year for 2019, aiming to create conditions—including improved governance—to facilitate the realization of a conflict-free, integrated and prosperous Africa, as envisioned in Agenda 2063. But these efforts have had mixed impact, as evidenced by the continent's various governance, peace and security dynamics.

In the Central African region, the AU, UN, the ECCAS, and other partners have tried individually and collectively to address various governance-related conflicts in countries such as Burundi, Cameroon, Central African Republic and Democratic Republic of the Congo. In Democratic Republic of the Congo, for example, the first peaceful transfer of power since 1960 took place in January 2019 from President Joseph Kabila to President Felix Tshisekedi. Since President Tshisekedi's coming to power, the overall peace and security situation has continued to improve both internally and with the country's neighbours, though political tensions and periodic skirmishes have continued between various armed groups and government forces. Peace and stability in Democratic Republic of the Congo, because of its sheer size, geographical location and membership in RECs in both the immediate Great Lakes region and the Central, East and Southern African regions, has implications for integration processes across the three regions.

In the East Africa and Horn of Africa regions, the AU, EAC, COMESA and six-country Intergovernmental Authority on Development (IGAD) REC, alongside the UN, the League of Arab States and other stakeholders remained focused on governance, peace and security developments in the Comoros, Ethiopia, Somalia, South Sudan and Sudan. Although Somalia has made progress towards political reconciliation, security and economic recovery, it remains fragile and vulnerable to security threats, including attacks from the al-Shabaab terrorist group, partly because state authority has not yet reached some parts of the country. The persistent insecurity and instability in Somalia affect the neighbouring states of Eritrea, Ethiopia, Kenya and Sudan reducing prospects of meaningful regional integration. In Sudan, the toppling of President Hassan Omar al-Bashir in a military coup d'état in April 2019 was followed by months of instability that led to several strategic dialogue initiatives by IGAD, along with the AUC and other regional actors. Those initiatives facilitated the August 2019 signing of a constitutional document between the Military Council and the Forces for Freedom and Change that provided for the establishment of a joint military–civilian Sovereign Council to govern the country for 39 months, returning relative peace and stability to the country and curtailing negative spillovers to nearby countries and the attendant implications for regional integration. In neighbouring South Sudan, the defining political issue after the 12 September 2018 signing of the Revitalized Agreement on the Resolution of the Conflict in the Republic of South Sudan was a stand-off between the warring parties over forming a transitional government. The AU, IGAD, the United Nations and other stakeholders encouraged the South Sudanese parties to seek an agreement in forming the transitional government. And on 22 February 2020, the South Sudan Transitional Government of National Unity was established. It has worked towards consolidating domestic peace and security and participating in IGAD region integration efforts, including by contributing to efforts to broker peace between conflicting factions in neighbouring Sudan. Another major Horn of Africa–IGAD region development was the law and order enforcement operation that the Ethiopian government undertook against the Tigray People's Liberation Front leadership in the Tigray region. Although that operation was largely internal, it had important regional dimensions and implications, not least because of Ethiopia's stabilizing role and status as a regional hegemon, alongside Sudan, over the years. The proximity of that conflict to neighbouring Eritrea and Sudan, with which Ethiopia has fought a war and has an unresolved border conflict, gave Ethiopia's internal conflict broader regional ramifications, including perhaps the further weakening of IGAD.

In North Africa, the complex and evolving Libyan crisis has been the main governance, peace and security challenge. It has been characterized by the recurrent adoption and violation of ceasefires by the main political and military factions, which are backed by different foreign powers. The opponents are the House of Representatives, which came into office in 2014 and controls eastern and southern Libya and its Tripoli-based rival, the General National Congress. Since the crisis could have dangerous repercussions for security and stability of North Africa and the broader continent, it has featured prominently on the agendas of the Arab League, the African Union and the United Nations, as well as Libya's neighbours and powerful European and Middle East countries. The multiple actors in the Libyan conflict have diminished the role of the Arab Maghreb Union, the main REC in the region, which should have played a pivotal role in resolving the crisis despite its numerous internal challenges. The conflict has stalled regional integration by weakening the AMU and CEN-SAD, whose headquarters had to be temporarily relocated from Tripoli to N'Djamena in Chad.

In Southern Africa, most countries enjoy relative peace and security and are considered as fairly well governed—enhancing the prospects for regional integration and development. Peace and security in the region received a further boost in August 2019, when the Government of Mozambique signed a milestone peace agreement with the opposing Mozambican National Resistance (RENAMO), with the hope of ending long years of armed conflict. With the encouragement of the AU, the SADC and other partners, Mozambique successfully organized peaceful elections in October 2019. The new government has continued efforts to implement the peace agreement and to advance peace, reconciliation and stability in the country and the region. But terrorism has emerged as a major threat in the north of Mozambique, taking many lives, displacing people and disrupting the oil and gas industry. SADC is formulating a regional approach to that menace. Similarly, in South Africa in September 2019, xenophobic violence was perpetrated against African migrants. Both the AU and the SADC engaged the South African government on the situation, contributing to government measures to prevent escalation, including examining the root causes of xenophobia, and find a collective regional and continental approach.

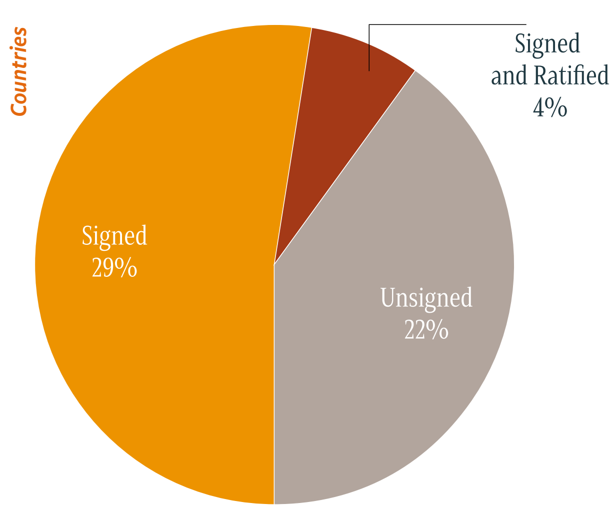
In the West African region, the AU, the UN, ECOWAS and other key players continued to contend with politically fluid situations in Burkina Faso, Côte d'Ivoire, Guinea Bissau, Guinea Conakry, Mali, Niger and the broader Sahel—including growing terrorism and drug trafficking. Mali and the Sahel region presented some of the continent's most pressing security concerns during much of 2019–20, despite commendable reconciliation and mediation initiatives. Mali has been plagued by conflict since 2012, which has spilled over into neighbouring Burkina Faso and Niger. The three countries have suffered from violent attacks that grew five-fold between 2016 and 2020, caused more than 4,000 casualties in 2019 (up from about 770 in 2016) and displaced hundreds of thousands of people, reducing the chances of regional integration.

FREE MOVEMENT OF PERSONS: STATUS, PROGRESS AND CHALLENGES

Free movement of persons across borders is critical to regional integration for African states, primarily because of the associated gains in both goods and services trade. Whether for business, tourism or education, free movement of persons has the potential to contribute to Africa's economic growth and skills development. So, advancing the free movement of people is a key priority for African leaders, as advanced in several policy frameworks—including the June 1991 Abuja Treaty establishing the African Economic Community (article 43 (2)), the Protocol on the Free Movement of Persons in Africa and its implementation roadmap—as well as in the development of an African passport. And Aspiration 2 of Agenda 2063 envisions "an integrated continent, politically united and based on the ideals of Africa's renaissance," requiring the free movement of people in its Goal 1. Businesses, to supply services across borders, whether through free movement or through setting up in another country (under freedom of establishment or the freedom to provide services), must be able to recruit and move employees across borders. Free movement is thus expected to contribute to services and boost competition in internal markets in many African countries.

Despite the shared desire and the actions undertaken to pull down Africa's physical and mental borders, progress towards free movement of persons has been mixed, and challenges persist. Currently, Africans enjoy visa-free entry to only 25 per cent of other African countries, must secure visas on arrival in 24 per cent, and must have visas to travel to 51 per cent (African Development Bank and AU, 2018).

FIGURE 1.9 STATUS OF IMPLEMENTATION OF THE PROTOCOL ON FREE MOVEMENT



Source: Based on African Development Bank and AU (2018).

Since the adoption of the January 2018 protocol to the Abuja Treaty on free movement of persons, right of residence and right of establishment, along with a comprehensive implementation roadmap, 33 countries have signed it (**FIGURE 1.9**) (AUC Progress Report on Free Movement, 2019).[8] But only four countries have ratified it: Mali, Rwanda, Niger and São Tomé and Príncipe. To achieving the requisite 15 ratifications for the protocol to come into force and to be implemented, a vigorous campaign is needed to sensitize the key stakeholders in both the member states and RECs.

The next hurdle after ratification would be to ensure effective implementation at the national level, particularly ensuring that the African Union Passport becomes accessible to all who need it. The AUC took a lead in developing guidelines for the passport's design, production and issuance. The guidelines were endorsed by the AU Specialized Technical Committee (STC) and subsequently adopted by the February 2019 AU Assembly.

In 2020, eVISA was available in 24 countries—46 per cent of African countries. During the same year, 50 countries maintained or improved their scores on the Visa Openness Index, with 20 moving upward in rank. The AMU, ECOWAS, EAC and SADC RECs are performing particularly well on open reciprocity.

PROGRESS IN TRADE AND MARKET INTEGRATION

Globally, regional integration has proven to be a powerful development strategy, providing new industries a large parallel market for development and minimizing external shocks through increased national income and bargaining power (Balassa 1961). Integration is also crucial to economic growth, job creation and poverty reduction. African regional trade agreements are expected to help African countries build their comparative advantages in the global market, sharpen their bargaining power and enhance industrial efficiency for better market deals.

The 2018 signing of the agreement establishing AfCFTA by 44 African Heads of State and Government was one of the most important recent achievements in trade and market integration in Africa. The AfCFTA agreement, which establishes a single continental market for goods and services, commits African countries to eliminate over 90 per cent of tariffs on goods and to progressively liberalize trade in services. If successfully implemented, it will create a single African market of more than 1 billion consumers with a total GDP of more than $3 trillion—making Africa the largest free trade area in the world.

Operationalizing the AfCFTA will increase market efficiency and reduce the cost of doing business by offering opportunities for economies of scale. It will also facilitate trade and investment flows and shift the composition and direction of foreign direct investment flows into Africa. More than a traditional free trade area, the AfCFTA also covers sectors such as investment, services trade, intellectual property rights and competition policy, and possibly e-commerce. The AfCFTA has the potential to increase employment opportunities, generate more incomes and promote economic growth. It is expected to lift around 68 million people out of poverty (World Bank, 2020). It will not be implemented in isolation. Other key continental initiatives, including the Protocol on Free Movement of Persons, Rights of Residence and Right of Establishment and the Single African Air Transport Market will be critical to its success.

Trade flows

Overall, output contracted by 2.5 per cent in 2020 from 3.6 per cent growth in the previous year, largely due to the Covid-19 pandemic and the measures taken to disrupt the spread of the disease (UNDESA, 2021). Despite the 2020 contraction, African economies are expected to rebound like other developing economies despite rising uncertainty concerning both the easing of the Covid-19 pandemic and the continuing trade tensions between the United States, China and others. The resilience reflects the diversification of Africa's trading partners in the context of growing investment, South–South trade cooperation and increased consumption by Africa's fast-growing population.

Although the continent's economies are among the world's fastest growing, its contribution to global trade remains marginal—only 2.7 per cent of global trade in the past couple of years (Afreximbank, 2019). The European Union (EU) remains Africa's main trading partner, accounting for 31.4 per cent of trade in 2019. Intra-African trade fell slightly in 2019, contracting by 1.6 per cent to $155 billion, down from $159 billion in 2018. Before then, intra-African trade was improving, reaching around 18 per cent of Africa's trade in 2018. But that growth remains lower than intra-regional trade growth in other regions. *Intra-African trade* is probably underestimated in such figures due to the prevalence of *informal* cross-border trade, a major form of informal activity in most African countries and plays a key role in the economic growth. Informal economic activity is estimated to provide up to 70 per cent of employment in Africa excluding North Africa.

Merchandise trade accounts for the largest share of Africa's international trade, though trade in services has rapidly increased during recent decades. In 2019, almost 70 per cent of goods exported from the EU to Africa were manufactured goods, while over 65 per cent of goods imported by the EU from Africa were primary goods. Northern Africa was the largest trade partner for goods to the EU. To support merchandise trade, the continent continues to boost intra-African trade by implementing industrialization policies. The Action Plan for Boosting Intra-African Trade (BIAT) and the recently launched AfCFTA, covering both goods and services, are major recent steps.

RECs continue to trade more with the outside world than among themselves, as the European Union takes the largest share of Africa's exports. That trend is expected to change with the advent Brexit, that is, the exit of the United Kingdom from the EU. The EU accounted for about 63.4 per cent on average of AMU exports between 2017 and 2019, and 40.3 per cent of CEN-SAD exports (TABLE 1.1). China's share increased, making it the greatest potential trade partner for many African countries. Intra-REC trade among SADC member states was relatively large, accounting for 19 per cent of their exports.

Intra-African imports vary from one REC to another. On average, all RECs are importing more from outside partners, particularly Asia and EU, than from countries within their REC (TABLE 1.2). SADC is the only REC which is making progress on imports from within its member states—about 20.1 per cent of imports. All RECs except EAC and IGAD are importing more from the EU than from within the REC; AMU, with 46.8 per cent of imports coming from the EU, and CEN-SAD, with 35.8 per cent, having the large shares. EAC is also importing more from Asia (42.9 per cent of imports) than from within the REC, as is IGAD (42.0 per cent of imports).

SERVICES TRADE LIBERALIZATION

Despite the service sector's global contribution of up to 61 per cent of value added to GDP and its African contribution of 51 per cent

TABLE 1.1 MERCHANDISE EXPORT TRADE OF THE REGIONAL ECONOMIC COMMUNITIES BY PARTNER, 2017–19 AVERAGE (%)

RECS	INTRA-REC	AFRICA[a]	CHINA	ASIA, EXCLUDING CHINA	EU[b]	US	REST OF WORLD
AMU	3.0	6.5	4.3	11.3	63.4	6.0	8.5
CEN-SAD	6.6	11.6	5.8	26.9	40.3	6.4	9.0
COMESA	10.6	18.0	9.7	25.0	36.1	4.8	6.4
EAC	17.4	34.2	11.4	30.4	15.0	4.4	4.5
ECCAS	1.9	7.1	44.1	22.7	16.2	5.3	4.6
ECOWAS	7.1	13.1	7.0	32.2	29.2	7.1	11.4
IGAD	16.3	27.0	12.8	39.3	13.0	4.5	3.5
SADC	19.5	22.6	21.1	22.7	19.3	5.5	8.9

Source: ECA, calculated from UNCTADStat.
[a]Africa total includes intra-REC.
[b]EU refers to the whole European Union, EU28.

TABLE 1.2 MERCHANDISE IMPORT TRADE OF THE REGIONAL ECONOMIC COMMUNITIES BY PARTNER, 2017–19 AVERAGE (%)

RECS	INTRA-REC	AFRICA[a]	CHINA	ASIA, EXCLUDING CHINA	EU[b]	US	REST OF WORLD
AMU	3.5	8.9	13.0	16.1	46.8	4.4	10.8
CEN-SAD	5.2	7.5	16.2	23.3	35.8	5.8	11.4
COMESA	5.5	12.9	16.1	30.9	25.1	4.4	10.6
EAC	8.7	17.1	21.1	42.9	11.7	2.3	4.9
ECCAS	3.5	18.8	15.8	19.3	33.1	5.3	7.7
ECOWAS	8.0	11.9	22.4	20.9	31.1	5.8	7.8
IGAD	4.3	11.7	24.1	42.0	12.6	4.2	5.5
SADC	20.1	23.8	16.2	25.4	23.4	4.6	6.6

Source: ECA, calculated from UNCTADStat.
[a]Africa total includes intra-community.
[b]EU refers to the whole European Union, EU28.

of GDP in 2018,[9] the potential benefits of services trade are unappreciated and underutilized by many African countries. The continent's services trade performs far below its potential, accounting for only 22 per cent of African trade, while African exports remain highly concentrated in agriculture and primary goods (UNCTAD, 2019). Overall, Africa accounts for only 2 per cent of total global service exports, about 42 per cent of which comes from travel and tourism. In contrast, high-income country service exports depend heavily on high-value services such as financial, business, insurance or intellectual property services.

The launch of trading under the AfCFTA, alongside the commencement of phase II negotiations focused on five key service sectors, presents continental and regional opportunities for African countries to enhance cross-border services trade. For continental opportunities, AU member states that are members of the World Trade Organization (WTO) determined during the July 2018 AU Summit that the starting point for phase II negotiations would be deeper than currently scheduled General Agreement on Trade in Services commitments. And for non-WTO member states, negotiations would begin with national autonomous liberalization (Chaytor, 2019). Stakeholders, including member states and international organizations, recognize that harmonizing regulations between member states with different starting points is critical to ensure the AfCFTA's success.

All RECs have some form of services trade agreement. Their breadth varies (UNCTAD, 2015). The SADC has a Protocol on Trade in Services adopted on 18 August 2012, whose Article 7 provides for mutual recognition of member states' qualifications, licences, and other regulations. This can allow for specialization and technology sharing since services such as consultancy (in accounting, law, and architecture, for instance) are able to operate across SADC borders. But Article 6 of the protocol still allows states to regulate their domestic industries, provided that regulation is administered in a "reasonable, objective, transparent and impartial manner."

The EAC has a 2010 Common Market Protocol, which focuses on four freedoms (free movement of goods, labour, services and capital). Recently, the EAC has expanded the scope of the Protocol to include all service sectors, though liberalization commitments have varied. There are no time constraints, but EAC member states have signed mutual recognition agreements in architecture and accounting services so far and are continuing to negotiate additional agreements.

Since 2016, ECOWAS has been working towards a regional services policy and has achieved regulatory harmonization in telecommunications and transport. And, the eight–member state subregional monetary union, the West African Economic and Monetary Union (WAEMU), has had further success in services trade liberalization in the region.

Although ECCAS and COMESA have cooperation agreements in some services sectors, there is no agreement binding on member states. Still, the ECCAS treaty's free movement of persons and right of establishment clauses allow for significant freedom in services trade, though little of it is cross-border. COMESA member states have adopted regulations to liberalize trade in services, but commitment schedules continue to be under negotiation. The Economic and Monetary Community of Central Africa (CEMAC) has undertaken greater service sector integration, particularly in air transport and telecommunication services. The other three RECs (AMU, CEN-SAD and IGAD) have made little progress towards initiatives or binding agreements that have led to greater regional services sector integration.

The subsequent chapters of this report will focus on the five key sectors prioritized in AfCFTA negotiations, as was determined by Heads of State and Government at the AU Summit in July 2018. **Chapters 4, 5, 6, 7, and 8** will discuss the financial services, transport services, communications, tourism, and business services, respectively in greater detail, on RECs and a continental basis.

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3 The PIDA Steering Committee is composed of NEPAD, AUC, African Development Bank (AfDB) and the Regional Economic Communities (RECs). It is responsible for evaluating the status of implementation, identifying challenges and recommending ways to improve working processes within PIDA and to oversee its work and activities.

4 South African Airways is on the brink of collapse, Ethiopian Airlines had lost an estimated $550 million by early April 2020, Air Mauritius has been placed under voluntary administration and RwandAir has cut salaries by 8 per cent for the lowest paid employees and 65 per cent for the top earners.

5 See, for example, World Development Indicators data, available from https://datacatalog.worldbank.org/dataset/world-development-indicators.

6 2020 Africa Report of the Secretary-General: Implementation of the Vienna Programme of Action for Landlocked Developing Countries for the Decade 2014–2024.

7 Initiatives include the Africa Health Strategy (2016-2030), the Africa Centre for Disease Control (CDC), the African Medicines Agency (AMA), the Pharmaceutical Manufacturing Plan for Africa (PMPA), the AU Model Law on Medical Products Regulation and the African Medicines Regulatory Harmonization Program Initiative at the continental level, as well as REC-level health initiatives and agencies such as the EAC Regional Contingency Plan for Epidemics, the West African Health Organization (WAHO), and the SADC Protocol on Health.

8 The 33 countries are: Angola, Burkina Faso, Central African Republic, Chad, Côte d'Ivoire, Comoros, Congo, Djibouti, Democratic Republic of the Congo, Equatorial Guinea, Gabon, Gambia, Ghana, Guinea, Kenya, Lesotho, Liberia, Mali, Malawi, Mozambique, Niger, Rwanda, Senegal, Sierra Leone, Somalia, South Sudan, São Tomé and Príncipe, Sudan, Tanzania, Togo, Uganda and Zimbabwe.

9 World Development Indicators, World Bank Database.

CHAPTER 2
The Status of Services Trade and Services Trade Policies in Africa

Over the past two decades, the share of services in Africa's GDP has grown, while the shares of agriculture and manufacturing have been declining. That pattern is also true of total employment. Services thus drive value-addition and provide critical inputs for boosting other economic activities. But trade in services remains largely invisible and intangible, tied to the national, regional, and international movement of people, information, money and goods (Feketekuty, 1988).

The importance of services comes into sharper focus if the impact of the Covid-19 pandemic on African countries' service sectors is considered, as noted in chapter 1. The impact has been telling and profound: African countries' GDP contracted by 3.4 per cent, with the 10 smallest economies' GDP contracting by 4.6 per cent in 2020. Public revenue losses are expected to be 5 per cent (Gondwe, 2020). Massive losses in employment can be anticipated, compromising service sectors that are critical for international trade. These include 12.4 million jobs in Africa's travel and tourism sectors already lost as a direct result of the pandemic (Dokua Sasu, 2021). In addition, the World Trade Organization (WTO) reported an 8 per cent shrinkage in global merchandise trade and 21 per cent shrinkage in commercial services trade in 2020, owing to the COVID-19 pandemic.

Trade in services will play a critical role in the post-Covid economic recovery. The judicious implementation of the AfCFTA Protocol on Trade in Services, which seeks to liberalize intra-African trade in services, is highly significant, especially for the impetus it can provide to the social and economic recovery environment. Yet, for African countries, the realization of the benefits of the Trade in Services Protocol faces challenges because of its novelty and its imperative for deeper governance reforms than those typically associated with merchandise or goods trade. Traditionally, public ownership and domestic regulatory intervention have featured more in the services sector than the goods sector. This is because, "Many of the barriers to trade in services consequently lie in regulatory regimes, not only at borders, but deep behind borders, in a myriad of domestic regulations that constrain the manner in which commercial services business is conducted" (Drake-Brockman, 2019, 189).

This chapter provides a conceptual overview of services trade and services trade policies in Africa, describing the contextual factors that shape their status—the chapter's thematic focus. It covers trends in services trade at national and regional levels; and the regulatory, institutional, and policy environments that promote, restrict, or constrain services trade. The chapter considers two critical recent developments: the impact of the Covid-19 pandemic on services trade and the trade in services protocol adopted under the auspices of AfCFTA. The chapter highlights the developmental potential of services trade for generating greater equity and growth, disclosing technology as a force multiplier, and the kinds of policy interventions that are necessary to address the high levels of informality and gender disparities in the services trade in Africa.

The impact of digitalization and technological change on the services sector—driven by the new economy of knowledge and innovation—cannot be ignored. The far-reaching impact of technology has transformed shopping, hailing taxis, watching movies, making airline and hotel reservations and communicating with people. "Africa is now digitalizing faster than anywhere else in the world" (ECA, 2019, 229). Digital technologies and information and communication technology (ICT) also facilitate trading services across national borders and across regions. The internet's intermediation role has brought about new service platforms for e-commerce, e-business, and e-government, with efficiencies and productivity enhancements.

ASSESSING TRENDS IN THE SERVICE SECTOR

The growth trajectory of African countries and subregions has shifted over the past two decades. While agriculture as a share of GDP has grown slightly from 15 per cent in 2007 to 16.9 per cent in 2017, manufacturing output has stagnated, declining from 35 per cent of GDP in 2007 to 29.5 per cent in 2017 (UNCTAD, 2019a). By contrast, the share of services in total employment and GDP has increased. The contribution of services to employment increased from 27.6 per cent in 2000 to 32.3 per cent in 2015 (UNCTAD, 2018), while its share of GDP increased from 50 per cent in 2007 to 53.6 per cent in 2017 (UNCTAD, 2019a).

In 2018, the total value of service exports and imports in Africa was $296 billion (UNCTADStat, 2019). They have been dominated by insurance, financial and other business services, and intellectual property, which grew at 6.4 per cent a year between 2013 and 2018, followed by travel, while telecommunications and computer and information services have stagnated and remain under-developed (UNCTAD, 2019a). While data on value added are scattered and inadequate and so not easy to collect, they support the argument that liberalizing the services sector will inherently benefit the overall economic performance and welfare effectiveness of African countries, as diverse as their stages of growth and development might be. Those gains take on added significance from the large presence of services in the export baskets of African countries. For example, direct service exports make up more than 20 per cent of the total exports of least-developed countries such as Ethiopia, Senegal and Tanzania. They make up more than 30 per cent in more developed economies such as Cameroon, Egypt, Kenya, Mauritius and South Africa (World Bank, 2015). Africa's structural transformation will depend on its countries ability to operate in the context of fragmented regional and global production chains, since trade increasingly supplies value chains made of the combined flow of goods, services, investment and information needed to generate products in different locations. Trade in services constitutes the connecting tissue between country and global markets. Improved logistics, ease of travel and the revolution in ICT and electronic infrastructure provides platforms broadening participation and improving competitiveness in such value chains.

Emerging country trends

Africa's economies are becoming more service-based, in line with other emerging markets such as China and India. The Chinese economy—once the world's factory—has shifted dramatically into services, a development propelled by the Fourth Industrial Revolution and digitalization. Services now account for 52 per cent of China's GDP—a much higher share than manufacturing—and up from 41 per cent in 2005. In India, services now make up almost 50 per cent of GDP, up from just 30 per cent in 1970, while the share of services in GDP is even higher in Brazil at 63 per cent, and in South Africa at 66 per cent (World Bank, 2021). Between 1980 and 2015, the average share of services in GDP across all developing countries increased from 42 to 55 per cent (UNCTAD, 2017).

These dynamics indicate the advantages the service sector offers. Service industries do not require high capital intensity; they have scope for mobility; they are accessible to employees, especially women; they require shorter lead-time to be set up and to run effectively and they create a marketplace across space and time for skills, expertise and information. Although no recent analysis has covered the service sector in Africa, the following summary offers key observations from the 2015 United Nations Commission for Trade and Development (UNCTAD, 2015a), complemented by other relevant indicative data:

Service output has grown in Africa from 45.8 per cent of GDP in 2001 to almost 50 per cent in 2012, and the share of services in real output was highest among countries that export manufactured goods. In the period 2009–12, 21 countries' share of service output in GDP was greater than 50 per cent. Seychelles has the most service-dominated economy (80 per cent), followed by Djibouti, Mauritius and South Africa. In countries where the share of real service output was greater than 50 per cent of GDP, the sector was driven more by domestic demand than by exports.

Net oil exporters, such as Chad, Congo, Equatorial Guinea, Liberia and Libya, are the least service-dependent economies. But in 2001–12, 45 countries' share of services in GDP expanded, most notably Botswana's, which rose from 50.3 per cent to 65.9 per cent (almost as large as South Africa's). In some countries, though, services contracted, such as post-conflict Sierra Leone, where the share of services in GDP fell from 40.3 per cent to 34.1 per cent.

In 30 of 54 countries, the service sector was an important driver of growth, while in 30 of 45 countries where the sector's share of output increased, the share of the manufacturing sector contracted. Services expanded in African countries despite the effects of the 2008–09 global financial crisis. Service expansion was related to maintaining domestic consumption and output even as exports declined. The service sector and services industries thus protected African countries from external economic shocks due to the financial crisis. Services accounted for more than 70 per cent of real economic growth in 12 countries and more than 50 per cent in 7.

In the 30 countries where manufacturing contracted, complementarities between manufacturing and services did not develop. This lack highlights the role that services can play in industrial and manufacturing upgrading in African countries, especially in strengthening input–output linkages and demand between services, agriculture and manufacturing.

The service sector has been important for employment, accounting for 32.4 per cent of it, but the sector's pervasive informality is an enduring structural impediment to employment growth. Although services were clearly a potential source of job creation, only three countries—Cabo Verde, Liberia and Mauritius—accounted for more than 40 per cent of formal service sector employment. In other countries where services contributed more than 40 per cent of output, the sector accounted for less than 20 per cent of formal employment. Increasing the contribution of services to employment and output depends critically on addressing widespread, predominantly small-scale informal services trade.

Informal transactions are widespread across such sectors as health, finance, construction, housekeeping, education, entertainment and personal grooming. Informal trade has increased in construction and agricultural services (Dihel and Goswani, 2016). So, unsurprisingly, the informal sector plays a major role in employment and growth: across sub-Saharan Africa, the informal sector's share of employment varies from 60 to 80 per cent, it creates 90 per cent of new jobs and its share of GDP is 50 to 80 per cent.

Trade in services in Africa has an important gender dimension in a context where women do not enjoy the same access as men to the full spectrum of service jobs and occupations. In 2012, 65–70 per cent of the economically active population in sub-Sahara Africa was employed in the service sector, mostly in informal capacities (Coste and Dihel, 2013). But services in the formal sector are concentrated in female-dominant sectors such as health and education. Overall, more women are employed in the service sector than in agriculture or manufacturing. The growth in the services has amplified gender differences in income, occupational status, career opportunities and occupational segregation.

Occupational segregation helps to explain the high levels of female representation in service sectors. Health, social care and education tend to be female-dominated, so gender distribution across those sectors follows matching between sectors distinguished by different but gender-determined practices, objectives and worker preferences. The over-representation and wage advantages of women in service sectors also reflect their more equal treatment and lower wage discrimination than in other sectors (Tingum, 2016). But women also tend to concentrate in low- and mid-skill occupations, as in hotels, restaurants, wholesale and retail, and in low-skill, low-wage downscale informal services such as hairdressing, housekeeping, tailoring and clothes-making.

Information and data gaps hide how trade in services could address gender disparities and promote greater equity, access and parity in the service sector. Trade liberalization and regulatory reform focus on how trade in services could address constraints, eliminate or mitigate barriers and, ultimately, drive greater opportunities for women by enhancing female participation and gender empowerment.

African countries' service sectors have been growing faster than the world average, but the continent remains a marginal player in value-added global services trade. In 2009–12, the service sector saw 4.6 per cent a year growth in Africa. Wholesale and retail trade, hotels and restaurants grew at 5 per cent a year; and transport, storage and communications at 5.8 per cent. In 10 countries, services grew at average of 8 per cent a year—4 of those were fuel exporters (Chad, Congo, Equatorial Guinea and Nigeria), showing that increasing oil revenue may have positive effects on demand for services. Countries such as Burundi that liberalized the mobile telephone market experienced strong growth in telecommunications. Ethiopia established the Promoting Basic Services Programme to improve access to healthcare, education, water and sanitation services. Since Nigeria rebased its national accounts in 2014, new subsectors have emerged: gas, steam, electricity, sound recording and music and film production.

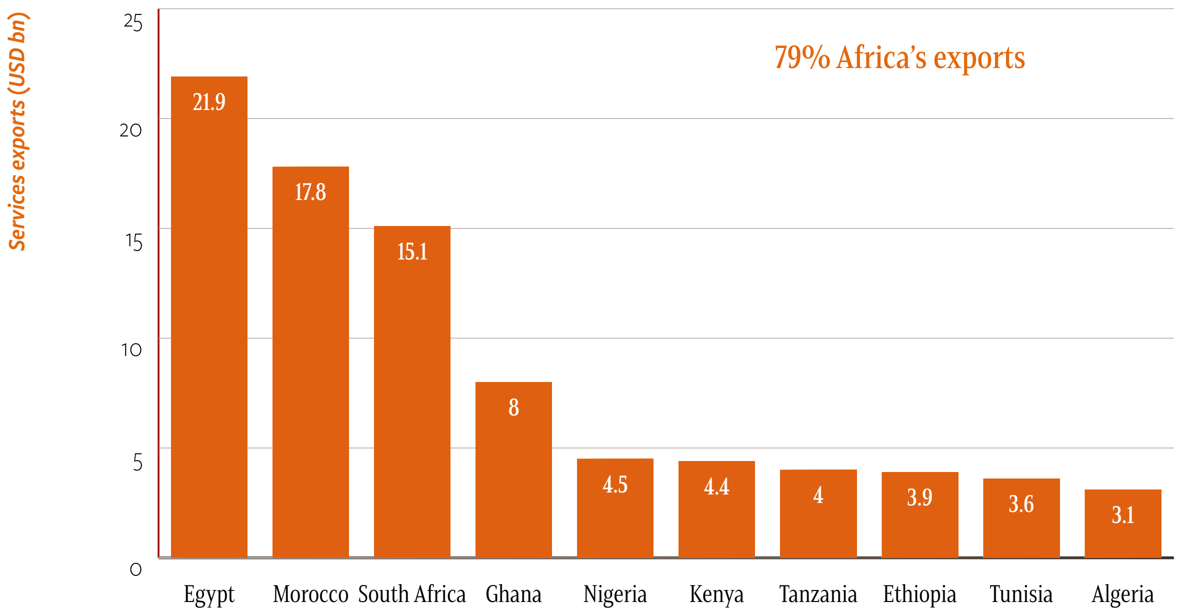
African countries have great opportunity to participate in regional and global value chains. Forward integration by commodity could increase value addition—for instance, many rare earth mineral exporters could build refineries and processing plants to export high-quality rare earth mineral–based products. With the economies of scale now accompanying renewable energy technologies, African commodity exporters could participate more in global value chains, since many key inputs in renewable energy technologies are exported from Africa (Whitehouse, 2019). Petrochemical exporters could rely more on domestically refined fuels for energy and thereby build continental petrochemical value chains that could feed into plastics, polymers, fertilizer and household chemical production. The challenge is to upgrade services sectors in process, product and function to create material advantages in gaining from global product and service value chains. Building global competitiveness is key to this ambition.

Service exports from Africa are increasing, but the continent's role in the export and import of services is marginal. Since 2005, only 11 African countries have been net exporters of services, among them Kenya, Mauritius, Morocco, Namibia and Seychelles. Algeria, Egypt, Morocco, South Africa and

Tunisia are the biggest exporters (FIGURE 2.1). Egypt, South Africa and Morocco account for 55.5 per cent of Africa's service exports while the top 10 countries account for 79 per cent (Ayoki, 2018). In 2019, the value of global service exports was $46 trillion. Africa's exports of services were valued at $107 billion in 2019, and its imports of services at $148 billion.

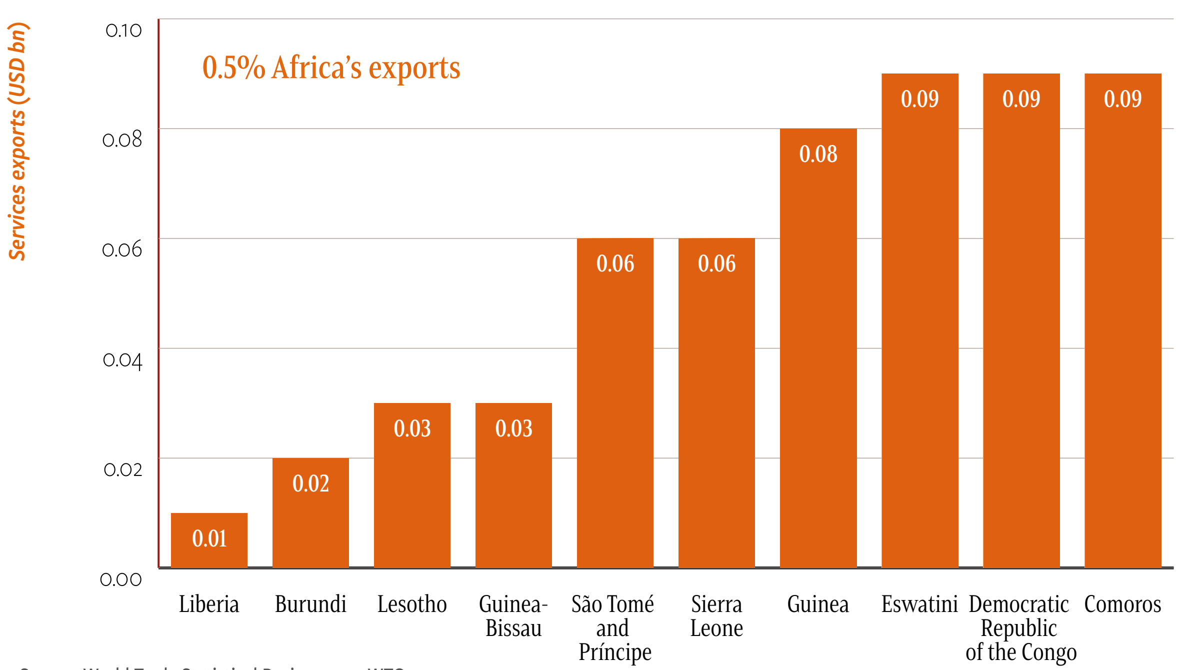
Least-developed countries (LDCs) account for a negligible share of Africa's service exports (the bottom 10 contributed only 0.5 per cent) and hardly contributed to the continent's export basket in 2017–19 (FIGURE 2.2). Africa's LDCs must be better integrated into the evolving architecture of services trade, perhaps on the basis of variable geometry formulations like the two-speed European Union integration or the World Trade Organization's

FIGURE 2.1 TOP 10 AFRICAN EXPORTERS OF COMMERCIAL SERVICES, 2017-19



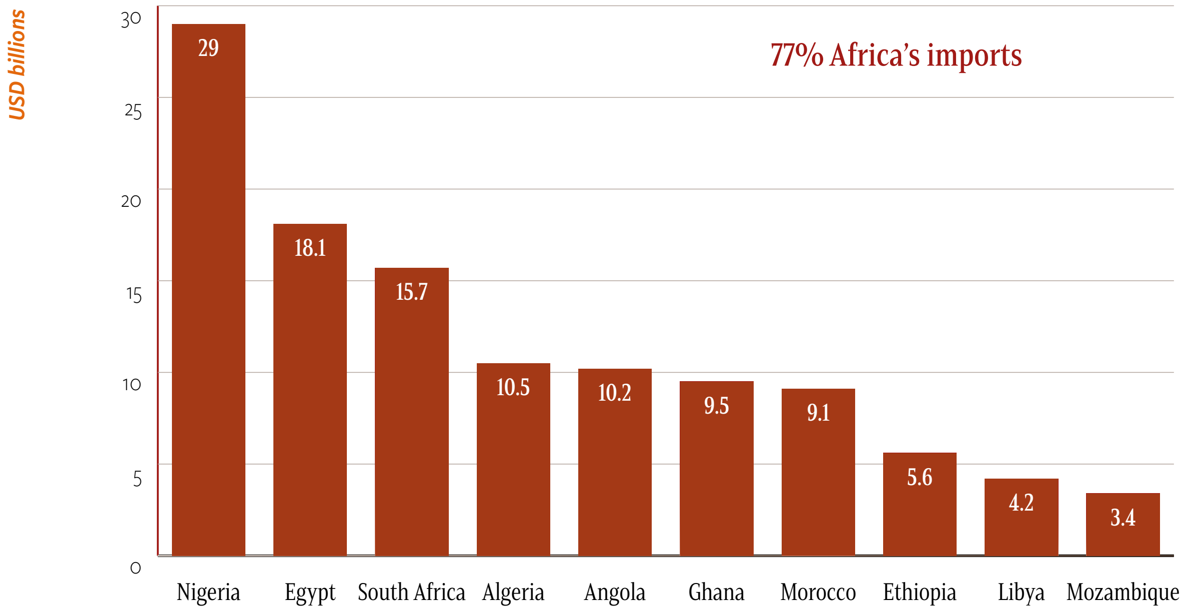
Source: World Trade Statistical Review 2020, WTO.

FIGURE 2.2 BOTTOM 10 AFRICAN EXPORTERS OF COMMERCIAL SERVICES, 2017-19



Source: World Trade Statistical Review 2020, WTO.

FIGURE 2.3 TOP 10 AFRICAN IMPORTERS OF COMMERCIAL SERVICES, 2017-19



Source: World Trade Statistical Review 2020, WTO.

"special and differential treatment" provisos. Indeed, services trade could be the frontier for African LDCs to participate in regional and global value chains and thereby generate greater welfare gains than currently. Negotiations within the framework of the AfCFTA Trade in Services Protocol must create an opportunty for Africa's LDCs to better incorporate services trade into their industrial policies and national growth strategies.

Algeria, Angola, Egypt, Nigeria and South Africa are Africa's largest service importers. The top 10 importers account for 77 per cent of total service imports, and the top 20 for 93 per cent.

Africa's share of global services imports was 3.2 per cent in 2018, compared with developing America's 4 per cent and developing Asia's 30.7 per cent (UNCTADStat, 2019). Most African service imports (72 per cent) revolved around transport, travel, construction and government and other business services, while most exports (87 per cent) were in travel, transport, communications and government and other business services. Although transport services are important as a percentage of exports, their importance decreases when measured in value added, indicating weak linkages between transport and other exporting service sectors.

The top 10 importers of commercial services are mostly the same as the top 10 exporters, indicating that aspects of service imports are integrated into the production of services for export.

Emerging regional trends

Africa's regional economic communities (RECs) have taken account of the crucial role services can play in economic growth and social development. The RECs clearly recognize how transport, financial, energy, distribution, environmental and telecommunications services constitute the building blocks of enhanced regional integration and development cooperation and, further, how such services could improve the overall functioning of the regional political economy.

The role of RECs in their interface with the AfCFTA is well established. The developmental regionalism they represent—going beyond mere economic integration—will help to realize the ambitions envisaged in the 1991 Abuja Treaty establishing the African Economic Community (Kararach, 2014). The RECs' role finds further articulation in the African Union Agenda 2063 aspirations for inclusive and sustainable development and the pan-African quest for unity, progress and collective prosperity. REC member states, in view of the importance of services to Africa's integration agenda, have deepened their commitment to service liberalization. The role that services could play in the REC contribution to the continent's overall development could help REC members escape their low-productivity equilibriums and raise their levels of competitiveness.

Snapshots of regional trends, drawn from the UNCTAD Report (2015a), follow, complemented by recent analysis from a United Nations Economic Commission for Africa (ECA) draft report (ECA, 2021):

The RECs have made modest but continuing gradual progress in liberalizing services trade in line with the pan-African objective of promoting the free movement of goods, people, capital and services. The RECs have focused less on liberalizing trade in services than on liberalizing trade in goods. Reflecting the intrinsic complexity of services trade negotiations, this indicates the difficult road that will have to be travelled under the Trade in Services Protocol to get agreement on common rules, approaches and regulations. The preferred approach has been gradualist, focused on regulating sectors or on the four General Agreement on Trade in Services (GATS) modes of supply.[1] In the Economic Community of West African States (ECOWAS) and the Southern African Development Community (SADC), a sectoral approach has been adopted on transport and telecommunications; while the free movement of persons takes a modal approach in the ECOWAS, SADC and Common Market for Eastern and Southern Africa (COMESA).

RECs have differing regional instruments for trade in services, including policies and principles, and institutional frameworks. First there are instruments underpinned by comprehensive rules that cover all or several service sectors. Then there are instruments that are narrow in scope with a focus on one sector or subsector with rules for that sector. And third, some instruments focus on a mode of delivery, such as commercial presence (GATS modes 3) or the movement of natural persons (GATS mode 4). Heterogeneous approaches thus characterise RECs: some have made some progress in comprehensive service liberalization, while others focus on specific modes of delivery, using hybrid approaches. In the first category are the SADC, COMESA and East African Community (EAC), and which have comprehensive services liberalization regimes that address various sectors.

Regions vary in services trade performance. For service exports, the COMESA is the major regional grouping, followed by the SADC and EAC. The share of the ECOWAS in African exports (5 per cent) and the West African Economic and Monetary Union (WAEMU) (4 per cent) are marginal (TABLE 2.1).

For service imports, SADC is dominant with a 30.6 per cent share of African imports in 2016, followed by COMESA with 29.6 per cent and ECOWAS with 20.9 per cent (TABLE 2.2).

TABLE 2.1 REGIONAL ECONOMIC COMMUNITY EXPORTS OF COMMERCIAL SERVICES AS A SHARE OF AFRICAN SERVICE EXPORTS, 2009–19 (%)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
CEMAC	2,7%	2,9%	3,6%	2,6%	3,4%	3,2%	2,7%	2,9%	2,7%	2,6%	2,8%
COMESA	45,8%	46,0%	41,9%	44,1%	43,1%	44,1%	41,8%	38,0%	40,1%	42,7%	43,1%
ECCAS	4,4%	4,4%	5,1%	4,0%	5,4%	5,7%	4,8%	4,6%	4,4%	3,9%	4,0%
ECOWAS	8,9%	9,0%	9,7%	10,1%	9,9%	8,6%	13,8%	16,0%	15,6%	15,6%	16,4%
SADC	27,5%	28,4%	30,9%	30,6%	31,0%	30,9%	29,3%	29,7%	28,8%	26,6%	24,8%
WAEMU	3,7%	3,8%	4,0%	3,6%	4,2%	4,0%	3,7%	4,2%	3,9%	4,1%	3,8%

Source: WTO (2020).

TABLE 2.2 REGIONAL ECONOMIC COMMUNITY IMPORTS OF COMMERCIAL SERVICES AS SHARE OF AFRICAN SERVICE IMPORTS, 2009–19 (%)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
CEMAC	8,6%	8,5%	8,9%	8,1%	8,9%	8,8%	8,1%	6,6%	5,3%	5,2%	5,1%
COMESA	27,5%	28,2%	25,8%	28,0%	29,3%	29,4%	31,0%	32,7%	31,0%	30,8%	30,2%
ECCAS	24,8%	22,1%	25,1%	22,7%	23,8%	24,6%	21,0%	17,9%	15,8%	13,3%	11,7%
ECOWAS	21,0%	22,2%	22,2%	22,6%	21,8%	22,2%	22,8%	21,4%	25,5%	30,7%	35,9%
SADC	35,0%	34,9%	37,1%	35,5%	34,9%	33,9%	31,3%	31,4%	29,9%	26,3%	22,4%
WAEMU	5,4%	5,3%	5,1%	5,0%	5,6%	5,2%	5,4%	6,4%	6,5%	6,1%	6,2%

Source: WTO (2020).

The June 2015 launch of the tripartite COMESA–EAC–SADC free trade area as a strategic bloc of the AfCFTA provided a critical platform for regional services trade liberalization (the second phase of negotiations after goods trade liberalization). The existing REC protocols will be critical points of reference in shaping the negotiations. The 26 members of the tripartite arrangement will proceed with negotiations based on the RECs' levels of liberalization in the existing schedule of commitments as a basis for progressive liberalization in future rounds.

The RECs focus on different sectors. ECOWAS and SADC have taken steps to regulate telecommunications, while ECCAS has concentrated on transport and communications, and IGAD on tourism, through a master plan. REC sectoral regulation at level shows shared attention to sectors that are relevant to infrastructure and supply-side hurdles.

The GATS modal approach for the free movement of persons has proceeded faster than other modes. It has been adopted in ECOWAS and the EAC, where community passports allow citizens to travel and work in countries of the region. Visas and authorization are not required for short-term stays, buying property, establishing a business or accreditation and recognition of professional qualifications. In the EAC, legal professionals can work in Kenya, Rwanda, Uganda and Tanzania.

In COMESA, EAC and SADC, service protocols cover sectors—except public services—that are supplied by nationals of any of the particular REC's countries. Each of the three RECs has identified a handful of priority sectors, with finance, transport, tourism and communication featuring prominently. Most-favoured nation treatment is offered horizontally to service providers across all the prioritized services. The standard of treatment in all three RECS is to ensure no less favourable treatment, so that in the context of the three free trade areas, service providers within the REC benefit from the same preferences as foreign providers. So, any preferential treatment given to a third party will be extended to service providers within the REC.

Dispute settlement and management concerning violations or differences of interpretation are treated differently. COMESA and SADC refer such disputes to their tribunals but require prior consultation and, in SADC's case, mediation. The EAC requires that local remedies be exhausted by seeking legal redress through the national courts of EAC countries before raising the issue to supranational authorities such as the Council of Ministers East African Community Committee on Trade Remedies and the East African Court of Justice. And all three RECS require publishing standard notification of any regulation relating to services trade, which is consistent with the notification requirement of GATS article V.

Besides the EAC, which has a record of progressive service liberalization, REC countries have shown weak commitment to the regional collaboration on liberalizing services that is necessary to achieve greater services trade. The reasons lie in "inadequate trade-related infrastructure, a poor enabling environment, and non-implementation of regional protocols and decisions" (ECA, 2021, 45). Compared with national and regional goods liberalization, service liberalization is demanding and complex, requiring functional policy frameworks, regulatory regimes and institutional mechanisms. So, as of August 2020, only 10 contracting parties had submitted initial offers for liberalizing services sectors to the African Union (AU) Commission, 5 of which were SADC members (ECA Southern Africa Office, 2020, 11). The Covid-19 pandemic will further complicate preparing offers across RECs and their members.

Prudent decision making will be required Due to this complexity, as service sectors across regions and the continent may not be ready for immediate or full liberalization and thus will require more time for coordination, priority definition and sequencing, as well as harmonizing multiple national regulatory policies and standards (Olayiwola, 2020). The first round of negotiations, which cover the five priority sectors, should attend to this challenge.

Important continental developments in services trade under the wider AU agenda set by the goals of Agenda 2063, the AfCFTA and the African Economic Community. The AfCFTA's Protocol on Trade in Services represents a substantial vision and strategic framework. In 2012, the AU adopted a declaration on Boosting Intra-African Trade (BIAT) with seven priority clusters that contain elements of trade-facilitating services: trade finance, trade policy, trade information, trade facilitation, productive capacity, trade-related infrastructure, and factor market integration. The priority clusters have been complemented by other strategic frameworks' milestones and objectives in such action plans such as the Accelerated Industrial Development of Africa, the Minimum Integration Programme and the Programme for Infrastructure Development in Africa (PIDA). Infrastructure connectivity is especially important for deepening integration, and future service productivity will critically depend on the how successfully the 51 PIDA Priority Action Plan programmes and 433 projects in transport, water, energy and ICT are rolled out (Lisinge, 2020).

The March 2018 signing of the AfCFTA agreement and its May 2019 entering into force mark a major step towards continental integration, since it will be in practice a repository for all preceding continental policies, plans and programmes. Passage of the AfCFTA was expected to increase the share of intra-African trade in total African trade from 10.2 per cent in 2010 to 15.5 per cent by 2022. But the slow operationalization of the AfCFTA due to Covid-19 will dampen the achievement of this target (Gondwe, 2020).

Trade policy in the BIAT priority clusters, would require African countries to make unilateral commitments to liberalize trade-related services such as transport, ICT, financial and professional services. The BIAT declaration section on the trade finance cluster refers to export credits and guarantees as key catalysts for promoting intra-African trade; while trade facilitation, trade-related infrastructure and the various programme benchmarks of PIDA are affected by storage, transport and freight services. A mid-term review of PIDA projects in 2019 revealed that only 143 (35 per cent) were under construction or were operational (Lisinge, 2020, 4). The Yamoussoukro Decision of 2000 set milestones and targets in liberalizing air transport, and a tourism action plan adopted by the AU in 2004 aims to turn the tourism sector and associated services into an engine for growth and development.

The endorsement of GATS mode 4—related to the movement of persons—by the African Heads of State and Government includes a migration policy framework for Africa, with an action plan (AU, 2018). The framework and REC frameworks provide forward momentum towards coherent policy and legal modalities for framing negotiations under mode 4. Mode 4 policy goes hand-in-glove with countries' mutual recognition and accreditation of qualifications that will expand the pan-African labour market for high-end services.

The impact of the Covid-19 pandemic

Country and regional service sector trends, progress and challenges will be affected by the Covid-19 pandemic and its effects. The pandemic has disrupted supply chains and the inter-connected global circuits of markets and economic activity, showing how they depend on national, regional and global services. In the first quarter of 2020, international services trade declined by −7.6 per cent year-on-year and by −7.3 per cent quarter-on-quarter, with travel (the sector affected worst) at −24.4 per cent year-on-year and transport at −8.6 per cent (UNCTADStat, 2020) (**TABLE 2.3**).

TABLE 2.3 SERVICE SECTORS DIRECTLY AFFECTED BY COVID-19

SECTORS	INDUSTRIES
Transport	Air, rail and maritime
Tourism	Hotels, restaurants, travel agencies
Sports and recreation	Entertainment, libraries, sporting events
Healthcare	Hospitals, clinics, social services
Sanitation	Sewage, refuse removal, other sanitation services
Education	Primary and secondary schools, higher and tertiary education
Financial	Banking, insurance
Construction	Construction, civil engineering, assembly
Communications	Postal services, courier services, telecommunications
Business	Professional services, computer and IT services, research and development, rental and leasing, real estate

Source: OECD (2020).

The pandemic in 2020 undermines both Africa's growth and the extent to which services trade could catalyse growth and development. Growth contracted to -3.4 per cent in 2020 as a direct consequence of the pandemic, from an average of 2.4 per cent in 2019.

The pandemic's impact on the continent's debt burden cannot be discounted, either, since countries might have to borrow to underwrite or cope with the fiscal stresses that inevitably result from increased demands to fund public healthcare and social welfare gaps. The content and structure of debt is equally concerning. African countries have increasingly leaned towards non-concessional and domestic debt with onerous interest rates, leading to the current and excessive debt accumulation. In 2012, the ratio of general government gross debt to GDP stood at an average of 37 per cent. By 2019, the ratio had increased to 55 per cent in 24 countries and 60 per cent in 19 others. This shows how fiscal balances deteriorated and indicates how much the pandemic will add to economic distress (OECD, 2020).

Three of the WTO GATS modes require proximity between buyer and seller: consumption abroad, such as tourism services (mode 2); commercial presence, such as international banking services (mode 3) and movement of natural persons, such as ICT professionals working abroad or intra-corporate transfers (mode 4). Cross-border services trade (mode 1) includes the entire range of services transacted through the internet, some of which have continued, for example in working-from-home arrangements. But services in modes 2, 3, 4, because they require physical proximity between suppliers and consumers, will feel the adverse effects of the pandemic.

Some perspective emerges if we consider that in 2019, the total value of global trade in services was expected to reach $6 trillion (up from $5.8 trillion in 2018, half of which flowed through mode 3 transactions) (UNCTADStat, 2019). That mode 3 share effectively means that almost half the value of services will have been compromised by the pandemic. Several mode 1 services that provide complementary inputs into manufacturing and other services will have further compounded the damage, and even deliverable mode 1 services will have been affected by challenges of data security, client confidentiality and access to information and ICT (WTO, 2020). So, African countries need to ensure that institutional, governance and fiscal mechanisms are put in place to mitigate the impact of the pandemic on services industries, whether they be formal or informal.

The lesson of these dire considerations is that countries must resist any urge to impose restrictive barriers on services trade. The adverse effects of such restrictions do not bolster the prudential regulation of services (Nordas, 2016; Nordas and Rouzet, 2017), especially commercial presence (Andrenelli et al., 2018). The importance of services trade for African countries' economic recovery cannot be stressed enough, and although additional healthcare-related and quarantine restrictions are likely to be imposed on trade in services that require proximity between buyers and sellers, such restrictions must not become prohibitive. The preferential liberalization of both goods and services not only will enhance regional value chains in Africa but could also mitigate macroeconomic turbulence caused by the pandemic. A recent study, for example, showed that the implementation of the AfCFTA could generate 14 per cent growth in intra-African greenfield investment over the next decade (Shingal and Mendez-Parra, 2020).

The fast growth of e-commerce and the digital economy in African countries suggests that incentive schemes should be part of government policy during the pandemic. Data restrictions lower the productivity of domestic business and reduce imports of strategic services (Farracane, Kren and van der Marel, 2020). Most benefits would flow to sectors that use data intensively and use online platforms for computer services, financial and insurance services, ICT and research and development extensively. The challenge across Africa's defective and deficient data environment is to increase network capacity, offer expanded data services at minimal cost, lower or eliminate the transaction costs on digital payments and mobile money transfers and improve delivery and other logistics services (ECA, 2019; WTO, 2020).

The conceptual and policy parameters of the AfCFTA could form the basis for a strategic continental e-commerce and digital ecosystem for liberalizing and lifting restrictions on digital trade across Africa (ECA, 2019: 259–262). Liberalization must of course be accompanied by investing in ICT infrastructure to address the persistent digital divide and regulatory bottlenecks in many African countries. Bottlenecks include poorly structured spectrum licensing schemes that limit market entry, as well as restrictions on foreign ownership, exorbitant taxes on digital services and equipment, weak cybersecurity and data protection and a lack of technical skills.

The nature of services trade policy

AU member states have undertaken a range of commitments under the GATS, which entered into force in 1995. Currently, 44 AU member states have made some GATS commitments during the Uruguay Round of negotiations or accession period. At the end of the Uruguay Round, WTO members were required to have a GATS schedule, with a commitment to participate in future rounds of services trade negotiations. There was no minimum requirement on the numbers of sectors where commitments were to be registered when GATS came into force, so WTO members could list as few as 1 of the 155 subsectors, thus explaining why Africa's LDCs made limited commitments (Cattaneo, 2020, 41).

The most frequently committed sectors have been tourism and travel, followed by communication and financial services, business services and transport. Very few countries have made commitments in distribution, education, recreation, healthcare and social services, or cultural and sporting services. The AfCFTA's five initial priority sectors—transport, business, communication, financial and tourism and travel services—are closely aligned with the sectors where African countries have most frequently made commitments under the GATS. The extent of service liberalization and openness is shaped both by countries' GATS commitments and by unilateral liberalization and REC service regimes. These offer an important point of departure for negotiations under the AfCFTA Trade in Services Protocol. A GATS-plus approach will be the starting point for the AU's WTO members, while autonomous national liberalization will have to be considered by non-WTO members. In addition, cooperation frameworks for services regulation must be informed by existing REC and AU protocols and regulations (Cattaneo, 2020).

BOX 2.1 presents a sampling of the status of services in the RECs. Regulatory reforms needed to address shortcomings in Africa's services trade landscape include ensuring the effective contestability of service markets, establishing independent and accountable systems of regulation, and achieving mutual recognition agreements.

All RECs recognized by the AU have some form of service agreement. The agreements range from cooperation in some sectors to comprehensive trade liberalisation. Cooperation frameworks typically focus on technical standards, harmonization of regulations and development concerns in certain sectors. By contrast, comprehensive trade liberalization agreements (essentially modelled on GATS) are underpinned by trade rules on market access and national treatment. They typically cover all service sectors and include sector-specific commitments to liberalization in schedules of specific commitments (Lakatos, 2016).

BOX 2.1 A SAMPLING OF RECs AND THE STATUS OF SERVICES

- COMESA: Members have adopted measures to progressively liberalize trade in services. The schedule of commitments being negotiated has highlighted seven priority sectors: business, finance, tourism, transport, construction, communication and energy services.
- EAC: The free movement of persons will be achieved through gradual liberalization while schedules of commitments were agreed in seven priority sectors: business, finance, transport, tourism education, distribution and communication. In domestic regulations, members have signed mutual recognition agreements in accounting and architectural services.
- ECOWAS: The REC agreed on free movement of persons and the right of establishment in 1976. Harmonization of transport and telecommunications regulations has been achieved.
- ECCAS: It has a cooperation agreement in, transport, tourism energy, communication and education and training. A treaty is in place for the free movement of persons and the right of establishment.
- SADC: Members have signed a Protocol on Trade in Services modelled on GATS to progressively liberalize services, including health, transport, tourism, information, sports and culture, education and training, communication and meteorology and facilitating the movement of persons (Lakatos, 2016).

The AfCFTA Trade in Services Protocol

The impact of Covid-19 on services trade could be mitigated by accelerating the implementation of the AfCFTA Trade in Services Protocol as a tool of post-pandemic recovery. While intra-regional trade in services exists in various forms across the continent, informality characterizes much trade in such sectors as healthcare, construction, education, agricultural and personal grooming services (Dihel and Goswami, 2016). The protocol aspires to create the conditions for more formal trade in services to encourage national and cross-border investment and growth in the service sector. The protocol covers all service sectors, including those that could emerge in the future, so, "[t]he scope of the Services Protocol is consequently as wide as that of the GATS," essentially incorporating the GATS conceptual vocabulary and liberalization methodologies (Simo, 2020, 79, 95). Article 3(2)(e) calls on all state parties to "progressively liberalize trade in services across the African continent on the basis of equity, balance and mutual benefit, by eliminating barriers to trade in services." In article 8, new national regulations on services and service suppliers may be introduced "to meet national policy objectives, in so far as such regulations do not impair any rights and obligations arising under this Protocol."

In the five priority sectors, the protocol places a premium on ensuring that each state party's measures are reasonable, objective, transparent and impartial. In addition, judicial, arbitration and administrative tribunals or procedures are required to review appropriate remedies for any decision that might affect service suppliers. The principle of transparency must be ensured by each state party publishing all measures that apply to or affect the operation of the protocol. Crucially, regulatory frameworks must be put in place for each of the five sectors. So, state parties must negotiate sector-specific obligations as a basis for regulatory frameworks, which should follow the work programme to be developed and agreed by the Committee on Trade in Services (Article 18(2)). All these policies, measures and activities are intended to "create a single liberalized market for trade in services" (Article 3(1)).

The protocol is underpinned by negative and positive forms of policy integration because of the diversity of African countries, which will adopt the regulatory measures best suited to the exigencies of their own service markets (BOX 2.2). Countries can adopt the positive list approach, the negative list approach or a hybrid approach (Simo, 2020). Although state parties' negotiating modalities and scheduling techniques are important, the outcomes depend critically on the political impetus that they are willing to lend to the process (Adlung and Mamdouh, 2014).

The negative dimension is deregulatory in practice, ensuring that rules for market access do not give preferential treatment to domestic services and suppliers while discriminating against foreign ones, especially through trade-restrictive measures. So, domestic laws and regulations must be consistent with the regional application of the protocol. The most-favoured nation treatment in article 4 of the protocol requires state parties to

BOX 2.2 THE POSITIVE AND NEGATIVE LIST APPROACHES

- In a positive list approach (bottom up), a party explicitly lists the sectors or subsectors to be open to foreign service suppliers under the same conditions that apply to domestic service suppliers through market access or national treatment commitments. Then, in a second step, it lists all the exceptions or conditions to such commitments and states the market access or national treatment limitations that it wishes to apply. In the positive list approach, parties are free to choose at the time of the negotiations which sectors or subsectors they wish to liberalize.
- A negative list approach (top down) requires only the second step. All sectors or subsectors not listed are, by default, open to foreign service suppliers under the same conditions that apply to domestic service suppliers. A negative list approach fosters transparency regarding the sectors or subsectors that are not fully liberalized, opening all sectors to market access or national treatment but applying restrictions that do not comply with full openness under certain conditions.
- As a general principle, developing countries would find the positive list approach advantageous for lightly regulated or unregulated sectors, especially if the government wishes to maintain policy space. A positive list is flexible, since parties only need to make commitments on what they wish to liberalize and what degree of liberalization they wish, so more room is left for policy space. By contrast, a negative list approach works best for well-regulated sectors: it consolidates the status quo and, by being more transparent, offers more predictability in its signals to both domestic and foreign service suppliers.
- The hybrid approach combines features of both the positive and negative lists. It can do so in the same agreement, for example using as a positive list for mode 1 on cross-border trade and a negative list for mode 3 on commercial presence. A hybrid approach could even be used within the same sector, for example with a negative listing for banking services and a positive listing for insurance services (Zhou and Whalley, 2014).

eliminate all discrimination against other state parties by giving “immediately and unconditionally to services and service suppliers of any other State party treatment no less favourable than that it accords to like services and suppliers of any Third Party.”

That said, the negative approach does not address the diversity of regulations, which will require states to coordinate and harmonize national policies and standards of regulation. The positive approach, however, has that task as its essence: a challenging and difficult method that requires countries to surrender a measure of state sovereignty to a supranational entity, such as the AfCFTA Secretariat, to ensure broad and systemic regulatory convergence. Article 10 of the protocol provides for mutual recognition—how one country may accept the way another country regulates its products and services as equivalent to its own. This might pertain, for example, to another state party’s levels of education, experience, requirements, licenses and certification as standards for service suppliers.

In short, mutual recognition in services trade “reflects the general principle that if a service can be provided lawfully in one jurisdiction, it should circulate in any other participating country without having to comply with the laws of these other jurisdictions” (Simo, 2020, 76). The EAC makes use of mutual recognition agreements for professional qualifications in architecture, accountancy and engineering. In protocol article 10, mutual recognition can occur through autonomous harmonization or by entering into agreements. But a state party may not use mutual recognition to discriminate or as a subtle means to restrict services trade. the Protocol requires that a state seeking to forestall or respond to noncompliance (*demandeur)* be given ample opportunity to show that it satisfies the criteria for recognition.

The scope and potential of negotiations: Emerging challenges

Although the protocol provides the legal, conceptual and methodological tools for negotiations to liberalize services trade, undertaking those negotiations will be a challenging phase for implementing the AfCFTA. Negotiations to liberalize goods trade are essentially driven by tariff bargaining, that is, exchanging one concession in market access for another, the intangibility of services makes negotiations on how to liberalize depend on a search for regulatory cooperation, common standards, remedies for information asymmetries and competitive adjustment pressures, and shared policy objectives (Francois and Hoekman, 2010; Adlung and Mamdouh, 2014).

For negotiation under the protocol, a positive list methodology has been adopted, so countries will liberalize the services explicitly selected in the five priority areas of transport, tourism, communications, financial services and business services. That constitutes the first phase of negotiations, to be followed by negotiations in seven other sectors: construction, energy, distribution, education and services related to the environment, healthcare and social delivery. Both phases of negotiations are bound to be tough, demanding and challenging (Zhang, 2015). Unlike goods trade, services trade cannot be subjected to tariffs under a single jurisdiction such as a department of trade and industry. The liberalization of services includes multiple authorities using varied and diverse instruments within state structures, whether for regulating transport, travel, electricity, education and healthcare, telecommunications or professional and legal services (Balchin et al., 2016).

Across African countries, irrespective of their levels of development and the impact of the Covid-19 pandemic, services will increasingly become the main fulcrum of productivity, competitiveness, job creation, poverty reduction and improving living standards (Dihel and Goswami, 2016). Critical policy interventions will be required (**BOX 2.3**). So, negotiations for appropriate and workable policy, institutional and regulatory cooperation will test the AfCFTA’s Trade in Services Protocol at the continental, regional and state levels. The unusual circumstances in the pandemic will challenge negoti-

BOX 2.3 DEVELOPING A FIT-FOR-PURPOSE AFRICAN SERVICES ECOSYSTEM

Member states should pursue the following activities to prepare themselves for an African service ecosystem:

- Build human resources and technology capacity.
- Upgrade ICT infrastructure to ensure the efficacy of the AfCFTA's five priority service areas.
- Include informal services trade in the AfCFTA policy agenda.
- Monitor service integration to encourage lowering trade costs.
- Provide incentives and financing for service companies.
- Ensure strong competition regimes to deal with collusion, abuse of dominance and anti-competitive practices.
- Put coherent regulation policies and practices in place for goods, services, trade and investment.
- Encourage prudent market liberalization in costs and benefits to enable greater flows of foreign direct investment.
- Improve access to market information.
- Establish and empower service industry organizations and associations across the five priority areas at national, regional and continental levels.

ations further by requiring effective stakeholder engagement to get service sector organizations and platforms properly constituted, established, launched and included as voices in negotiations while maintaining the participation of international partners and organizations such as the WTO and the United Nations Conference on Trade and Development (UNCTAD) in capacity-building and technical support.

ARIA X provides a focal point for the ECA, the African Union Commission (AUC) and the African Development Bank (AfDB) to cooperate in shaping and improving our understanding of service liberalization in all its dimensions in the widening social and economic distress caused by the pandemic.

The benefits of liberalizing services trade

The linkage between services and productivity provides a useful context to assess the benefits of services trade liberalization (**BOX 2.4**). Services make almost two-thirds of global GDP and employment, yet the limited opening of service sectors to foreign competition continues to hinder trade and productivity growth across African countries and regions. Since cross-border supply (GATS mode 1) agreements increasingly determine which services, and so which innovations, can be traded across borders, addressing the obstacles to services trade is urgent. Often overlooked is the dynamic interaction between services trade reform and manufacturing performance. Indeed, services comprise significant shares of value-added in all economic sectors, as trade data reflect: although only about 25 per cent of global trade comprises trade in services, a full 50 per cent of value added in global trade originates in service sectors. Services provide 72 per cent of the GDP of high-income countries, 53 per cent of that in middle-income countries and 46 per cent of that in low-income countries (UNCTAD, 2016).

Policy barriers and restrictions to services trade persist, despite the importance for a country of having competitive service sectors. Policy barriers to services trade tend to be more obstructive than barriers to goods trade, with their estimated cost typically exceeding the average goods trade tariff. Although separating policy costs from other services trade costs remains difficult, cross-country variations indicate that policy-based costs are a major factor (Cerdeiro and Nam, 2018).

Ongoing services trade restrictions in African countries could undermine the promise that services trade holds for the AfCFTA's integration agenda. The existing World Bank and the World Trade Organization Services Trade Restrictiveness Index (STRI) does not adequately capture the nature of restrictive policies and practices in African countries due to limited country coverage and paucity

BOX 2.4 THE LINKAGE BETWEEN SERVICES AND PRODUCTIVITY

In a sample of 57 countries, the full liberalization of services trade was found to raise manufacturing productivity by 22 per cent, with larger benefits accruing to countries with strong and robust institutional arrangements (Beverelli, Fiorini and Hoekman, 2017). Further, there is solid evidence that openness in services trade boosts long-term growth and economic performance (Hoekman and Mattoo, 2008). In India, a study of 4,000 manufacturing companies showed that service reforms created a virtuous benefit cycle and procompetitive dynamics in banking, transport, insurance and telecommunications. Productivity gains for both local and foreign companies resulted: a 1–standard deviation increment in the aggregate index of services liberalization led to a 12 per cent productivity increase for local companies and a 13 per cent increase for their foreign counterparts (Arnold et al., 2016). This evidence points to the importance of well-designed reforms linked to prudent forms of domestic regulation.

of recent data (2008 data cover 27 African countries, and 2016, the most recent, only 5). But we can infer that reform packages could significantly improve performance and gains in sectors that typically experience high restrictions such as legal, auditing, transport, commercial banking, insurance and ICT. Serious structural impediments persist in policy, regulation and competition, especially in the GATS modes that contribute to the STRI—cross-border trade (mode 1), commercial presence in another country (mode 3), and the presence of natural persons (mode 4). The general environment for services trade in Africa is often costly, inefficient and below standards (Dihel and Goswami, 2016).

So, the possible gains from improved production that would depend on developing the linkages for better service provision are continually undermined, with both producers and consumers bearing the burden. Not all African economies can be manufacturers in the classical sense, but all can participate creatively in value chains. The global shape and content of manufacturing have changed, with horizontal integration superseding vertical integration and much manufacturing trade taking the form of intermediate goods that traverse national boundaries several times. That phenomenon is reinforced by finance, logistics, packaging and supply chain–related services.

The challenge for structural transformation is to find how industrial development or progress along the value chain can help. Lin suggests, for example, that countries need to first design economic development strategies consistent with their comparative advantage (Lin, 2012). Rather than always think of taking giant leaps from one sector to another, African countries could take an incremental approach building on their existing comparative advantages. Building value chains, a much more flexible and realistic approach, opens conceptual channels for diversifying Africa's production base. The conditions that Lin alludes to could be shaped by governments through well-functioning markets linked to strategic value-adding service sectors.

But many African countries lack the institutional capabilities to design such strategies and monitor their implementation. Both supply- and demand-side constraints inhibit the growth and development of service sectors in African economies. Their markets are generally weak, and their economies are dominated by the informal sector, micro-enterprises and informal traders (Sommer and Nshimbi, 2018). Africa thus suffers from an inability to knit together dispersed, weakly articulated production systems in which services could providing momentum, especially in the five priority sectors of the AfCFTA. Again, the Covid-19 pandemic's impacts have amplified this weakness. Services trade liberalization negotiations must be welcomed as a strategic component of the AfCFTA agenda and encouraged at all levels—the AU, RECs and member states. The agenda will require careful, judicious and prudent recalibration, reflecting how the current and post-pandemic landscape affects negotiations.

Since the service sector in Africa is predominantly made up of small and medium enterprises with high levels of informality, a comprehensive and strategic policy approach to the sector is important. An estimated 60–70 per cent of Africa's economic activity is informal, and services constitute the bulk of it (Sommer and Nshimbi, 2018). So, services have great potential as an engine of economic growth, making up 50 per cent of such growth in 30 African countries at all levels of development. But services make up only 22 per cent of Africa's trade, while the continent's exports continue to be dominated by primary goods (commodities) and agriculture.

Most tellingly, Africa accounts for only 2 per cent of the global trade in services. Even so, in 2018 Africa showed the highest growth in service exports—9.4 per cent—thus demonstrating its great promise (UNCTADStat, 2019). Services are magnets for foreign direct investment (FDI) and attracting private equity finance to Africa: about 48 per cent of FDI to Africa in 2014 went into services (UNCTAD, 2015a). This reflects critical interventions underway to strengthen service sectors and services trade across

Africa's diverse economies. So, the five priority areas in services trade that were approved by the AU Assembly in July 2018—transport, tourism, communications, financial services and business services—have much to offer in promoting Africa's development trajectory. Services trade liberalization would thus generate large welfare gains—larger than those for merchandise trade (UNCTAD, 2015b).

To realize the benefits of services trade liberalization, government intervention is necessary to regulate the market and ensure fair and adequate competition (BOX 2.5). This need takes on greater significance because of the prevalence of services in economic activity and already permissively low barriers to entry and inadequate regulatory regimes.

Although sound domestic regulation is critical for realizing the benefits of services trade liberalization, designing and implementing such regulation is demanding, and challenges must be confronted, especially among many African countries that lack rule-directed national regulatory regimes. Setting up the necessary institutional and regulatory infrastructure takes time, is costly and requires high levels of technical and policy skills. The AfCFTA Trade in Services Protocol could prove significant in promoting greater regional cooperation in developing regulatory institutions with the assistance of relevant continental bodies such as the AfDB and ECA as well as international agencies such as UNCTAD and the Organisation for Economic Co-operation and Development (OECD).

Designing domestic regulation could include addressing gaps between GATS commitments and country policy to discourage backsliding and policy reversals, and deepening and expanding specific commitments under the GATS. These steps would promote greater regional openness across a broad range of service sectors and industries and across multiple modes of supply. Governments must identify mechanisms to develop capacity to build vibrant service sectors, including providing advisory services and support for service reforms. They should also focus more on integrating GATS mode 5 services into the African manufacturing and trading landscape. These are services that are embodied in goods exports, and include design, engineering, software, digitalized elements and research and development that are incorporated into and traded as part of manufactured goods (BOX 2.6). They are high value-added inputs intrinsically linked to technology.

BOX 2.5 THE BENEFITS OF REGULATION

- Creating a level playing field and facilitating competition between market players.
- Guaranteeing the quality of services and protecting consumers.
- Ensuring that adequate information is readily available.
- Preventing environmental degradation, for example, from tourism.
- Ensuring adequate access to services such as healthcare, transport, electricity and education.
- Maintaining financial stability, in the banking sector, for instance.
- Preventing disruptions in supply, for example in electricity and ICT.

Source: Massimiliano, Ellis and te Velde, 2008, 4.

BOX 2.6 MODE 5 SERVICES

Mode 5 services represent a subset of "servicification"—services that form part of the value of a good before it is exported, usually as intermediate service inputs. When traded "in boxes" as part of products, mode 5 services pay duties and are subject to a different set of non-tariff barriers than the same services when traded under GATS rules (Cernat and Kutlina-Dimitrova, 2014). Mode 5 services thus do not form part of the production process even if they could be sold separately. This distinction is important for avoiding overlap with the four traditional modes of GATS. In an age driven by technology and innovation, mode 5 has become a critical part of the cross-border exchanges of services: it constitutes a growing share of global goods trade and is an important job-generating activity (Antimiani and Cernat, 2018). The potential of mode 5 in Africa should therefore be explored as part of services trade negotiations.

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ENDNOTES

1 The GATS distinguishes between four modes of supplying services: cross-border trade, consumption abroad, commercial presence and presence of natural persons.

CHAPTER 3
Impacts on Development of Services Trade Restrictions: The Case for Liberalization and Integration

Services, contributing about half of Africa's gross domestic product (GDP) and generating about a third of its formal employment, are critical to the continent's sustainable and inclusive economic development (UNCTAD, 2019). With backward and forward linkages with the primary (mainly agriculture and mining) and the secondary (mainly manufacturing) sectors and linkage with trade, the service sector is indispensable for creating, growing and developing regional value chains and integrating into global value chains (UNCTAD, 2019). An efficient service sector is crucial to the much-needed structural transformation of the continent.

Services trade is the new frontier for developing countries, particularly African countries, for enhancing participation in international trade to realize development gains. But for Africa's service sector to perform optimally, its countries must pay attention to factors contributing to their small share in the global services trade so they can realize the underlying complementarity of services trade and goods trade. An assessment of the barriers to services trade is key for the service sector to perform its roles. So, the thematic part of *ARIA X* addresses such issues in services trade in the context of the African Continental Free Trade Area (AfCFTA).

Policy makers are fairly familiar with goods trade issues. Services trade issues are more complex. For example, while goods trade relies on the traditional border-crossing mode of supply, services trade involves several modes of supply (**BOX 3.1**). The complexity of services trade is reflected in its classification.

The World Trade Organization (WTO) classification based on the United Nations Central Product Classification (CPC) identified 12 service sectors and scores of subsectors (**BOX 3.2**; see **TABLE A3.1** in the annex to chapter 3). The components of the subsectors reveal the complexity of the sector.

The barriers to services trade are also complex, diverse, opaque, and hard to quantify, mainly because services are intangible and are often neither storable nor transferable. Such characteristics

BOX 3.1 SERVICES MODES OF SUPPLY

The four modes are: Cross-border trade (mode 1) is direct export abroad, for example in selling software through digital means. Services for consumption abroad (mode 2) are offered to non-residents. Tourism services typify mode 2. Commercial presence (mode 3) represents services provided by firms that are affiliates of foreign firms to be closer to the consumers. Opening a branch of a commercial bank in another country is an example. In movement of natural persons (mode 4), goods- or services-exporting firms send professionals abroad for a short term, such as engineers to co-design projects locally with a client or technicians to install and repair equipment. Digital services, including mode 2 e-commerce, cut across other modes. Their importance to economic development has launched a debate about their being categorized as a fifth mode of service supply. This chapter will devote a section to digital services.

BOX 3.2 SERVICE CLASSIFICATION EXAMPLES

Two examples illustrate the complexity of service sector classification. First, professional services comprise at least 10 groups of services: (1) legal services; (2) accounting services, auditing and bookkeeping services; (3) taxation services; (4) architectural services; (5) engineering services; (6) integrated engineering services; (7) urban planning and landscape architectural services; (8) medical and dental services; (9) veterinary services; (10) services provided by midwives, nurses, physiotherapists, and paramedical personnel.

Second, subsector other business services comprises at least twenty groups of services: (1) advertising services; (2) market research and public opinion polling services; (3) management consulting service; (4) services related to manufacturing consulting; (5) technical testing and analysis services; (6) services incidental to agriculture, hunting and forestry; (7) services incidental to fishing; (8) services incidental to mining; (9) services incidental to manufacturing; (10) services incidental to energy distribution; (11) placement and supply services of personnel; (12) investigation and security; (13) related scientific and technical consulting services; (14) maintenance and repair of equipment (not including maritime vessels, aircraft, or other transport equipment); (15) building-cleaning services; (16) photographic services; (17) packaging services; (18) printing and publishing services; (19) convention services; and (20) others business services not elsewhere listed.

push border measures to the background and highlight domestic rules and regulations of services, especially their proximity to international best practices, in considering the effectiveness of services trade liberalization. A careful analysis of services trade barriers is required to evaluate their possible impacts on poverty, gender dimensions, structural transformation and social and economic development, including their effect on pursuing the Sustainable Development Goals (SDGs).

Pertinent issues include the following:

- How restrictive are the measures regulating trade in services?
- Are there alternative measures to achieve the intended goals of the measures?
- Given the gamut of services and measures regulating them, how can internal consistency of measures be achieved?
- How transparent and predictive are the measures?

These are among the issues that policy makers, especially trade negotiators, have been grappling with since the negotiation of the General Agreement on Trade in Services (GATS) at the WTO. African policy makers have actively participated in forums reforming trade in services, including the GATS, as well as in regional and bilateral negotiations. Trade in services is an integral component of the AfCFTA. Available literature on Africa's services trade reforms suggests that African countries are more liberal than other countries—an observation that appears to run counter to the abysmal share of African services in global services trade.[1] The answer to the puzzle lies in the structure and quality of openness.[2] Without a rigorous analysis of service sector and services trade, policy reforms are unlikely to have a positive impact on development.

This chapter provides a framework for the rest of the *ARIA X* report. It provides quantitative measures of both the direct impact of services trade restrictions on development and the indirect impact of the costs of expensive service inputs on development, particularly industrialization and integration into regional and global value chains in an era of digitalization. The chapter presents case studies in selected comparable economies in African regions and subregions and non-African regions. Chapters 4 through 8 focus on the regulation and facilitation of each of the five priority services sectors designated by the African Ministers of Trade, namely: transport, tourism, communications, financial services and business services.

EARLIER RESEARCH

What do we know about services trade restrictions?

An analysis of services trade restrictions is like the analysis of tariff and non-tariff barriers on physical goods in at least three ways. First, the analysis can examine:

- Unilateral liberalization —when a country decides to relax or remove some restrictions on services trade domestically by reforming regulations and institutions for services to align them with international best practice.
- Regionally or continental liberalization, as in negotiations in different RECs in Africa or in the AfCFTA.
- Multilateral liberalization, as in the GATS under the auspices the World Trade Organisation (WTO).

Liberalizing services trade,[3] irrespective of the route to it, is usually based on the premise that the exercise will generate net benefits to the country or region in the long run.

Second, the distribution of the gains and losses of the reform requires careful analysis and management, since it is in principle unequal among the stakeholders (consumers, producers, and the government). Similarly, regional, continental and multilateral liberalization reforms may benefit some countries more than others. For instance, liberalizing trade in business services would have different impacts on different services—creating winners and losers. But for the country's welfare, if the reforms generate positive net benefit, those gaining would, in principle, compensate the losers, and the entity as a whole would be better off than before the reforms.

Third, the most desirable gains from liberalization are long-term and cannot be pre-determined because of unpredictable intervening variables, such as changes in policies. So, careful management of the process—the adjustment costs and period—is required. In principle, the magnitude of adjustment costs depends on the distance between current policy and the reformed services trade restrictions. When the changes are minimal, the reactions and adjustment costs can be internalized by firms. Substituting inputs—services or policy supports—or even re-packaging products might suffice for a firm to withstand mild reforms. But when the reforms are substantial, changes that transcend the capability of firms and industries are required. Reforms are also likely to elicit economy-wide effects, some social and fiscal, others requiring capacity building and investment.

How restrictive are current services trade restrictions? The World Bank and the World Trade Organization (WTO) developed a Services Trade Restrictiveness Index (STRI) to measure the restrictiveness of policies towards foreign services providers (**BOX 3.3**). The index has been applied to various issues in services trade and development. It quantifies the restrictiveness of services trade on a scale of 0 (no restriction, completely open) to 100 (highly restricted, not open). African countries are not fully captured in either of the two versions of the STRI.[4] The 2008 STRI includes 27 African countries, and the 2016 STRI only five: Egypt, Kenya, Nigeria, South Africa and Tunisia. Concerted efforts are needed to ensure that the global development of the STRI fully captures African countries.

In the limited sample, African countries do not differ significantly from other countries on the measures included in the STRI. For instance, the average STRI over 55 countries is 50.2 for 2008 and 45.8 for 2016, while the average for the five African countries is 51.0 for 2008 and 47.6 for 2016. In the 2008 STRI for 27 African countries for financial services, professional services, retailing, telecommunications and transportation only Lesotho was completely open to foreign suppliers in financial services, 13 countries were completely open to retailing services and 3 countries (Botswana, Cameroon and Mauritius) were completely open to telecommunications. No country was completely open in professional services or transportation services. And no country was completely closed in any of the services, except Ethiopia in retailing services and telecommunications.

Are those restrictions based on a country's comparative advantage? Were they designed to address specific developmental challenges? Answers to these questions cannot be found in the aggre-

BOX 3.3 SERVICES TRADE RESTRICTIVENESS INDEX

The Services Trade Restrictiveness Index (STRI) is a measure of openness. The index is computed starting with each subsector of services, where policy regimes are assessed and the applied policies mapped into five broad categories with associated scores: completely open (0), virtually open but with minor restrictions (25), major restrictions (50), virtually closed with limited opportunities to enter and operate (75), and completely closed (100). (It is also feasible to use a 0-to-1 scale rather than 0 to 100 as illustrated here.)

After scores are assigned to subsector-modes, they can be aggregated into sector, modal or regional indices using, at each step, different types of weights. Modal weights are sector-specific weights reflecting expert judgement about the relative importance of alternative modes of supplying a specific service. Sector weights are derived from the average share of a services sector in value added for an average industrialized country. Sector weights are constant across countries to ensure comparability. Country weights are weights within a region that can also be applied to avoid domination of a regional average by one very large economy, as Asia would be dominated by China or India using any kind of GDP-based weight.

There are two common but related services trade restrictiveness databases. The World Bank Services Trade Restrictions Database (https://www.worldbank.org/en/research/brief/services-trade-restrictions-database) contains information related to applied services trade policies in 2008 (2011 for some economies). The Integrated Trade Information Portal (I-TIP) (https://i-tip.wto.org/services), a joint effort of the World Bank and the World Trade Organization, contains updated data (for 2016 and 2019) for selected economies and has an improved methodology for the STRI.

gate STRI. A disaggregated STRI that can be easily tailored towards developmental aspirations is more informative and useful to policy makers.

Balistreri, Rutherford and Tarr (2009) used the STRI to assess the impact of services trade reform on foreign and domestic business service providers in Kenya. They estimated that Kenya would gain about 11 per cent of the value of domestic consumption (or about 10 per cent of GDP) in the medium term from a full reform package that included uniform tariffs. In a similar exercise, Jensen, Rutherford and Tarr (2010) applied the STRI to the impact of liberalizing regulatory barriers on foreign and domestic business service providers in Tanzania. They estimated that Tanzania would gain about 5.3 per cent of its value of domestic consumption (or about 4.8 per cent of GDP) in the medium term from a full reform package that also included uniform tariffs.

Other attempts at using STRIs to gauge the impact of services trade restrictions have covered such issues as trade costs (Arvis et al., 2016; Miroudot and Shepherd, 2016; Nordås, 2011), (b) "linking" and or "connecting" services (Borchert et al., 2017; Roy, 2017), productivity of the manufacturing sector (Arnold et al., 2016; Arnold, Javorick and Mattoo, 2011; Arnold, Mattoo and Narciso, 2008), and the impact of services trade restrictions on FDI (Bas, 2014).

Services trade restrictions and trade costs

Nordås (2011) reported that high trade costs in business services are associated with a low level of product differentiation in downstream industries, especially in the automotive industry. So, open business service markets could help industrial upgrading in developing countries.

Miroudot and Shepherd (2016) calculated trade costs for intermediate and final services, compared the costs across countries and sectors and compared the costs against similar costs faced by goods exporters. They trade costs were 277 per cent *ad valorem* for final services and 194 per cent for intermediate services. Overall, services trade costs had decreased only slightly over the prior 10–15 years, in contrast with trade costs for goods, which had come down significantly. Through this study we know that since many services are as traded embodied in goods, the global value chain GVC aspect must be integrated into the analysis of trade in services. And measures of trade costs would be more meaningful if service inputs were clearly distinguished from services provided for final consumption since final trade costs are higher in all sectors than intermediate trade costs. Miroudot and Shepherd also point to evidence that intermediate trade costs are more sensitive than final trade costs to applied services trade policies. And they observed that trade restrictiveness in the service sector had a detrimental effect on manufacturing goods exports. Finally, the concept of *servicification* of economies, which implies that many manufacturing industries would export more if barriers to their service inputs did not limit them, should guide negotiators of services trade reform.

Arvis et al. (2016) noted that trade costs are strongly declining as a share of per capita income. Among developing countries, the upper-middle-income group has reduced trade costs at the fastest rates in the world. Sub-Saharan African countries and low-income countries remain subject to extremely high trade costs. Regional trade agreements, maritime transport connectivity and trade facilitation performance were identified as important determinants of trade costs.

Services trade restrictions and connectivity of the economy

Several studies examined the role of services in promoting the flow of goods and services across different countries and regions. Borchert et al. (2017), assuming that economic isolation could result from policy choices about key linking services such as air transportation and telecommunications, took advantage of a new database on applied services trade policies. They revealed that many countries restrict trade in the very services that connect them with the rest of the world. Moving from an intermediate level of restrictiveness to an open regime, they found, could lead to a 20 percentage point increase in cellular mobile access in telecommunications and a 25 percentage point increase in flight connections per airline in aviation.

Roy (2017) examined the impact of services trade policies on connectivity. He highlighted the economic relevance of services and identified key channels through which trade in services contributes to physical and digital connectivity. The study showed that services sectors play a multifaceted role in connecting countries to the international trading system and that services matter greatly to economic development and achieving the Sustainable Development Goals. Services significantly affect connectivity through at least four channels:

- Providing the basic infrastructure—including transport, telecommunications and information and communications technology (ICT)—to support trade in goods.
- Facilitating supply chains and, as value added embodied in goods, entering trade.
- Providing the backbone enabling e-commerce and information technology (IT) services.
- Enhancing export diversification through cross-border electronic supply.

Roy underscored the fundamental impact of services trade policies on connectivity. Yet, restrictions to investment and cross-border trade in services remain high and widespread. An enabling policy environment promoting competition, openness to trade and investment, and adequate regulatory frameworks can enhance connectivity, lower trade costs and foster growth and economic performance. For example, improving the policy environment for service sectors can help attract the FDI required to meet the SDGs and develop the ICT infrastructure to bridge the digital divide. Implementation of the Aid for Trade initiative in the context of the WTO can support such policy reforms.

Services trade restrictions and firm productivity

Productivity is central to economic performance and structural transformation. Services trade reforms can promote productivity in different sectors. Arnold et al. (2016) examined the link between services trade reform in India and the manufacturing sector's productivity. They found that banking, transport, insurance and telecommunications reforms all had significant positive effects on manufacturing firm productivity. Service reforms benefitted both foreign and locally owned manufacturing firms, but the effects on foreign firms tended to be stronger.

Similarly, Arnold, Javorick and Mattoo (2011) found a positive relationship between service sector reform and domestic firm performance in downstream Czech Republic manufacturing sectors. Allowing foreign entry into service industries appeared to be the key channel through which service liberalization contributed to improved manufacturing sector performance of. Since most barriers to foreign investment today are not in goods but in service sectors, this study might strengthen the argument for services trade reform.

In an analysis of the relationship between African manufacturing firms' productivity of and their access to financial, electricity and communications services, Arnold, Mattoo and Narciso (2008) found a significant and positive relationship between firm productivity and service performance. The study thus supported the argument that improvements in services industries contribute to enhancing the performance of downstream economic activities and are thus essential in strategies for promoting growth and reducing poverty.

Services trade restrictions and foreign direct investment

A few studies focus on services trade restrictions and their effects on FDI and the performance of different sectors, especially manufacturing. Duggan, Rahardja and Varela (2013) showed that relaxing Indonesian policies towards FDI in the service sector was associated with improvements in that sector's perceived performance. They also found that the relaxation of service sector FDI policies accounted for 8 per cent of the observed increase in manufacturers' total factor productivity (TFP) over 1997–2009**.** The total factor productivity gains accrued disproportionately to firms that were more productive. The gains were related to the relaxation of restrictions in the gas, water, transport and electricity sectors. TFP gains were associated particularly with the relaxation of foreign equity limits, and screening and prior approval requirements, but less so with discriminatory regulations that prevented multinationals from hiring key personnel abroad.

Van der Marel (2012) showed that neither trade nor entry barriers were robust determinants explaining cross-country differences. Rather, regulations on operational procedures affecting the variable cost structure of the firm, particularly in combination with ICT capital, seemed more important in explaining TFP growth differences between countries.

Impact of services trade restrictions on developing countries

There is little doubt that services trade is a tool of economic growth, and it is generally agreed that services trade can contribute positively only if appropriately liberalized and implemented across countries (Copeland and Mattoo, 2008).[5] An effective services sector is crucial for the growth and competitiveness both of individual firms and of the economy as a whole.

Similarly, impediments to trade in services, cross-border supply and movement of people often usually force service suppliers into informality or into less productive economic transactions, thus limiting the prospects of services trade.[6] Literature abounds on the impact of services trade restrictions. Since services are key to providing inputs necessary for producing various exportable goods and services, trading in services promises to improve the availability and quality of service inputs through increased competition, improved technologies, access to foreign capital and export diversification options (Grover and Dihel, 2016; OECD-WTO, 2017). While import tariff rates for merchandise trade are easy to know, most measures restricting services trade are non-tariff and thus difficult to measure, since they occur behind the border.

Lücke and Spinanger (2004) suggested that restrictions on entry into the services sector were not meant at first to be protective but to correct market inefficiencies, but as time passed, the original intentions were jettisoned, permanent claims were staked and protectionist configurations produced. Similarly, Kox and Nordås (2007) argued that due to seemingly asymmetric information precipitated by imperfections in some service markets, certain degrees of regulation are justified, so long they become less restrictive later. Hoekman and Braga (1997) identified these barriers to services trade: price-based restrictions, quantity-based restrictions (such as quotas and their various forms), direct government involvement in certain service sectors and restrictions imposed on service importers to access secondary services. Those barriers have collectively been described as *regulatory* barriers (Ethier and Horn, 1991; Lücke and Spinanger, 2004).

Some measures are being taken to cross these hurdles. For example, as part of the 2010 East African Community (EAC) Common Market Protocol, all five EAC countries have committed to eliminating the most specific barriers to trade in education and healthcare services. And the 1997 South African Development Community (SADC) Protocol on Education and Training included student and personnel mobility. Several EAC countries have placed professional services at the top of the list to be integrated in the EAC Common Market. Even so, most regional service markets remain segregated by restrictive policies, such as the criterion of nationality;[7] different regulations for licensing, training and educating nationals and non-nationals and limitations imposed by standards, leading to a shortage of the skills required for knowledge-based services (Grover and Dihel, 2016). So, despite the liberalization of healthcare and education and regional integration agreements, Africa still lacks skills and competencies in those sectors, and many African countries are not yet included in the international linkages in those sectors. Such barriers extend to professional services such as legal, auditing, accounting, and so on. But with reduced restrictiveness, trade in services could be a source of export diversification and reduce the dependence of African exports on primary products, facilitating trade in higher value-added goods. Services in general, and professional services in particular, show greater resilience to economic downturns than do manufactures, part because the cyclicality of demand for services is lower (Borchert and Mattoo, 2010; Coste, Dihel and Grover, 2016).

McGuire (2002) established the impact of services trade restrictions on developing countries (including Africa) in relation to price and costs. He argued that restrictions impede firms from operating optimally and thus push up the costs of doing service-related businesses. Also analysing the cross-country impact of service trade restriction, using information from 103 countries (79 of them developing), Borchert, Gootiiz and Mattoo (2012) found that some of the fastest-growing countries in Asia and the oil-rich Gulf states have some of the most restrictive policies in services, while some of the poorest countries, such as Cambodia, Ghana, Mongolia and Senegal, are remarkably open. In other words, services trade restrictiveness did not seem to promote growth in the regions and countries studied. In contrast, Konan and Maskus (2006) considered the impact of services trade liberalization on Tunisia's economy compared with the impact of that of commodities trade liberalization. Simulations using a computable general equilibrium (CGE) model showed how services liberalization could restructure the domestic economy. Konan and Maskus also considered the regulatory environment at a disaggregated level and compared the relative impact of liberalization in individual service sectors. The impact of reducing barriers in the telecommunications sector on the economic growth of different countries of the world show the potential of services sector reforms.

Empirically analysing the effect of services trade restrictiveness on manufacturing productivity in several countries at different stages of development, Beverelli, Fiorini and Hoekman (2017) found that decreasing services trade restrictiveness had catalysed manufacturing sectors that used services as intermediate inputs in production. Ishido (2013), conducting a non-tariff equivalent for service sector restrictiveness, found that protection in such service sectors as gas and electricity was estimated to be nil for a several countries in the Association of South East Asian Nations (ASEAN). So, liberalizing services trade in the Asian Economic Community (AEC) would be expected to increase services trade and other linkages that depend on service inputs. In the same vein, a CGE-based simulation analysis by Petri et al. (2010) showed ASEAN-centred free trade areas (FTAs) significantly benefitting ASEAN in welfare gain, with the AEC++ scenario, defined as further bilateral FTAs between the AEC and the United States and the European Union while barriers remain in place among non-ASEAN partners, achieving the best outcome. All ASEAN members stand to benefit from the ASEAN-centred FTAs under proposal, while ASEAN's partners (except Japan) might lose out, depending on the scenario.

Kox, Lejour and Montizaan (2004) estimated the increase in trade and investment flows in the European Union (EU) caused by a reducing regulatory heterogeneity. They found that foreign direct investment (FDI) in the EU could increase by 20–35 per cent if bilateral variation were reduced by a common service regulation directive. Kox and Nordås (2009) studied the impact of regulatory heterogeneity (and regulatory intensity) on services trade flows and found large negative effects on firms' market entry, trade flows and export performance.

De (2013) used a gravity model to analyse the linkages between services trade flow and their probable barriers in India. The study found that a 1 per cent improvement in services trade facilitation measures would lead to a 2 per cent rise in services exports—that is, for every removal of restrictions to trade in India, service exports would double. Other studies, using econometric techniques to estimate the effect of services trade restrictions on service sector performance and using a trade restrictiveness index to measure restrictions, found that for most developing economies, measures of effects on prices and costs were up to 150 per cent higher than they might have been in the absence of restrictions (McGuire, 2000; McGuire, Schuele and Smith, 2002).

Methodological issues

Studies on services trade restrictions—especially those measuring the impacts of liberalization on economic performance—have applied different methodologies and approaches. Four broad methodologies are prominent: case studies, trend analysis, CGE and econometric analysis using either gravity model or other similar frameworks. Most analysts adopted an eclectic or combined approach to strengthen weaknesses of a method. Trend analysis does not imply causality but gives a pictorial trend of associations of variables. It also allows for comparative analysis over time and across units and regions. Studies such as Dihel and Goswami (2016) and Saez, McKenna and Hoffman (2015) used this methodology.

Studies using CGE models include Chadha et al. (2000), Fukui and McDaniel (2010) and de Melo (1988). Balistreri, Rutherford and Tarr (2008) used STRI, applying a small open-economy CGE model for Kenya. Jensen, Rutherford and Tarr (2008) took the same approach for Tanzania. But criticisms have been raised to applying CGE modelling to measuring the impacts of services trade on economic development. For instance, Fukui and McDaniel (2010) noted that services trade policy is often opaque and does not fit easily into computational models. They further advised that CGE modelling research is difficult to apply to services trade since barriers to trade in services are complex and heterogeneous across sectors, services have significant effects on downstream industries, market structure assumptions are crucial, foreign presence is often necessary for services trade and many barriers are entry or fixed-cost barriers that restrict foreign and domestic new entrants.

Gravity models have been applied in measuring and analysing the link between services trade and the development nexus. But gravity models adopted in previous studies (such as Walsh, 2006; Francois, 2001; Grunfeld and Moxnes, 2003; Kimura and Lee, 2004) have been criticized for not having a theoretical basis. Consequently, a theory-based gravity framework was developed and applied by Baldwin (2006) and Spies and Marques (2009). The most relevant studies, using STRI and a gravity model, include Benz, Khanna and Nordås (2017) and Gooris and Mitaritonna (2015).

Other approaches dwell on trend analysis, case studies or econometric analysis. Anukoonwattaka, Mikic and Zhang (2017) employed both trend analysis and case study to evaluate the global firms operating in wine exports, construction equipment and water treatment services. Mattoo, Rathindran and Arvind (2001) estimated cross-country regressions for a sample of 60 countries for 1990–99. They noted challenges in knowing whether indices of openness and testing hold as well for other services sectors, as relevant data were unavailable.

IMPACT ANALYSIS

The relationship between services trade restrictions and intra-African services trade and the impact of services trade restrictions on economic development—including equity and inclusiveness—are the subject of this section.

A gravity model was applied to examine the effect of services trade restrictions on intra-African services trade using the Poisson Pseudo-Maximum Likelihood (PPML) estimator due to cross-sectional dimension of the data. The estimator also accounts for missing data or zero trade value, which are common in trade statistics (Haveman and Hummels, 2004). Two indicators were used for the dependent variable: a country's export of services to African countries, and its import of services from African countries.[8] So, the bilateral trade between a country and the African continent is used in the gravity model. Also, the same calculation was done for real GDP and population.

TABLE A3.2 in the annex to chapter 3 presents estimated results for exports models for 2008 and 2016. The coefficient of services trade restriction is largely negative in 2008 compared with 2016, but only statistically significant in financial services in both years. The impact of services trade restrictions was higher in 2016, except in financial services where it was lower. In essence, strict trade policies can discourage service exports by African countries at aggregate and disaggregated levels. Since countries inhibit services trade liberalization, boosting intra-African services trade may be difficult. African countries need to reduce hindrances to services trade to benefit from intra-African services trade and promote the overall development of the continent.

The size of economies, as measured by real GDP, was positively associated with service exports, but the relationship was statistically significant only at the aggregate level and for finance and business services (see **TABLE A3.2**). The role of economy size is essential to promoting intra-African services trade. The relationship was stronger in 2008 than in 2016—which can be traced to the slowdown in most countries during the recession of 2008–09. Improved economic activities across countries will further promote intra-African services trade. The relationship of population to services exports was negative in both 2008 and 2016. At the aggregate level, an increase in population dampened service exports, more in 2016 than in 2008. Intuitively, the poor socioeconomic condition of the largest share of the population may be reflected in this observed result. The huge population may not be sufficient, based on the low level of income, for services trade to expand, but a good socioeconomic condition for the teeming population is important for accruing more benefits from services trade.

The effect of distance is captured by the cost of export and import documentation. The relationship of the cost of export documentation to service exports was positive across the models in 2008 and 2016 (see **TABLE A3.2**). In 2008, all the relationships were significant, but in 2016, only those of three models—aggregate, communication and transport. The impact was mostly higher in 2008 than in 2016. This might suggest that cost of export documentation amplified service exports, but the second measure—the cost of import documentation—influenced service exports negatively in both years, largely creating a drag on services export across countries. So, distance significantly discouraged service exports. The study also examines services exports across the regional economic communities (RECs). Service exports improved significantly across the RECs in 2016 from 2008. ECOWAS service export growth was higher than that of other RECs in both years. Only financial services recorded a decline in exports in 2016; otherwise, service exports improved at the aggregate and disaggregated levels.

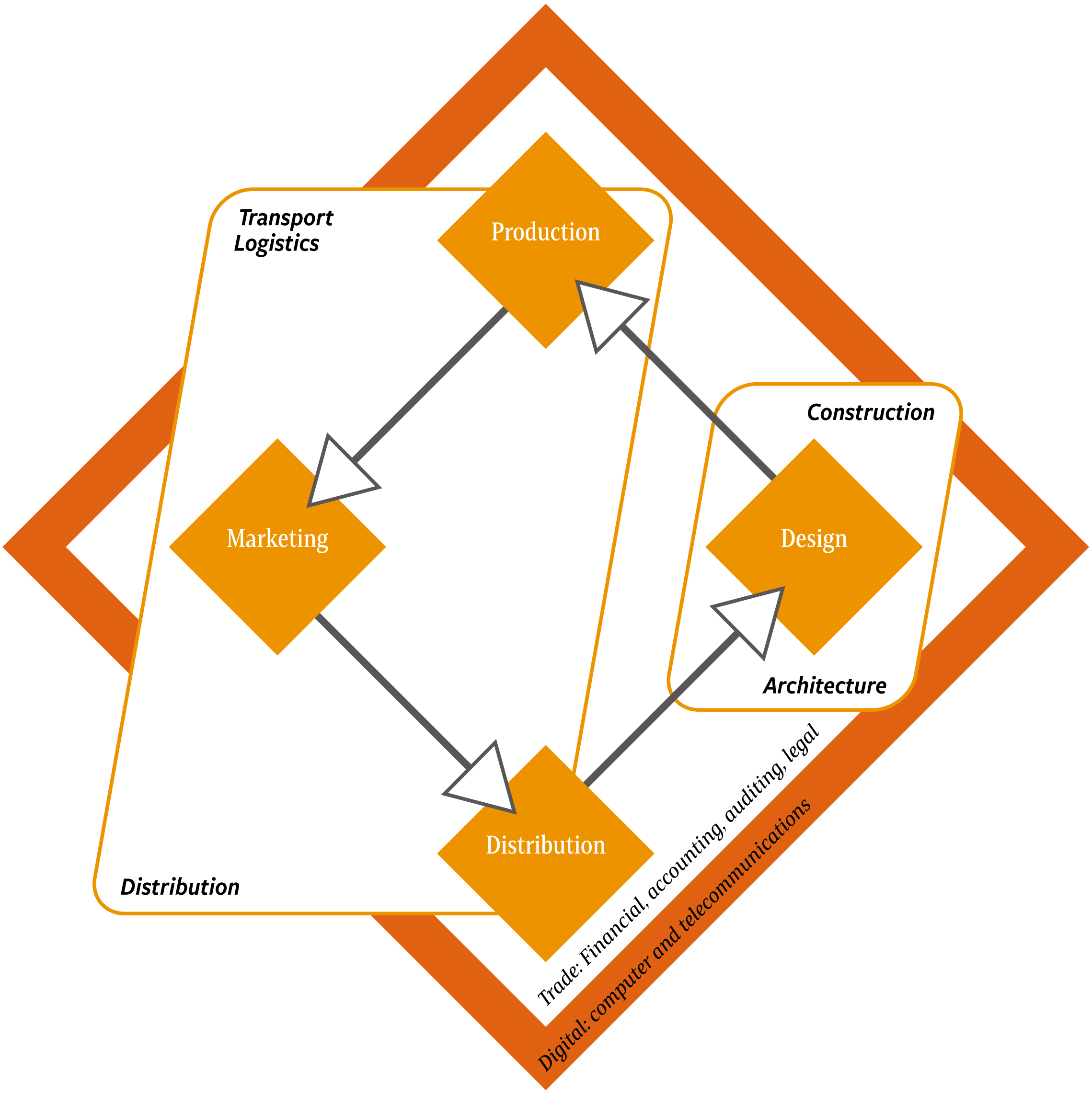
An economic growth model was used by Olawale Ogunkola to examine the impact of services trade restrictions on economic development outcomes, focusing on gender equality and inclusiveness. Details of the model, including the approach, data issues and estimated results, are in Ogunkola (2020). Suffice it to note that investment promoted growth through services trade (exports and imports) when services are liberalized. All measures of service exports positively and significantly influenced economic growth except financial services. This implies that service exports have the potential to improve economic growth on the continent. So, rapid growth in intra-African services trade could help overcome the challenges facing African development. The removal of barriers that hinder the services trade will boost African development astronomically.

DIGITALIZATION AND DEVELOPMENT

Digitalization, services trade facilitation and cost reduction

Services are hierarchical: while some are peculiar to some activities, others have wide coverage, applying to most activities (production, trade, social, and so on). Intermediate service inputs provide essential links in value chains (**FIGURE 3.1**). Construction and architecture services are required in design. Transport, logistics and distribution services are central to production, marketing and distribution. Legal, financial, accounting and auditing services are important to all activities. In the same way, energy services are relevant to all activities, as are digital services, including computer and telecommunications services.

FIGURE 3.1 SERVICE INPUTS INTO VALUE CHAINS



Source: OECD (2017).

The importance of digital services cannot be overemphasized—even more so given the new normal induced by Covid-19, which has promoted contact-less services such as e-learning, e-conferences and so on— at least from the clustering approach (see the section on clustering approach near the end of the chapter) as well as the hierarchy of services. Promoting the digital economy, including services, is a sure way to promote efficiency and improve the productivity of other services. Digital services require analyses of service value chains that, in a policy perspective, identify issues around critical services. For instance, besides digital services, reliable and efficient energy services are central to competitiveness and trade and are a potential catalyst to robust economic performance and structural transformation.

Both the private and the public sectors benefit from digital economy in Africa. In the private sector, micro, small and medium enterprises benefit through lowered barriers to entering global value chains. In the public sector, domestic resource mobilization benefits from institutionalized tax regimes built on e-commerce and other digital platforms.

To fully take advantage of the digital economy, Africa must develop a digital strategy, especially to invest in digitization and to build local industrial capacity. And African countries need finance to improve access to digital technologies and digital infrastructure so the AfCFTA can realize its transformative potential.

Digitalization, industrialization and integration into regional and global value chains

Services trade restrictions and ICT

An augmented growth model Ogunkola (2020) was used to examine the effect of trade policy on economic growth and the use of ICT to enhance the removal of services trade restrictions. The results suggest that strict trade policies inhibit growth by eroding the benefits of services trade. Restrictive services trade can thus obstruct efforts to expand productivity to achieve economic development. So, liberalizing services trade by relaxing services trade barriers could go a long way in promoting development. If ICT is assumed to have a strong indirect relationship with growth by lowering trade barriers, African countries have not yet benefited from it despite the rapid worldwide growth of digitalization through improved ICT services. The benefits of ICT services go beyond removing trade restrictions in positively influencing economic growth on the African continent. Thus, the role of digitalization in both promoting services trade liberalization and improving development by increasing growth is vital for the African continent. This avenue can boost intra-African services trade and put the continent on a high and sustainable growth trajectory.

CASE STUDIES OF REGIONAL INTEGRATION ORGANIZATIONS AND SERVICES TRADE LIBERALIZATION

The quantitative analyses described earlier give a broad view of the possible impact of service reform on the Africa's development. But, given the variety of services and of African countries, such exercises have only limited policy implications. In response, selected case studies in African RECs and the Association of Southeast Asian Nations (ASEAN) been identified and analysed. The aim is to draw lessons for services trade integration in the context of the African Continental Free Trade Area (AfCFTA). The ultimate goal is to provide practical recommendations for African services trade liberalization to promote competitiveness of African services trade, boost intra-African trade and increase Africa's share of global services trade.

Lessons from the Association of Southeast Asian Nations and Africa

Technological advancements using e-commerce for service delivery across borders have been a major reason for the growth and increased internationalization of services (Javalgi et al., 2004; Rajan and Sen, 2002). Restrictions in services trade offer challenges and opportunities for operators in this key sector—Javalgi et al. (2004) called the challenges "strategic." The challenges lie in marketing, human capital, organization, public policy and other areas.

Association of Southeast Asian Nations

In analysing services trade restrictions in ASEAN, Rajan and Sen (2002) sampled Indonesia, Malaysia and Thailand with a focus on the financial and telecommunication sectors. In telecommunication, many Asian countries showed a clear preference for a policy of managed competition. For example, Malaysia made commitments to liberalize cross-border trade in all but two value-added telecom services—electronic data interchange (EDI) and on-line information or data processing services. Thailand was at the other extreme, offering commitments for liberalization in only two subsectors of value-added telecom services. Indonesia, too, has been cautious in liberalizing value-added telecom services, in contrast to basic services such as water supply, electricity and telecommunications. Similarly, Fink et al. (2003) found that although ASEAN countries commonly moved towards greater openness in liberalizing telecommunication services, they made greatly varied policy choices pursuing these goals. Further, Das et al. (2013) observed that progress in liberalizing services trade, has not been impressive, focusing on promoting services trade through the GATS request/offer negotiation process by sector[9] and on promoting flows of skilled labour through the mutual recognition arrangements (MRAs) for professional services.

Even so, the ASEAN Economic Community's completing and implementing MRAs enables signatory member states to mutually recognize the qualifications of professional service suppliers, expediting the movement of providers in the region. Note that MRAs do not result in an unrestricted flow of foreign professionals, since domestic rules and regulations still apply. As of July 2011, ASEAN had concluded seven MRAs, each of them different (Das et al., 2013). This step mitigates the human capital problem highlighted above.

In addition, ACFTA (ASEAN–China Free Trade Area) services liberalization has succeeded in two areas. First, the ACFTA second package provides deeper and broader commitments by both ASEAN and China. Second, revision has been observed only in one case in the second package. This suggests that the ACFTA trade in services agreement provides certainty to potential service providers (and to investors in services industries). However, the improvement of the second package over the first is limited, suggesting that most of the improvements in the second are merely additions of countries' earlier commitments in the GATS (Fukunaga and Ishido, 2013).

African regional economic communities

The East African Community (EAC) has been developing a policy framework for promoting trade in professional services over the past five years. The EAC has undertaken extremely useful initiatives, especially the use of mutual recognition agreements. African countries are also taking steps towards strengthening their service sectors and service trade, with as five of the eight African Union–recognized RECs having negotiated regional service agreements or policies (Keller, 2019).[10] This experience will influence future trading conditions for professional services and other regulated services elsewhere in Africa. Other RECs will particularly benefit, since all the EAC partner states are also members of either SADC or COMESA (Hook, 2016). Drawing on the EAC experience, Dihel et al. (2012) showed how new ICT technologies had enabled companies to increasingly move beyond the domestic market towards serving the region. A World Bank case study found that more than half of Kenyan service exporters in 2012 had clients in Tanzania or Uganda, and a third had clients in Rwanda. Since then, the regional orientation has probably grown even further. Similarly, the liberalization of financial services is now supported in the context of the GATS, building on the financial sector liberalization most African countries began in the context of structural adjustment programmes during the 1980s and 1990s.

Financial services are unarguably the third most frequently committed service sector in African GATS schedules, after tourism and business services. Some 20 African WTO member states have made commitments specific to financial services (UNCTAD, 2015).

Strategic approach to services trade reform in Africa

Services trade reforms are not new to African countries, as was noted earlier. Most African countries actively participated in the WTO General Agreement on Trade in Services. Some have equally participated in unilateral, bilateral and even regional reforms. But these efforts have not yet had sensible effects on the various economies of the continent, as shown by various parameters of trade in services. They were not firmly mainstreamed into socio-economic developmental realities. This section therefore briefly examines the development challenges facing Africa and the role and place of services and services trade in addressing these challenges.

While country level reforms are essential, having a framework for continental integration is more important, while the AfCFTA offers a platform to integrate various efforts at service reforms. The continent's documented development challenges include non-inclusive growth and a lack of structural transformation, among others. The use of services trade reform to promote structural transformation, especially through industrialization, cannot be overemphasized. The strategy is justified by modern day industrialization's reliance on a high dosage of efficient services—indeed, the fourth industrialization revolution, characterized by the internationalization of production and trade in tasks, is propelled by developments in ICT, transport and so on. It is thus instructive and strategic to analyse services and services trade reforms that would promote regional value chains (RVCs) and global value chains (GVCs). The literature, as earlier discussed, has channels through which efficient services drive industrialization. *ARIA X's* case study chapters will trace channels and analyse these issues.

The structure of African economies is key in structural transformation through industrialization. The major presence of micro, small and medium enterprises requires an innovative strategy. Such enterprises have limited capabilities, compared with big firms, conglomerates and multinationals. What services will benefit them?

Various initiatives have emphasized inclusive growth and development, the SDGs demanding that no one be left behind. Structural transformation calls for inclusive growth and development, as well. So, policies should pursue employment and pro-poor growth and development. Available evidence, based on the structure of African economies, suggests service reforms that will promote commercializing agricultural production and supply as a logical step. What services are necessary to attain employment and inclusive growth? Storage, processing, transportation and distribution are especially important to connect producers with consumers. Similar diagnostics of other economic sectors will identify services that will enhance performance.

A cluster view of services and reforming services trade

A cluster view of services in Africa would help develop a robust strategic approach to reforming services trade to support inclusive and sustainable growth and development. An approach using the following four clusters can be considered:

- A digital network services cluster (telecommunications, broadcasting and computer services).
- A transport and supply chain services cluster (transport, courier, logistics and distribution services).
- A market bridging and support services cluster (legal, accounting and commercial banking services).
- A physical infrastructure services cluster (construction, architecture and engineering services).

The clustering approach emphasizes a holistic view in which services address a particular challenge. It emphasizes that a series of services may be required once the challenge has been identified. A cluster perspective helps in analysing the critical and possibly binding constraints to an efficient service cluster with a view to develop appropriate policy reforms. For instance, efficient energy supply service is not only central but also a critical and indispensable input to all the clusters. So, fixing and promoting stable, reliable, environmentally friendly energy should be accorded high priority because of its wide linkages to other sectors of the economy. The cluster approach implies that it is futile in reforms not to recognize a hierarchy of services .

Similarly, a digital network service cluster, especially its telecommunication and computer service aspects, provides important inputs to the development (joining and upgrading) of both regional and global value chains. It is thus complementary to the transport and supply chain services cluster, in which problematic physical linkages by different modes of transportation—air, water, land (road and railways), and pipelines—pose constraints on effective intra-African trade in goods and services. Services in this cluster also require huge investment. Thus, the physical infrastructure services cluster exemplifies complementarity of policies in services trade reforms.

CONCLUSION

This chapter has analysed the impacts of services trade restrictions on development, making a case for the liberalization and integration of services trade in the context of the African Continental Free Trade Area (AfCFTA). Using earlier studies, the chapter evaluated the impacts of services trade restrictions on trade costs, the connectivity of the economy, firm productivity and foreign direct investment (FDI). The chapter conducted an impact assessment of services trade restrictions on development, given the availability of data and based on a review of different methodologies that have been applied to the issues.

When services are liberalized, the chapter found, investment is promoted through services trade. Both private and public sectors gain, for example, from digitalization—especially micro, small and medium enterprises, which can enter global value chains through lowered barriers. The case studies show the need to develop strategic approaches to services trade reform in Africa and the ineffectiveness of a one-cap-fits-all approach works, either across countries or across different service subsectors.

In broad term, services trade reform in Africa should geared towards promoting commercial agriculture in the context of value chains. Services essential for promoting full employment and inclusive growth such as storage, processing, transportation and distribution should be given the highest attention to promote inclusive and sustainable growth and development. The cluster approach to service sector reforms is recommended to pursue this goal.

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ANNEX 3.1

TABLE A3.1 SERVICE SECTORS AND SUBSECTORS

SECTOR	SUBSECTOR
Business services	Professional services
	Computer and related services
	Research and development services
	Real estate services
	Rental/leasing services without operators
	Other business services
Communication services	Postal services
	Courier services
	Telecommunications services
	Audiovisual services
	Others
Construction and related engineering services	General construction work for building
	General construction work for civil engineering
	Installation and assembly work
	Building completion and finishing work
	Others
Distribution services	Commission agents' services
	Wholesale trade services
	Retailing services
	Franchising services
	Other distribution services
Education services	Primary education services
	Secondary education services
	Higher education services
	Adult education services
	Other education services
Environmental services	Sewage services
	Refuse disposal services
	Sanitation and similar services
	Other environmental services
Financial services	Insurance and insurance-related services
	Banking and other financial services
	Other financial services
Health-related and social services	Hospital services
	Other human healthcare services
	Social services
	Other healthcare and social services
Tourism and travel-related services	Hotels and restaurants (including catering)
	Travel agencies and tour operator services
	Tourist guide services
	Other tourism and travel-related services

SECTOR	SUBSECTOR
Recreational, cultural and sporting services (other than audiovisual services)	Entertainment services (including theatre, live bands and circuses)
	News agencies
	Libraries, archives, museums and other cultural services
	Sporting and other recreational services
	Others
Transport services	Maritime transport services
	Internal waterway transport services
	Air transport services
	Space transport services
	Rail transport services
	Road transport services
	Pipeline transport services
	Services auxiliary to all modes of transport
	Other transport services
Other services not included elsewhere	

TABLE A3.2 GRAVITY MODEL FOR SERVICES TRADE RESTRICTIONS AND INTRA-AFRICAN TRADE: EXPORT

	2008				
VARIABLES	AGGREGATE	FINANCIAL	BUSINESS	COMMUNICATION	TRANSPORT
Stri	−2.57e−05	−0.00185***	0.000408	0.000267	−0.000258
	(0.000465)	(0.000648)	(0.000351)	(0.000900)	(0.000628)
Lgdpa	0.459**	1.843***	0.404***	0.281	0.437
	(0.193)	(0.224)	(0.118)	(0.356)	(0.266)
Lpopa	−0.101	−1.820***	−0.303	0.190	0.0692
	(0.270)	(0.348)	(0.228)	(0.462)	(0.317)
Lced	0.0535***	0.0388***	0.0448***	0.0702**	0.0484*
	(0.0206)	(0.0124)	(0.0150)	(0.0358)	(0.0257)
Lcid	−0.0338	−0.0176	−0.0400***	−0.0462	−0.0388
	(0.0217)	(0.0121)	(0.0127)	(0.0394)	(0.0296)
Amu	−0.107***	0.0155	−0.143***	−0.126**	−0.0994***
	(0.0328)	(0.0264)	(0.0399)	(0.0505)	(0.0330)
Eccas	−0.0525**	−0.0833*	−0.0521**	−0.101*	−0.0370
	(0.0248)	(0.0472)	(0.0235)	(0.0536)	(0.0229)
Comesa	−0.0692**	−0.0299	−0.0557**	−0.113	−0.0785*
	(0.0343)	(0.0204)	(0.0224)	(0.0703)	(0.0457)
Sadc	−0.0838**	−0.0787***	−0.0782***	−0.107	−0.0781*
	(0.0344)	(0.0277)	(0.0260)	(0.0687)	(0.0463)
Constant	7.499*	0.00287	11.05***	3.535	3.323
	(4.230)	(4.834)	(3.385)	(7.228)	(5.166)
Observations	24	24	24	21	24
R-squared	0.618	0.885	0.745	0.372	0.519
Pseudo Log-likelihood	−1.837e+06	−23187	−106933	−270194	−829513

	2016				
VARIABLES	AGGREGATE	FINANCIAL	BUSINESS	COMMUNICATION	TRANSPORT
Stri	0.000224	−0.00156***	0.000617	0.000606	−0.000307
	(0.000328)	(0.000477)	(0.000611)	(0.000512)	(0.000507)
Lgdpa	0.428***	1.669***	0.528**	0.104	0.311
	(0.128)	(0.217)	(0.210)	(0.186)	(0.255)
Lpopa	−0.139	−1.399***	−0.902*	0.346	0.102
	(0.279)	(0.335)	(0.544)	(0.385)	(0.348)
Lced	0.0452***	0.00847	0.00846	0.0597***	0.0502**
	(0.0137)	(0.0145)	(0.0189)	(0.0203)	(0.0217)
Lcid	−0.0249**	0.0122	−0.0424	−0.0102	−0.0523*
	(0.0108)	(0.0177)	(0.0275)	(0.0159)	(0.0282)
Amu	−0.0856**	0.0162	−0.0165	−0.149***	−0.0833***
	(0.0378)	(0.0212)	(0.0716)	(0.0551)	(0.0317)
Eccas	−0.0386	−0.0621**	0.0635	−0.0743**	−0.0147
	(0.0272)	(0.0257)	(0.0955)	(0.0296)	(0.0223)
Comesa	−0.0433**	−0.0261	0.0331	−0.0551**	−0.0756**
	(0.0184)	(0.0194)	(0.0603)	(0.0262)	(0.0373)
Sadc	−0.0728***	−0.0314	−0.000683	−0.0598**	−0.0970**
	(0.0198)	(0.0255)	(0.0547)	(0.0277)	(0.0425)
Constant	9.046***	−3.759	20.21**	5.269	6.243
	(3.497)	(4.225)	(9.232)	(4.064)	(3.823)
Observations	24	21	24	23	24
R-squared	0.716	0.848	0.314	0.619	0.604
Pseudo Log-likelihood	−788296	−25538	−711541	−91896	−604998

ENDNOTES

1 Available data show that Africa's share in world services trade is slightly above 2 per cent but less than 2.5 per cent.

2 This is like the structure of openness in trade in goods, where reforms inadvertently promote exports of raw products and imports of processed manufactured goods—or, put in another way, in interdependent economic activities, an output of one sector enters production in another sector as an input. An effective reform must incorporate the economy's ultimate goals, including industrialization, employment and poverty reduction. Missing elements of openness can include such supportive measures and institutions as effective mutual recognition of standards.

3 Used to connote relaxation or removal of restrictions on services trade restrictions.

4 The two STRI are different in many dimensions, including the restrictions covered.

5 Studies have established the impact of liberalization of trade in goods on economic growth (for example, Ben-David, 1993; Coe and Hoffmaister, 1997; Dollar, 1992; Edwards, 1993; Sachs and Warner, 1995) and that the share of services to GDP has always been higher than that of goods (Mattoo, Rathindran and Arvind, 2006).

6 Grover and Dihel (2016) carry explanations of the scenarios that led to this conclusion.

7 For instance, the cost of holding a doctor's licence is usually higher for non-nationals than for nationals. See Grover and Dihel (2016) for examples.

8 Only the result based on the total export of Africa minus the export of the country are presented and discussed in this report.

9 Market access negotiations in the WTO for goods and services usually proceed on the basis of bilateral requests and offers. Requests are normally made by countries that have a significant interest in the traded product. Offers can be made in response to requests or concurrently. When an agreement is reached between two parties on the extent of new market access they are willing to give and accept, the most-favoured nation clause is invoked. That is, the result is extended to all other WTO members.

10 These are COMESA, Common Market for Eastern and Southern Africa; EAC, East African Community; ECCAS, Economic Community of Central African States; ECOWAS, Economic Community of West African States and SADC, Southern African Development Community.

CHAPTER 4
Intra-African Trade in Financial Services

The financial sector is a foundation for any economy, allowing consumers and businesses to save, borrow, invest and mitigate risk exposure. It also serves as a platform for central banks to implement monetary policy. Financial services serve as payment platforms for domestic and international fund transfers, allowing firms to sell their goods and services more efficiently.

Currently, cross-border financial services trade within Africa is limited, outside the pan-African banks. But given its roles, an inter-connected intra-African financial services sector will be key to the economic development and overall integration of the continent, enhancing savings and financial inclusion and facilitating international trade in other sectors. Although financial integration is viewed as an engine for long-run economic growth in developing countries, financial sector reforms must be properly sequenced with development requirements (Krugman, 1993). That need is recognized from lessons of the late 1990s Asian financial crisis and the 2007–08 global financial crisis.

Increased savings and investment are needed in Africa now more than ever, given the low average financial system deposits as a percentage of GDP—35 per cent, compared with the world average of 60 per cent, Brazil's 62.3 per cent, India's 64.9 per cent and China's 54.7 per cent (IMF, 2017). The significance of a well-functioning financial services sector for economic development and poverty alleviation cannot be over-emphasized (Claessens and Glaessner, 1998; Honohan and Beck, 2007; African Development Bank, 2010).

The financial services sector's role in regional integration is evidenced by its contribution to the integration of East African Community (EAC) (Wagh, Lovegrove and Kaskangaki, 2012). It not only facilitated financial inclusiveness and strengthened market participation in the community, but it also promoted market efficiency and optimized effective use of existing infrastructure through ensuring common frameworks and standards in which countries enjoyed mutual recognition of supervision and a harmonization of regulatory disparities. The sector enhanced access to loans and advances through government bonds and securities, ensuring the entire region's liquidity, diversifying portfolios and reducing risks due to large amounts of transactions in banking products.

The EAC financial sector also boosted healthy competition among the regional bloc's financial centres, increasing efficiency and product innovation. Its good regulatory conditions and payment system, top-notch information management system and functioning infrastructure were prerequisites for optimal financial integration that promoted regional financial deepening. Herein lie the lessons, without which the financial landscape could become vulnerable, unstable and fragile, for the African Continental Free Trade Area (AfCFTA) (Beck et al., 2014).

This chapter recognizes the important role of the financial service sector in the modern economy. It presents the current state of international trade in financial services in Africa. The chapter explores the various regulations that promote or hinder cross-border financial services trade and presents examples from other states and regions —including from outside the continent—that have successfully integrated their financial services sectors. The analysis shows the need to overcome challenges of illicit funds transfers to pursue closer integration and cooperation between states to create true pan-African financial services. Those reforms are made possible by the bigger market space within the AfCFTA, and the growth of digital trade and financial technology (fintech) across the continent.

Unfortunately, financial services in Africa are not integrated (Beck et al., 2014). They operate as standalone systems lacking liquidity and financial deepening and excluding many Africans. The few African countries with developed financial centres are insufficient to promote the desired continent-wide integration. Weak and dilapidated financial infrastructure and architecture—many countries have not fully digitalized their financial systems—are the bane of financial integration. Regional and country-specific conditions must be synchronized and harmonized by an infallible supervisory regime for successful continental financial integration.

Generally, efforts towards regional financial integration in Africa relied on one of two kinds of requirements. The first is the presence of some collateral effects such as common currency and regulatory arrangements, focused on the design of various institutional and structural arrangements to seamlessly facilitate continental cross-border financial transactions. The second is a practical market-based framework with operational integration and interoperability of services to actualize the free flow of capital and financial instruments across borders (Wagh, Lovegrove and Kaskangaki, 2012). Regional economic integration in the West and Central African subregions has adopted the collateral effects approach, while that in all other regional economic communities has adopted the market-based model (Wagh, Lovegrove and Kaskangaki, 2012).

Trade in financial services consists of international financial transactions classified into four modes:

- **Mode 1**, cross-border supply, includes a situation where a bank issues a loan by written or oral communication to a customer situated in the territory of another country.
- **Mode 2**, consumption abroad, involves a situation where a customer travels abroad and buys an insurance policy from a foreign insurance company or takes a loan from a foreign bank.
- **Mode 3**, commercial presence, includes instances where a bank or an insurance company establishes a foreign branch in the territory of another country and accepts deposits or insurance policy subscriptions.
- **Mode 4**, the presence of natural persons, includes situations in which the in-house counsel of an insurance company or bank travels temporarily to another country to begin filing the paperwork to open a company's branch or to conclude a contract.

REGULATION OF FINANCIAL SERVICES TRADE IN AFRICA

Country-level financial services trade policies and regulations

A financial system, comprising banks, insurance and credit institutions, and capital markets, is required to provide the security for savings necessary for lending for new projects in trade and industry. It lubricates the engine of production that ultimately promotes economic growth. The financial sector in Africa has witnessed a host of multilateral institution–induced country level reforms, which included interest rate liberalization since the late 1980s, a transition to open market operations, commercial bank reforms for solvency and an increased capital base, financial market development, and strengthened financial market supervision and prudential guidelines. The reforms have facilitated cross-border banking operations and borderless financial transactions through reinforcing investor confidence in portfolio investment and discouraging panic withdrawals of short-term capital. The movement from financial repression to liberalization was justified as boosting efficiency, competition and attendant economy-wide benefits.

Cross-border capital flows are different from financial service transactions transferring capital between countries. Liberalization of the financial services trade can occur with or without similar liberalization of international capital movements (Kono and Schuknecht, 1999). When both are fully liberalized, countries can realize the benefits of improved efficiency and institutional development in financial sectors through increased competition, skill and technology transfer, better risk management and risk diversion across borders. The countries gain in transparency of information while the use of more efficient financial instruments is stimulated, pressuring governments to adequately regulate and supervise financial intermediation.

Specifically, financial services trade policies focus on market access (MA) and national treatment (NT) regulations. Market access is the ability of foreign financial institutions to enter a host country market through the four modes of service supply. National treatment is the lack of discrimination in handling of domestic and foreign firms regarding operational issues/policies once entry has been achieved.

When entering a host country, foreign banks may adopt such organizational forms as representative offices, agencies, branches or subsidiaries (Clark, 2006). Representative offices neither take deposits nor make loans but act as agents for the foreign bank and forward payments to the home office. Agencies can contract commercial and industrial loans but not consumer loans, and cannot accept deposits. A branch is an integral part of a parent bank, offering a wider range of services than agencies or representative offices. Subsidiaries engage in more financial services than branches, have similar powers and are regulated as domestic financial firms.

In banking, policies determine whether the regulator of banking services is independent and impartial and whether it provides banks with appeal procedures concerning regulations. Policies also determine whether a licence or permit is required; ensure that information about licensing, including licence criteria, is publicly available and ensure that meeting the criteria automatically guarantees the award of the licence. Limits on the number of licences available in the sector and the process to be followed in allocating them are also market access issues.

In insurance, market access depends on the criteria for entry and establishing commercial presence, the definition of foreign and domestic firms, barriers to entry by foreign firms or restrictions on foreign ownership or control, the regulation of the sector, operating conditions and cross-border issues, qualifications for obtaining a licence and special or preferential treatment. In financial services, regulatory and trade barriers include discriminatory taxes; limits on foreign equity; restrictions on land ownership; restrictions on specific types of legal entity; nationality residency requirements for board members; and numerical quotas, economic needs tests and freezes on the number of licences or the number of branches. Each country's trade policies and regulations are assessed below using a summary of World Trade Organization (WTO) General Agreement on Trade in Services (GATS) commitments (**TABLE 4.1**) and policy accounts from countries' WTO Trade Policy Review documents.

Commitments are trade obligations or guarantees that a country offers to its trading partners during the period that a trade agreement subsists. A limitation, for example to market access, is an existing rule or regulation that will restrict the extent of trade into or out of a country in the service sector that it applies to. A limitation to national treatment is an existing regulation that allows a country to discriminate between foreign and domestic firms so that they are not treated in like manner. The most-favoured nation principle means that a trade concession granted to one country in a trade group will benefit all the members of the group. Among service commitments, a "bound" entry in respect of

TABLE 4.1 COUNTRY COMMITMENTS IN FINANCIAL SERVICES

COUNTRY	SECTOR	LIMITATION ON MARKET ACCESS					LIMITATION ON NATIONAL TREATMENT				
		MODE 1	MODE 2	MODE 3	MODE 4	REMARK	MODE 1	MODE 2	MODE 3	MODE 4	REMARK
Gambia	Banking	N	N	U	U	ML	N	N	U	U	ML
	Insurance	N	N	N	U	L	N	N	N	U	L
Egypt	Banking	U	U	Rc	N	NL	U	U	Rd	N	NL
	Insurance	U	U	U	U	NL	N	N	N	U	L
Mauritius	Banking	U	N	R	U	NL	N	N	N	U	L
	Insurance	U(a)	N(a)	R(a)	U	NL	N	N	N	U	L
Uganda	Banking	Um	Um	R	U	NL	Um	Um	N	U	NL
Cameroon	Insurance	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC
	Banking	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC
Nigeria	Banking	Um	Um	N	Um	NL	N	Um	N	Um	ML
	Insurance	R	Um	R	R	NL	Um	N	N	Um	AL
Senegal	Banking	Um	Um	R	Um	NL	Um	Um	Um	Um	R
	Insurance	R	Um	R	R	NL	Um	N	N	Um	ML
Kenya	Banking	N	N	Rb	U	ML	N	N	U	U	ML
	Insurance	Um	Um	U	U	NL	Um	N	N	U	ML
Uganda	Banking	Um	Um	R	U	NL	Um	Um	N	U	NL
South Africa	Banking	U	U	R	U	NL	U	U	R	U	NL
	Insurance	U	N	R	U	NL	U	N	R	U	NL
Mauritius	Banking	U	N	R	U	NL	N	N	N	U	L
	Insurance	U(a)	N(a)	R(a)	U	NL	N	N	N	U	L
Tunisia	Banking	N	N	R	U	ML	U	U	N	R	NL
	Insurance	R	N	R	U	R	U	U	U	U	NL

Source: Compiled from World Trade Organization.
L = liberal. ML = moderately liberal. N = no limitations. NC = no commitments. NL = not liberal. R = bound with restrictions. U = unbound except as indicated in the row.
Um = unbound because most-favoured nation not applicable.

a. Indicates liberalized for certain services.
b. Only institutions approved as banks under the Banking Act. Securities issued in a foreign jurisdiction cannot be offered or traded in the Kenyan market. Foreign portfolio investors can hold up to 40 per cent of the shareholding of a locally listed company and can take up to 40 per cent of any additional public offering by a foreign convened listed company. At least 30 per cent of paid-up capital must be held by Kenyan nationals.
c. Foreign capital equity in joint venture banks (JVBs) established after the enactment of Law No. 37/1992 should not exceed 51 per cent. The general manager must be national. An economic needs test shall apply according to criteria for foreign banks stipulated in the row. Foreign banks that desire to set up representative offices should not have branches in Egypt. The activities of representative offices should be confined to conducting studies and potential investments, acting as liaison with their head offices and contributing to solving problems and difficulties that may confront their head offices' correspondents in Egypt.
d. Branches of foreign banks established after 5 June 1992 (the date of enforcement of Law No. 37/1992) may be licensed to deal in local currency in addition to foreign currency, subject to the satisfaction of minimum capital requirements and other prudential measures (Article 13 of the executive regulations of Law No. 37/1992).

a mode of supply of a subsector implies that the existing regulations will apply but will not likely be changed for the worse. An "unbound" entry implies that there is some policy flexibility available to the offering country, but generally any change to the rules should not restrict trade. For investors, a bound entry is clearly more predictable, stable and transparent than an unbound entry.

Gambia has an moderately liberalized environment in banking services, with no limitations to market access or national treatment in modes 1 and 2 of banking services and unbound commitments in modes 3 and 4. The country is more liberal for insurance services, with no limitations to market access, national treatment in modes 1, 2, and 3 and unbound commitment in mode 4. Gambia made commitments in all insurance services, including reinsurance and pension fund services (except compulsory social security services); life insurance and pension fund services; and non-life insurance services.

Egypt's commitments regarding market access and national treatment are somewhat restrictive, with mostly unbound market access and national treatment commitments in banking in modes 1 and 2, restrictions in mode 3 and no limitations in mode 4. For insurance services, Egypt's market access commitments in all four modes are unbound for non-life insurance and intermediation services, while there are limitations only for mode 4 in national treatment. In summary, Egypt's trade policy is restrictive with respect to market access in banking and insurance, restrictive in national treatment in banking and liberal in national treatment for insurance. The banking sector features a sizeable number of foreign private banks. The cumulative share of foreign-controlled banks and of branches of foreign banks has considerably increased from 15.4 per cent in 2005 to 28.8 per cent in 2015 (WTO, 2018a).

In Mauritius—a member of COMESA and SADC—establishment of foreign banks is allowed, either as wholly owned subsidiaries or branches, provided that they enter into joint ventures with local banks. If a bank branch incorporated abroad applies for a licence, the bank must be a "reputable international bank" that has operated as a bank for at least five years and is subject to consolidated supervision by competent foreign regulatory authorities (WTO, 2008c). Mauritius has restricted market access in banking and insurance services with unbound and restricted entry while maintaining somewhat liberal commitments in both sectors with no limitations to national treatment in modes 1 and 2, and unbound rules for mode 4. For establishing an insurance company, foreigners and citizens must meet the same requirements. Licences are granted to insurance companies to provide either long-term or general insurance,[1] but not both, unless they are a reinsurance company (WTO, 2015). The Insurance Act of 2005 allows for external insurance business, restricted to non-Mauritian policies.

Uganda places no limitations based on national requirements, has no deposit restrictions on foreign resources and accepts foreign professionals who satisfy the professional standards of the Bank of Uganda. Market forces determine interest rates (WTO, 2013b). Uganda has commitments only in banking services. It has restrictions on market access in mode 3 and no limitation on national treatment in the same mode. Uganda's commitments under market access and national treatment are all unbound for the remaining modes. The Uganda Insurance Commission (UIC) has the power to administer, supervise, regulate and control the insurance business in Uganda. Foreign-owned insurance companies receive national treatment. Only foreign insurance companies registered in Uganda are allowed to insure Ugandan citizens, but Ugandan companies are allowed to insure non-residents. Insurance premiums are not regulated, but the minimum premiums set by companies are subject to the UIC approval (WTO, 2001d).

Cameroon, the example in ECCAS, has not taken any commitment in the WTO GATS for either banking or insurance services, in contrast to three other members, Angola, Burundi and Rwanda, which have commitments in financial services. Cameroon allows the Central African Banking Commission to manage the financial soundness of its lending institution. The establishment of foreign and domestic banks is guided by same terms and conditions, but foreign banks are required to register as domestic banks to engage in banking operations.[2] Although foreign financial institutions are allowed to have a representative office in Cameroon, the office's manager must be a Cameroonian national and reside in the country[3].

Nigeria bound, without limitation, cross-border supply and commercial presence for banking and other financial services (except insurance). Foreigners—whether corporations or individuals—may own up to 100 percent of equity in any enterprise, including banks. Domestic and foreign banks are subject to the same rules for establishment, operation and supervision. There are no policy or ownership restrictions on either the establishment of foreign banks or the number of branches that foreign banks may open. Foreign banks may raise capital domestically. No distinction is made between nationals and foreigners in the criteria to be eligible for banking licences (WTO, 2017d). Nigeria's trade policy is restrictive in banking services but moderately liberal in insurance services. In banking, Nigeria's market access commitment in modes 1, 2 and 4 is unbound, and in mode 3 there are no limitations. Whereas for banking services, national treatment commitments are split between no limitation (in mode 1 and 3) and unbound (in modes 2 and 4), for insurance services, commitments place no limitation in modes 2 and 3 but unbound commitments in modes 1 and 4.

Nigeria has unbound market access commitments for life insurance and other insurance for modes 1, 2 and 4, but not mode 3. There are no limitations on national treatment for modes 1 and 3, but national treatment for modes 2 and 4 are unbound. Market access in services trade modes 1 and 2 has no limitation in Nigeria. For mode 3, the minister of finance approves the establishment of a reinsurance company. Insurers are required by law to cede 20 per cent of their business to the Nigeria Reinsurance Corporation, which has the right of first refusal before the ceding of any reinsurance business outside Nigeria. Market access in mode 4 is unbound. No limitation exists on national treatment for modes 1 through 3, while mode 4 is unbound.

Senegal is restrictive in banking and insurance services market access and in national treatment commitments for banking services. Its national treatment for insurance services is, however, somewhat liberal, with no limitation on modes 2 and 3. Senegal's GATS commitments are unbound for market access and national treatment in banking services trade modes 1, 2 and 4. Some regulatory requirements under market access are scheduled for mode 3. Market access and national treatment on reinsurance services in Senegal is unbound for modes 1, 2 and 4. For mode 3, it has stipulated conditions for the commercial presence of foreign firms. Insurance companies incorporated in Senegal and foreign insurance companies operating in the country must cede 20 per cent of their premiums and 20 per cent of their reinsurance business to Société Sénégalaise de Reassurance (SENRE). National treatment for mode 3 is left unbound.

In Kenya, both domestic and foreign banks operate in the banking industry without restrictions. As at end 2017, of 42 commercial banks in Kenya, 15 were fully foreign-owned banks, and there were 8 representative offices of foreign banks (WTO, 2019). Kenya's commitments in both banking and insurance services under national treatment are more liberal than under market access. There are no national treatment limitations in modes 1–3 in banking services or modes 2 and 3 in insurance services. Kenya's market access commitment is more liberal in banking services, where there are no limitations in modes 1 and 2, than in insurance services, where commitments are unbound entries in all modes. An insurance professional must have a licence, which must be renewed annually, to operate in Kenya.

In South Africa, branches and subsidiaries of foreign-owned banks are under the same supervisory requirements as domestic banks. Citizens and foreigners can control a bank with the prior written approval of the registrar for an investment of more than 15 per cent of the capital base, or the approval of the minister of finance for an investment of more than 49 per cent (WTO, 1998). The criteria for registering a bank are the same for domestic and foreign investors. A separate banking company, a branch of an international bank or banking group or a representative office of an international bank can conduct banking operations in South Africa. But foreign banks are required to include additional information with their application (WTO, 2003b). Any national or foreign person conducting insurance or reinsurance business is required to register for a specific class or classes of business. Foreign insurers or reinsurers must be incorporated and be registered with the supervisory authority to carry on insurance business in the country. Insurance companies in South Africa may insure risk located abroad (WTO, 2016a). The acquisition by nationals or foreigners of 25 per cent or more of the value of the shares in a registered insurer requires the written approval of the registrar of insurance.[4]

In Tunisia's revised GATS commitments, the measures affecting cross-border supply (mode 1) and consumption abroad (mode 2) for several financial services, including those provided by banks, leasing companies and investment companies were bound without limitation. Similar status was accorded mode 2 market access in insurance services. The measures are unbound for mode 4 market access in both banking and insurance and unbound for national treatment in modes 1–4 of insurance and modes 1 and 2 of banking. Investments in foreign stocks and bonds are not authorized, and natural and juridical persons cannot freely engage in international transactions using foreign currency or purchase financial services abroad. Non-residents can open foreign currency and convertible dinars accounts. A draft banking law has harmonized the conditions governing the functioning, governance and supervision of all banks regarding resident and non-resident banking. The two branches of foreign banks that operate in Tunisia, Citibank Offshore and ABC Offshore, accept foreign currency deposits from non-residents and dinar deposits from residents, subject to conditions (WTO, 2016b). Resident insurance companies may be 100 per cent owned by non-Tunisians since 2008.[5] The managers of insurance companies who have the status of trader must be resident in Tunisia (WTO, 2016c). Foreign enterprises can offer reinsurance services, so importing and exporting reinsurance services without a commercial presence in Tunisia is permitted. No provision in the insurance code mandates cession to a domestic company (WTO, 2005e). The establishment of non-resident ("offshore") insurance companies in the form of branches or representative offices is allowed in accordance with Article 67 of the Insurance Code and Article 147 of Law No. 2009-64. At "national treatment" level, branches and representative offices are entitled to the fiscal, customs and exchange benefits provided for "wholly exporting non-resident enterprises" along with those relating to foreign personnel (WTO, 2016c).[6]

In summary, Gambia, Kenya and Tunisia have more liberalized market access policies in banking services than the other example countries, a result due to their lack of limitations on market access in mode 1, which constitutes international capital flows (TABLE 4.2). Only Nigeria lacks limitations on market access in mode 3, and only Egypt in mode 4—important modes of supply in banking services trade—with implication for AfCFTA financial services and the performance of the financial industry. African countries must improve their policies in market access for modes 1 and 3 to reap the benefits discussed above.

Regional economic communities financial services trade policies and regulations

Economic Community of West African States

The Economic Community of West African States (ECOWAS) has three distinctive banking systems: Cabo Verde's financial system); the individual banking regimes of the Anglophone countries and the West African Economic and Monetary Union (WAEMU) zone, which has a common currency and is regulated by the Central Bank of West African States. Nine of the fifteen ECOWAS member states engage in cross-border banking and have made varied levels of commitments under the General Agreement on Trade in Services (GATS), as explained above.[7] In 1992, the insurance code of the InterAfrican Conference on Insurance Markets (CIMA) was created in the franc zone as a framework for regulating all direct nonmarine insurance activities in 14 African countries, including the WAEMU member States. Insurance is open to foreign presence in the WAEMU member states, but only three members undertook commitments in insurance under the GATS.[8] There is no regulation that establishing of a financial institution requires regional level registration, including in the monetary unions (WAEMU), CIMA and the Central African Economic and Monetary Community (CEMAC).

TABLE 4.2 SUMMARY REMARKS ON COUNTRY TRADE POLICY IN BANKING

LIMITATION ON MARKET ACCESS					LIMITATION ON NATIONAL TREATMENT				
MODE 1	MODE 2	MODE 3	MODE 4	REMARK	MODE 1	MODE 2	MODE 3	MODE 4	REMARK
6U, 3N, 1NC	5U, 4N, 1NC	1U, 7R, 1N, 1NC	8U, 1N, 1NC	6NL, 3ML, 1NC	4N, 5U, 1NC	3N, 6U, 1NC	3U, 2R, 4N, 1NC	7U, 1R, 1N, 1NC	5NL, 3ML,1L, 1NC
N = Gambia, Kenya, Tunisia	N = Gambia, Kenya, Mauritius, Tunisia	N = Nigeria	N = Egypt	ML = Gambia, Kenya, Tunisia	N = Gambia, Kenya, Mauritius, Nigeria	N = Gambia, Kenya, Mauritius,	N = Mauritius, Nigeria, Tunisia, Uganda,	N = Egypt	ML = Gambia, Kenya, Mauritius, Nigeria

Source: Compiled from Table 5.1.
L = liberal. ML = moderately liberal. N = no limitations. NC = no commitments. NL = not liberal. R = bound with restrictions. U = unbound except as indicated in the row. Um = unbound because most-favoured nation not applicable.

Common Market for Eastern and Southern Africa

The Common Market for Eastern and Southern Africa (COMESA) has organized a programme of financial and monetary integration which would lead to monetary union, but little progress has been made. Monetary Union is premised on Article 4 (4) of the COMESA Treaty, signed in Kampala, Uganda, on 5 November 1993, which states that the COMESA member states shall co-operate in monetary and financial matters and gradually establish convertibility of their currencies and a payments union as a basis for the eventual establishment of a monetary union. The COMESA Regional Monetary and Financial Integration roadmap has five stages: preparatory, harmonization, cooperation, integration, and unification/monetary union. [9] But the region has no monetary union or central bank due to a lack of political will and ambition, a lack of national commitment to implement the aims and objectives of COMESA and the Abuja Treaty (establishing the African Economic Community), a top-down planning approach with insufficient resources to implement the agreement and absence of the rule of law to sanction implementation lapses (Pearson, 2019).

Southern African Development Community

The Southern African Development Community (SADC) Protocol on Finance and Investment, established in 1996, defines a policy on banking, financial regulation and investment concentrating on harmonizing the financial and investment policies of SADC member states to integrate the region. Most of the REC-related work in the SADC financial and investment sector has been limited to boosting cooperation among members state parties to create a favourable investment climate and to attract investment. The SADC has pursued macroeconomic stability and convergence; taxation and exchange control policies; payment, clearing and settlement systems; information and communications technology connections among central banks; and support for bank supervision, development finance, non-banking financial institutions and services, capital market development (including stock exchanges), and anti-money laundering.[10] Financial reforms in Southern Africa removed official management of interest rates and eased conditions for banking, making the SADC financial market more dynamic as new financial institutions and new products are developed, despite still-low access to credit and capital for smaller businesses.

Economic Community of Central African States

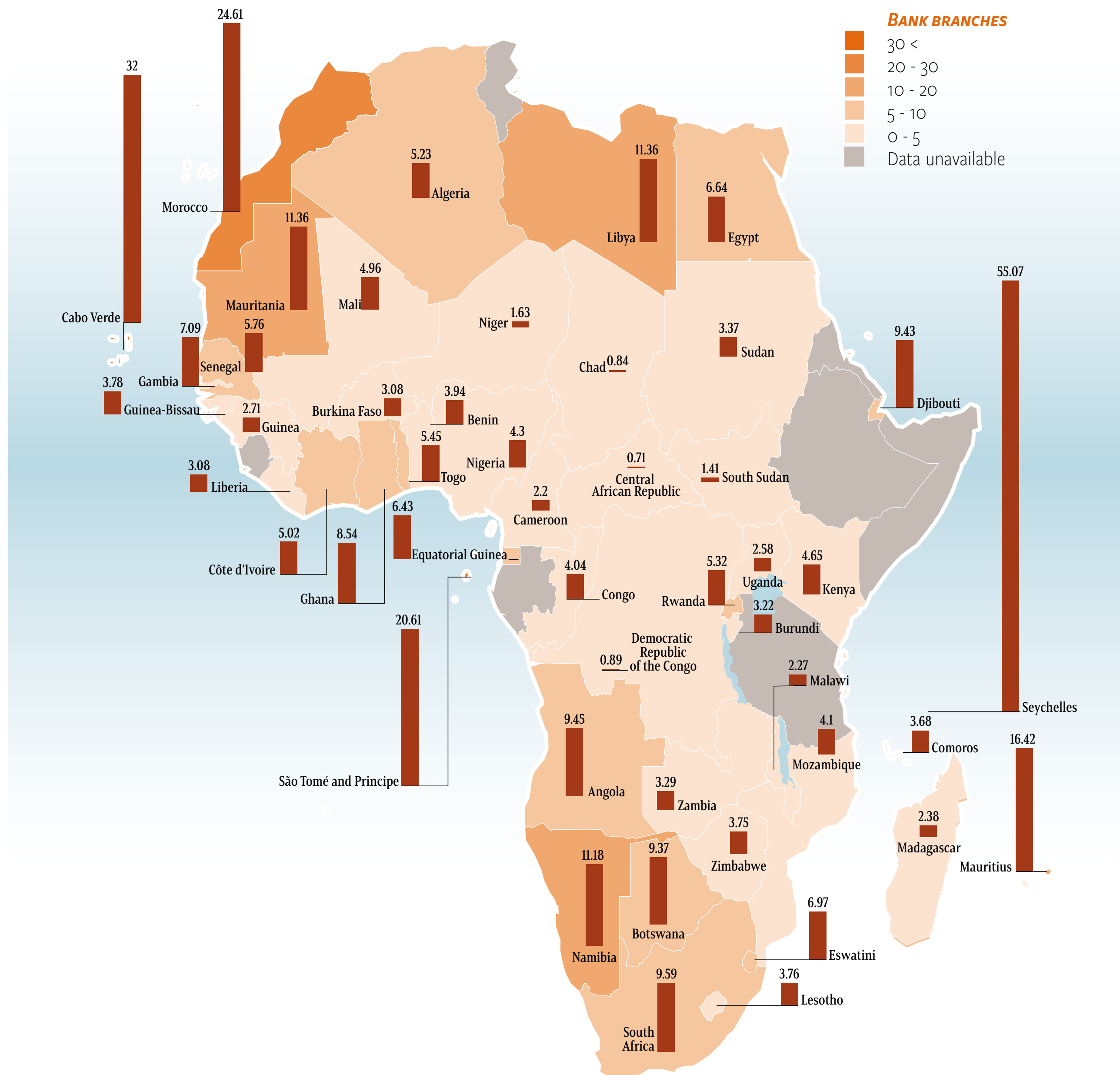
The Economic Community of Central African States (ECCAS) was conceived in 1981 as an expanded customs and economic union for the Central African countries and established formally in October 1983. The ECCAS has 11 members and is headquartered in Gabon. It did not become operational until 1985 due to political turmoil causing financial incapacity in some member countries. ECCAS does not have a deliberate mandate for monetary union—it is based on a goal of harmonious coordination of national policies to promote community activities on many sectors, including currency and finance. So, achieving monetary union might be a long haul for the region.

East African Community

The East African Community (EAC) is the brainchild of 6 partner states: Burundi, Kenya, Rwanda, South Sudan, Tanzania (which hosts the headquarters) and Uganda. A customs union, common market and monetary union are the common objectives. A custom union and common market were both attained in 2010—a significant success—but the common currency area has been a mirage. The protocols for monetary union, adopted in 2013, were intended to be fully operationalized in 2023. Two bills critical for its establishment were presented and passed for the first reading in Kampala, Uganda, on 7 February 2018. These have been committed to the respective East African Legislative Assembly committees.

Overlapping objectives and conflicting interests among the RECs pose a major problem for financial and economic integration. To promote integrated intra-Africa financial trade and services despite the

FIGURE 4.1 NUMBER OF COMMERCIAL BANK BRANCHES PER 100,000 ADULTS IN SELECTED AFRICAN COUNTRIES



Source: IMF Financial Access Survey.

different objectives and time frames, Africa may have to allow cross-border private sector participation to set the speed of integration. While the RECs harmonize their objectives and goals, the removal of barriers to financial services trade and intra-African capital movement could speed integration without waiting to go through each stage—preferential trade zone, free trade area, customs union and common market. Harmonizing national regulations and removing all impediments to the movement of people, goods and services will hasten integration.

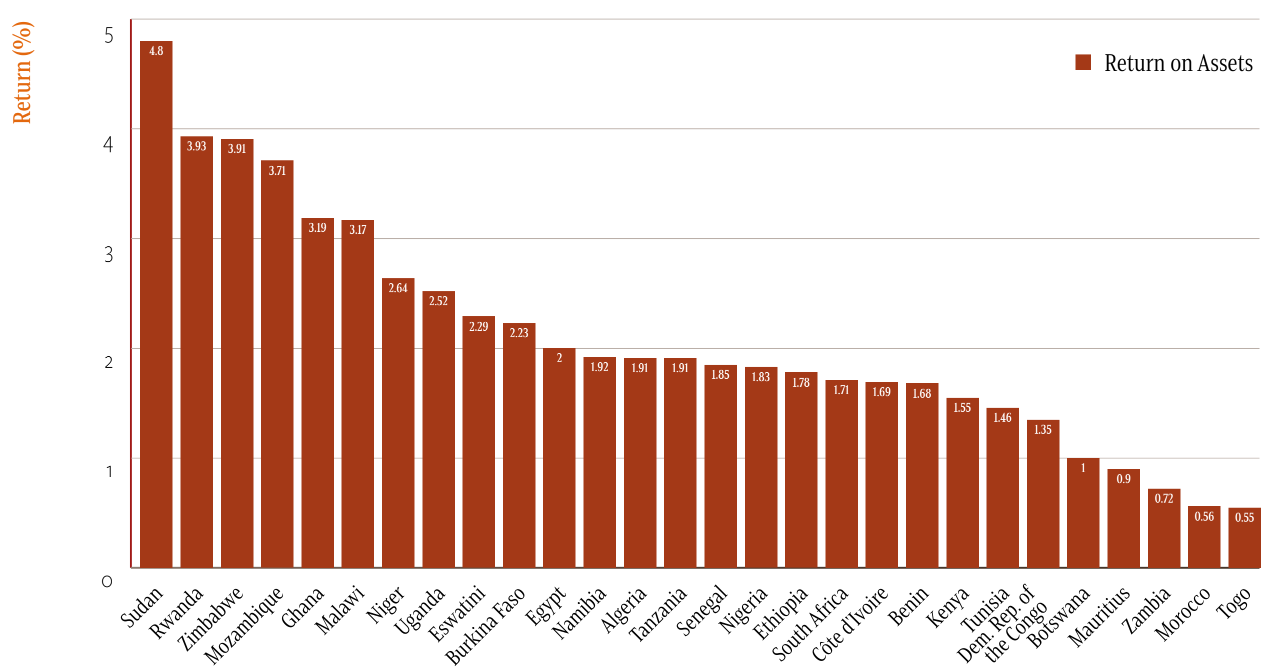
Revisiting the issue of policies and regulations and the nexus with financial sector performance, African countries' financial sector internal and external performance continue to buckle under the weight of heavy regulations and inconsistent trade policies. For example, Cabo Verde, Mauritius, Morocco, São Tomé and Príncipe, and Seychelles had the most commercial bank branches per 100,000 adults as of 2019, and access was also higher than the African average in Libya, Mauritania, Namibia and South Africa (FIGURE 4.1). Of 47 countries surveyed, 19 improved in access to commercial bank branches between 2015 and 2019, with Djibouti, Egypt and Mauritania expanding access the most. But although Mauritius, Namibia, and São Tomé and Príncipe topped the list for access, they also experienced the greatest contractions in access between 2015 and 2019.

Little access or financial inclusion, resulting from the inadequate presence of banks and bank branches, appears to hamper operational efficiency. Return on assets (ROA) demonstrates bank management's efficiency in using assets to produce profits, with low ROA indicating inefficiency. The surveyed countries' commercial banks' ROA had a notably low average of 1.8 per cent in 2020. Only 11 of the 28 surveyed countries had ROA higher than 2 per cent, and the lower ROAs of the others indicated lower efficiency in bank operations (FIGURE 4.2).

Higher trade in some financial services modes is central to achieving higher ROA. That could lead to even higher return on equity (ROE), a measure of a bank's profitability. While ROE is an internal performance measure of shareholder value, it has several advantages. ROE offers a direct assessment of the financial return of a shareholder's investment, is easily available to analysts since it relies only upon public information, and allows comparison between different companies or different sectors of the economy (ECB, 2012). Commercial banks in African countries had an average ROE of 13.4 per cent in 2020 (FIGURE 4.3 presents selected countries). The banking sector in Africa outperforms that in other regions in profitability, highlighting the continent's lucrative financial opportunities for both new entrants and current sector constituents (ECA, 2020).

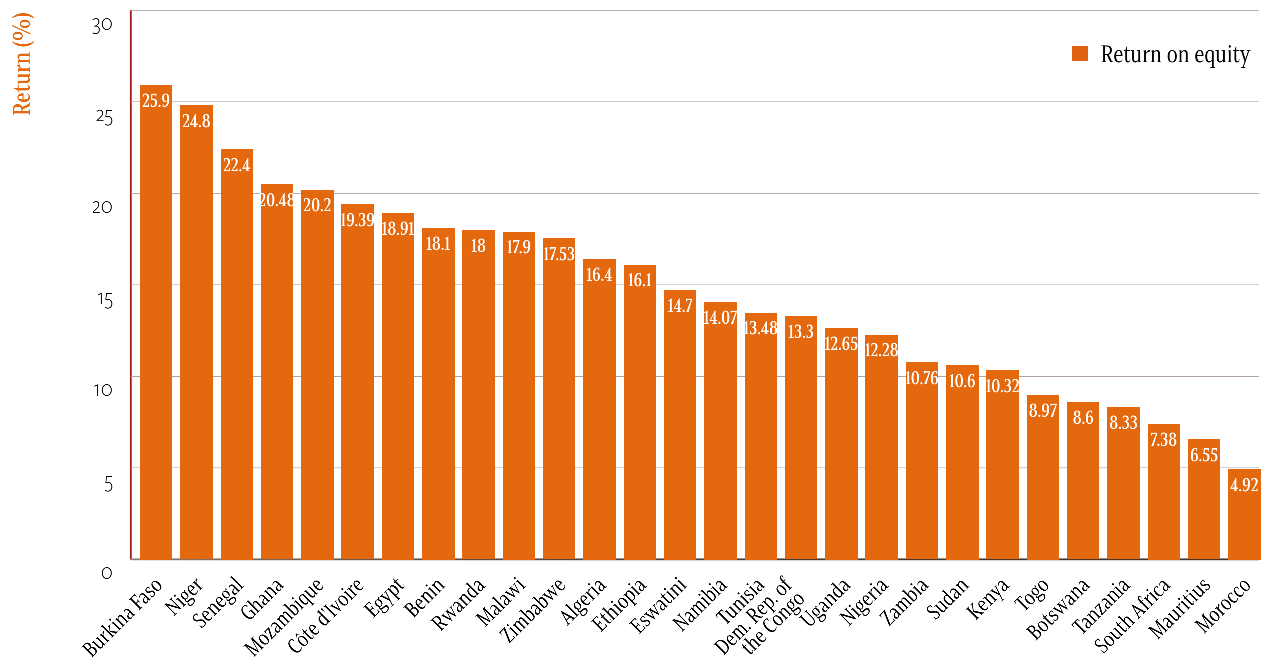
Since ROE is simply the ratio of net income to shareholders' equity, deposit banks that devise more cost reduction strategies will outperform the others. But it is not enough to reduce cost, it is also important to grow revenue. Increased financial sector trade and intra-continental capital movements will probably increase competition and efficiency, with ROE attracting investors into intra-continental financial

FIGURE 4.2 COMMERCIAL BANKS' RETURN ON ASSETS (%, AFTER TAX) OF SELECTED AFRICAN COUNTRIES



Source: S&P Capital IQ.

FIGURE 4.3 COMMERCIAL BANKS' RETURN ON EQUITY (%, AFTER TAX) OF SELECTED AFRICAN COUNTRIES



Source: S&P Capital IQ.

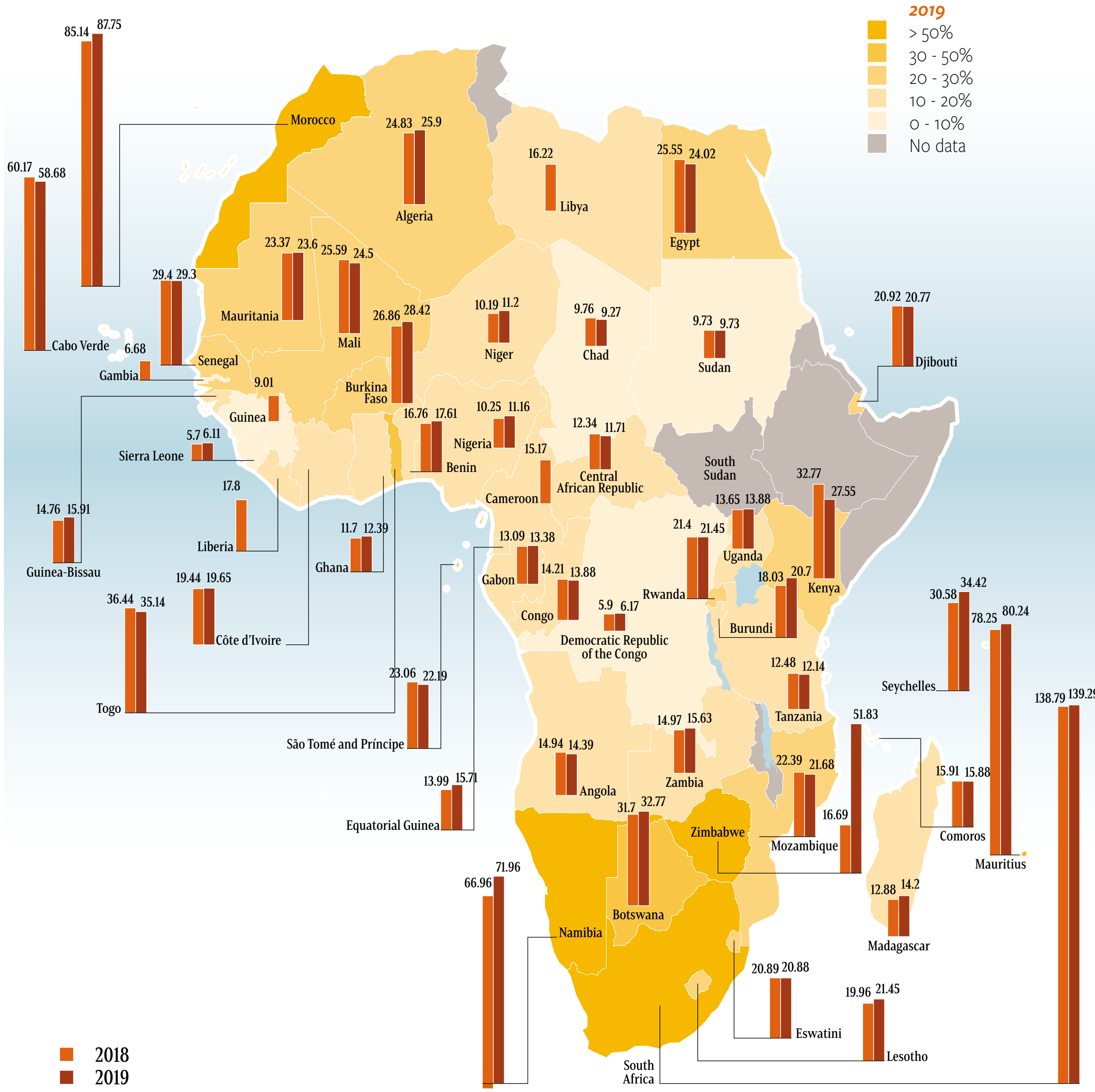
sector trade to pursue obvious profit opportunities. Most institutional investors will prefer financial services trade with countries such as Côte d'Ivoire, Ghana and Egypt due to the high ROEs in their banking sector. Those countries become portfolio and direct investment destinations. They are also the leading continental financial centres that banks in other African countries would emulate. These activities would boost financial services trade in modes 1, 2, 3 and 4.

A deep financial sector, as measured by domestic credit to the private sector as a percentage of GDP, would also attract for investors willing to stake their funds in Africa. That depth signifies the financial sector's ability to increase lending, culminating in profitability—barring a high proportion of bad and doubtful debts. South Africa had the highest ratio of credit to private sector as a percentage of GDP—139 per cent—in 2019. It was followed by Morocco (88 per cent), Mauritius (80 per cent), Namibia (72 per cent), Cabo Verde (58 per cent) and Zimbabwe (52 per cent). The remaining countries had ratios below 50 per cent (FIGURE 4.4). The AfCFTA negotiating experts will be considering these differences to maximise regional liberalisation gains for their countries knowing fully well the positive implication of better depth in attracting capital flows and direct investment into the financial sector.

Intra-African financial service exports

Increasing the participation of African and non-African investors in Africa's financial sector to exploit proven high ROE, thereby raising efficiency and transferring technological knowledge in the process, could also raise the return on assets while making markets for efficient firms throughout the continent. That should boost intra-continental capital mobility and financial services trade through all the modal supply channels, raising intra-African financial services exports and imports from their present low level. Intra-African financial service exports are low—only $2.7 billion in 2017, with a compound annual growth rate of 6.2 per cent from $1.8 billion in 2010. South Africa is the country with the highest intra-African exports of financial services—an average of more than $900 million worth between

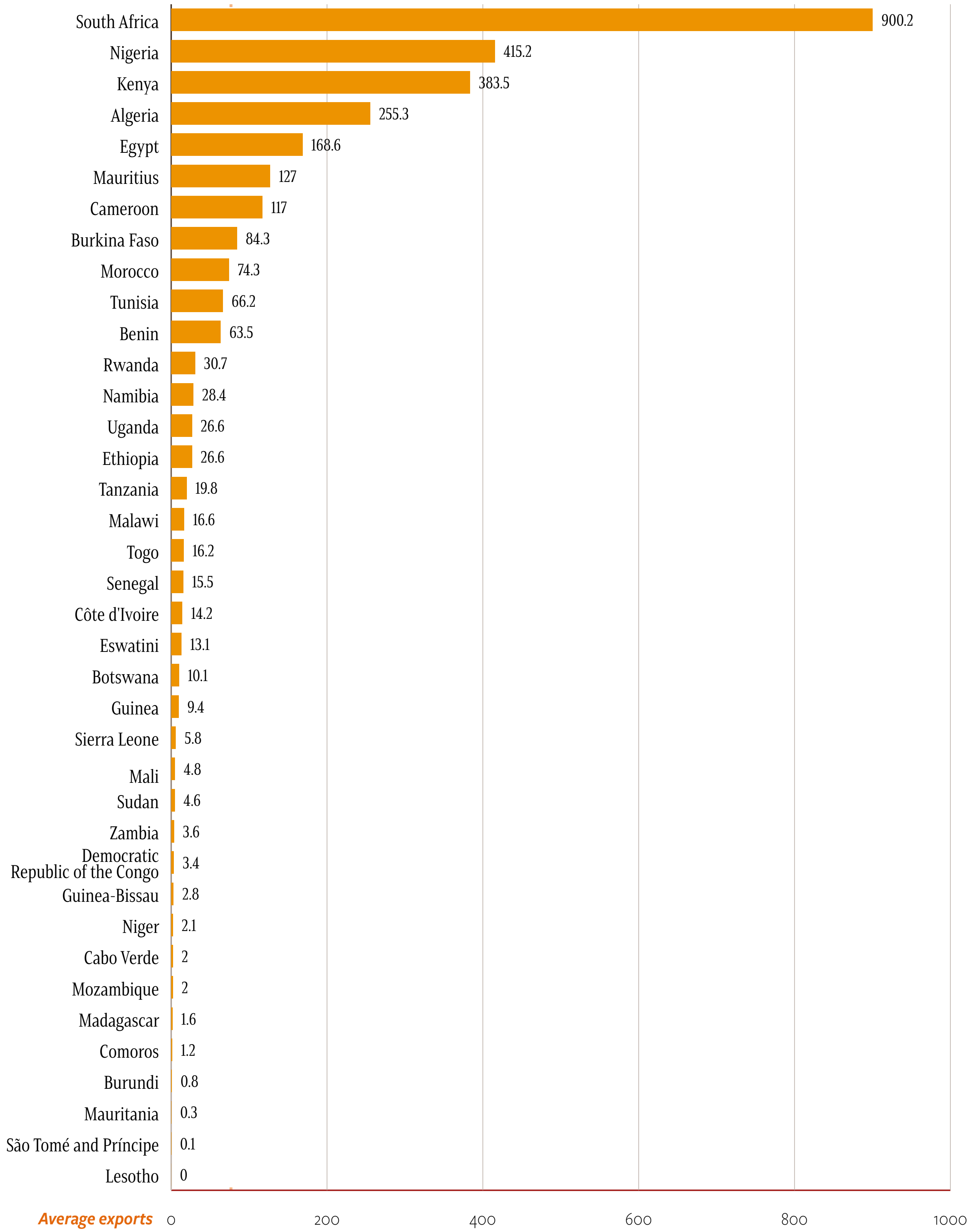
FIGURE 4.4 DOMESTIC CREDIT TO PRIVATE SECTOR (AS A % OF GDP) OF SELECTED AFRICAN COUNTRIES



Note: Cameroon, Gambia, Guinea, Liberia and Libya show 2018 data, since 2019 data for these countries are not yet available.
Source: World Bank Database.

2017 and 2019. South Africa accounted for about 31 per cent of intra-African exports of financial services in 2018. Kenyan financial service exports amounted to $415 million a year, and Nigerian exports to $383 million a year between 2017 and 2019 (FIGURE 4.5).

FIGURE 4.5 INTRA-AFRICAN FINANCIAL SERVICES EXPORTS OF SELECTED AFRICAN COUNTRIES (MILLION $)



Source: International Trade Center Database.

Intra-African financial service imports

There is no evidence that domestic regulations, restrictions and barriers in African countries' financial sector are explicitly designed to limit international and intra-African financial service imports. Some regulations, restrictions and barriers are for prudential intermediation, while others were established to ward off contagion from global financial crisis. Even so, although intra-African imports of financial services remain insignificant in global terms, they rose from about $988 million in 2005 to about $2 billion in 2017 and 2018. Nigeria is a major intra-African importer of financial services, with about 31 per cent of the total between 2017 and 2019. Other major importers are Angola, Kenya, Morocco and Mozambique (FIGURE 4.6).

Like financial service exports, financial service imports by African countries are about 1 per cent of the global total. Major African importers of financial services from outside Africa (each with more than $100 million in imports a year between 2017 and 2019) are Angola, Burkina Faso, Kenya, Morocco, Mozambique and Nigeria.[11]

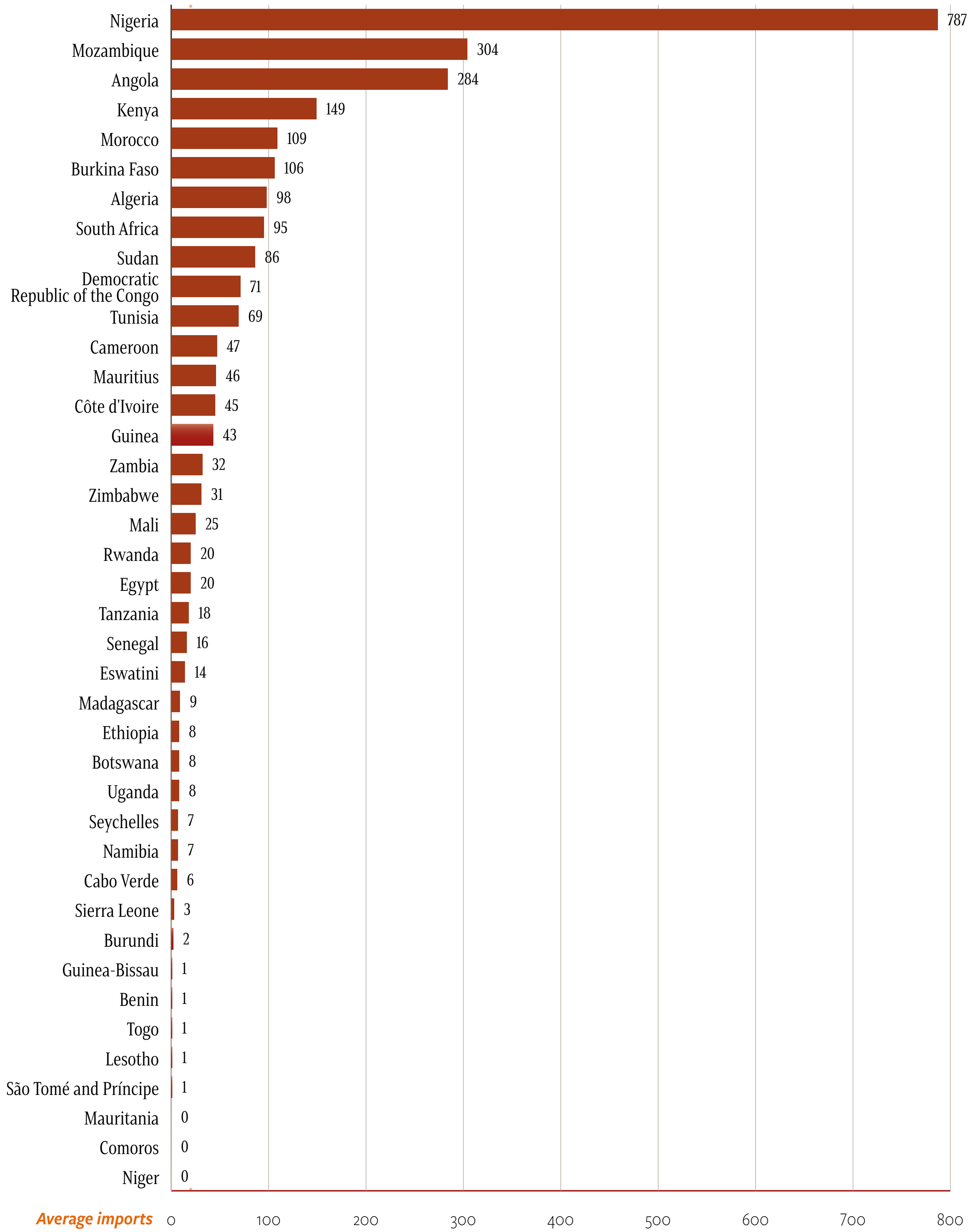
Understanding the impact of policies and regulation on sector performance is important for designing trade reform for the AfCFTA. The independent variables—price level, regulatory quality, institutional quality, mobile subscriptions and the Services Trade Restrictiveness Index (STRI)—had significant impacts on financial services trade.[12] The index, which captures the degree of barriers, had a significant negative effect on total financial services trade and insurance services trade, but a not significant negative effect on banking services trade in Africa. The results suggest that improving regulatory quality would increase total financial services trade, insurance services trade and banking services trade, but worsening barrier would decrease total financial services trade and insurance services trade, confirming that regulation can drive changes in the financial service industry (Karagiannaki et al., 2017). So, African countries have an interest in removing impediments to boost intra-African trade in financial services. The AfCFTA provides a timely opportunity to address the situation by ensuring a bilateral offer/request process to remove such restrictions through negotiations.

FACILITATING INTRA-AFRICAN TRADE IN FINANCIAL SERVICES

Impacts and opportunities for financial services trade

Creating a knowledge base on the nature and extent of regulations and barriers and their impact on trade and development is key to achieving African socioeconomic emancipation. Recognizing financial services barriers in import markets, their impact, the speed at which they should be removed and the instruments for removing them are steps towards facilitating financial services trade. The implications for the AfCFTA negotiations cannot be over-emphasized. Intra-African financial services trade creates a positive impact for regional economies and the continent as a whole. First, total financial services trade is a major contributor to African regional and continental economies with a positive and statistically significant impact. Second, improved financial services trade, along with improved infrastructure and financial sector development, enhances the economies of the African continent as a whole—Central, East, North, Southern, and West—by significant amounts.[13] Third, digitalization, economic size, and population or market size have a positive significant impact on total financial services trade, banking services trade and insurance services trade, suggesting a symbiotic relationship between digitalization, the economy and financial services trade and supporting the notion that digital innovation introduces fundamental positive change in the financial services industry (Barberis and Chishti, 2016). Fintech is the major driver of these changes, through innovative technology-based solutions to customer challenges (Ansari and Krop, 2012; Christensen, 2013). Emerging blockchain is also connected to the changes (Beck et al., 2016; Wright and Filippi, 2015).

FIGURE 4.6 INTRA-AFRICAN FINANCIAL SERVICES IMPORTS OF SELECTED AFRICAN COUNTRIES (MILLION $)



Source: International Trade Center Database.

Reduced transaction costs and greater accessibility and inclusiveness are the greatest benefits of fintech (Fanta and Makina, 2019). Individuals, households, businesses and governments at all levels in every facet of economic life benefit immensely from mobile banking and digital finance. But distrust, inadequate financial technology infrastructure and inadequate institutional machinery to address fraudulent practices discredit financial inclusion, though developing economies in Africa would reap huge benefits from widespread financial technology adoption (Ozili, 2018). The ongoing transformation of Africa's financial sector through dematerialization, disintermediation, disruption, convergence and blockchain should deepen the financial architecture (Africinvest, 2016). The continent has many struggling services firms and underserved service markets critical to growth. And adopting green technology alongside financial technology will greatly enhance the capabilities of developing economies, particularly in Africa, to seize opportunities in sustainable agribusiness.

Financial technology has a gender dimension. Women in Africa have not had as much access to capital to invest as their male counterparts under the traditional lending framework, which required business registrations, financial literacy and collateral security. But women can exploit the benefits of financial technology. In 2018, 94 percent of start-ups in South Africa benefitted from fintech, as did 74 percent of those in Nigeria and 56 percent of those in Kenya, thus substantially closing the gender gap (Genesis Analytics, 2018; Kamilah, 2020). Similarly, fintech has revolutionized transfers in sectors where women have traditionally faced discrimination, such as farming, healthcare, education and social work. Since only Kenya, Nigeria and South Africa have championed market penetration through financial technology in Africa, many countries present huge underserved markets. The African Digital Financial Inclusion Facility (ADFI), unveiled in 2019, will support financial infrastructure and financial capacity building for a variety of bank and non-bank financial institutions, mobile network operators, remittance and payment service providers and fintech companies. AFDI opens the possibility of substantially reducing the service gaps faced by African women and other vulnerable groups, and ultimately catering for many underserved markets (CBN, 2019).

While fintech offers opportunities and positive impacts, African countries still regulate financial services trade as seen in the policies and GATS commitments described above. The STRI, which summarizes services trade restrictions, confirms the unpreparedness of African countries to seize the opportunities offered by trade in financial services. For example, between 2012 and 2016, banking services trade in all modes combined faced increasing restrictions in Egypt, where the STRI went up 11.6; Kenya, up 29.85; Nigeria, up 17.45; South Africa, up 25.15 and Tunisia, up 26.6. For mode 3 (commercial presence), though Egypt reduced restrictions in banking services trade slightly with a restriction index of −0.6, other countries became more restrictive, with Kenya's STRI increasing 30.8, Nigeria's 15.1, South Africa's 15.5 and Tunisia's 21.3.[14]

For trade in life insurance services between 2012 and 2016, overall restrictiveness indexes went up in Egypt by 1.9; Kenya, 14.3 and South Africa, 14.3. But restrictiveness indexes went down in Nigeria by −8.9 and Tunisia by −4.8. For mode 1 (cross-border supply) in life insurance services trade, all five countries increased restrictiveness between 2012 and 2016 (with positive differences between their 2012 and 2016 STRI). For mode 3 in life insurance services trade, only Kenya and South Africa increased their restrictiveness, Kenya going up 15.1 and South Africa, 11.6. Egypt, Nigeria, and Tunisia reduced their services trade restrictions (with negative differences between their 2012 and 2016 STRI).

For trade in non-life insurance services, restrictiveness went up in Kenya and South Africa overall and in mode 1 and mode 3, with positive change in STRI between 2012 and 2016. But in Egypt and Tunisia, restrictiveness went down. In Egypt, the STRI changed by −3.2 overall, −23 in mode 1 and −1.3 in mode 3, and in Tunisia, it changed by −12.2 overall, −67.9 in mode 1 and −5.9 in mode 3. In Nigeria restrictiveness went down in non-life insurance services trade overall (an STRI change of −4) and in mode 3 (−13.4) but up in mode 1 (76.9).

Instruments of financial sector trade facilitation

Fintech in Africa

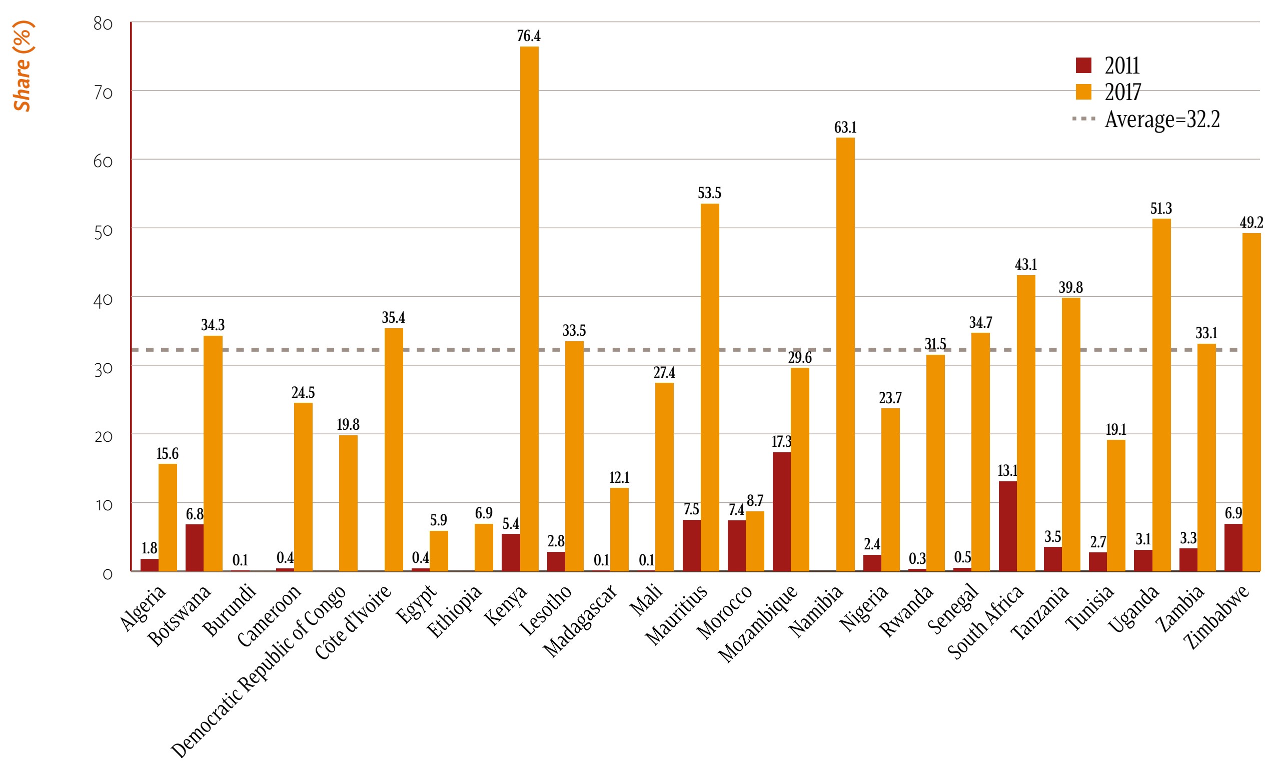
The operations of bank branches across the length and breadth of a country are an integral component of financial inclusiveness. But the need to reduce costs has led deposit money banks to vigorously pursue the diffusion of fintech, such as automated teller machines (ATM), point-of-sale (POS) machines and all forms of electronic banking channels. They promote fintech to financially include a wide swath of unbanked populations and to promote cross-border banking. Altogether, the shift should promote intra-Africa trade, a goal of the AfCFTA. The extent of technology adoption in Africa, indicated by the share of payments that are electronic, shows that most African countries must improve their use of electronic payment methods to benefit from fintech's improvements of banking operations. Fewer than half of people ages 15 and up used electronic means for payments in 2017, except in Kenya (where the figure is 76.4 per cent), Namibia (63.1 per cent), Mauritius (53.5 per cent) and Uganda (51.3 per cent) (FIGURE 4.7).

Africa reportedly has second largest unbanked adult population in the world: about 350 million people, or 17 per cent of the world total. Since foreign remittances are a primary source of income for many African communities and households the need is acute for means of transferring money outside traditional banks. To enhance the link between foreign remittances and incomes by boosting cross-border trade, African countries must develop and harmonize fintech regulations, which are at an infant stage in Africa.

Harmonized financial regulation

Harmonized financial sector regulation could facilitate cross-border trade. Africa's financial systems feature subregional peculiarities defined by countries' history, general economic performance, extent of government participation and type of mandate to the central bank (Allen, Otchere and Senbet, 2011). For instance, the Nigerian financial system regulatory framework, which protected the country from the 2007–08 financial crises, was adopted across the West African Monetary Zone (WAMZ). Since 2010, joint supervisory guidelines have been issued by the WAMZ College of Supervisors, which coordinated supervision in the zone (Alade, n.d.). The Basel framework for banking regulation is being

FIGURE 4.7 ELECTRONIC PAYMENTS USED TO MAKE PAYMENTS (% AGE 15+) IN SELECTED AFRICAN COUNTRIES



Source: World Bank Global Financial Development Database.

adopted in Africa, with all banking groups claiming full adoption of Basel I; 64 percent, adoption of Basel II; and 32 percent, adoption of the Basel III capital adequacy requirements as of 2018. About 34 percent are said to be working towards full compliance with Basel II. Although about 27 percent do not see compliance with Basel III as an immediate priority, 41 percent are making efforts to comply with it. Adoption of the Basel regulatory guidelines will help banks deal with internationally contagious financial crises and so help them deal with the risks to which cross-border banking exposes them.

The African insurance industry has little regulatory harmonization, since most policies and regulations are at the country level. But the francophone countries have a harmonized regulatory body. The CIMA zone, coordinating insurance service regulation among 15 former French colonies in Africa, has a mandate to cover governance, solvency requirements, and risk management and reporting requirements (EY, 2016).

Technology-based financial services are also regulated in Africa. RegTech and InsurTech innovations analyse regional regulatory standards so firms can practise crowdfunding, mobile banking, digital money and cryptocurrencies. These templates explain fintech successes in East African countries. The African Mobile Phone Financial Services Policy Initiative (AMPI) intends to create an operational continental model of financial system regulation. These efforts will help facilitate cross-border financial services trade.

Lessons from the EuroNext system

Regional stock exchanges promote the free movement of capital across regions, removing the need for cross-listing on multiple exchanges and the associated cross-listing fees and arbitrage opportunities. They enable an open, competitive, efficient and integrated regional equity market. Firms save money from paying lower fees to list on regional exchange than they would pay for cross-listing. Investors gain access to shares not listed in their domestic markets. Pooling regional capital increases the attractiveness of regional stock exchanges to investors. Due to improved regional awareness, companies enjoy regional market exposure, culminating in better penetration into new markets in the region. Regional stock markets also tend to reduce price volatility that could result from increased market liquidity induced by larger trade volumes. Despite the advantages of regional exchanges, they create operational challenges, especially in the absence of a common legal framework and single exchange commission. The challenges arise from differences between exchanges in rules regarding trading days and settlement periods, limits on the movement of a share on a particular trading day (to avoid market manipulation of prices), and financial reporting standards and common currency in which stocks are quoted. Cultural factors, such as differences in countries' holidays, also create difficulties.

In Africa, the BVMAC serves Central African countries, and the BRVM serves West African countries. Both are comparable to the EuroNext system, which connects six European countries (Belgium, France, Ireland, the Netherlands, Portugal and the United Kingdom) (Agyapong, 2014; Schiereck et al., 2018). The BRVM has improved liquidity, increased capitalization and become a single unified and fully integrated regional stock exchange market.

The successes of EuroNext—the first pan-European regulated cross-border stock exchange market—besides liquidity, capitalization and integration, include its strategic alliances to achieve global relevance in dealing securities and its introduction of various innovative stock market products. In contrast, stock exchange markets in Africa focus only on expanding stock exchange activities among their members (ASEA, 2019). EuroNext also offers risk diversification by reducing country-specific risk. Its benefits are enhanced by the absence of capital controls among the EuroNext countries. The risk of EuroNext becoming a monopoly in practice and differences in company valuation have kept the

Frankfurt stock exchange from joining, after several unsuccessful attempted mergers (EC, 2017). The same risk of becoming a monopoly in securities market was cited when the European Competition Regulator blocked it from merging with the London Stock Exchange Group in 2017 (EC, 2017).

African regional stock exchanges are constituted along linguistic lines, rather than relying on adequate macroeconomic fundamentals, as is common among the developed countries (Senbet and Otchere, 2008). In Africa, inadequate institutional quality and corporate governance mar the exchanges' resilience, and they present major risks, remain fragmented, loosely connected and functionally and operationally inefficient, but largely concentrated on few large companies due to the predominance of African regional leading firms (Senbet and Otchere, 2008; Anyikwa, Brookes and Le Roux, 2018). In contrast to thin trading in the African Securities Exchanges Association, EuroNext presents a balanced diffusion of robust securities trading (Schellhase, Sau and Prabha, 2014). Liquidity in the BRVM largely depends on minimal auctioned securities rather than investor participation, and African stock exchanges remain small and illiquid (Bama and Bayala; 2019; Dahou, Omar and Pfister, 2009; Agyapong, 2014; PwC, 2019).

Still, continental and regional regulatory coordination for stock exchanges in Africa seek to create common platforms for transparent and efficient equity capital markets. Both the BVMAC and the BRVM have implemented policies to harmonize and coordinate the activities of former French colonies in West and Central Africa, covering common monetary and financial systems, operational guidelines on financial technology, and harmonized policy guidelines on infrastructural development and capacity development.

REGIONAL AND INTERNATIONAL BEST PRACTICES IN FINANCIAL SERVICES TRADE POLICY FRAMEWORK

Inclusiveness and gender sensitivity

Inclusive and gender-sensitive policy frameworks in financial services are becoming more prevalent in financial sector regulation due to varying country-specific models and degrees of cross-border financial services, including level and rate of financial development, technological adoption and sociocultural factors. Anti-money laundering, consumer protection and market oversight measures inhibit cross-border financial services despite providing protection.

To protect fintech and boost cyber resilience, cloud-based and biometric user identification constitute the newest technological innovations. They reduce financial service exclusion related to gender, literacy and geography. Digital identity, otherwise known as *electronic know-your-customer* (E-KYC),[15] is a useful core infrastructure helping to deploy wide-ranging financial services to women and other customers with various backgrounds (BIS, 2020). By cutting costs, E-KYC allows charging lower fees to old and new customers, including women who can open bank accounts with less cumbersome procedures than before, while supporting centralized customer records that make repeated identity registration unnecessary.

A more far-reaching inclusive policy framework usable by African countries is a set of measures comprising uniform financial reporting and disclosure, information sharing between home and host countries, frequent appraisal of cross-border banking services, uniform stress testing of cross-border operations and cross-border regulatory authority (Ngwu, Ogechie and Ojah, 2018). That framework, coupled with inclusive technology infrastructure, public–private partnerships and collaboration with the international community on the digitalization of financial services should forestall cyber insecurity in Africa. African governments should lead in law enforcement, provide guidelines and supervision to operationalize a feasible and harmonized regulatory framework focusing on the following elements:

- Digital trade agreements to promote greater interoperability.
- Open banking guidelines to spur competition and innovation.
- International standards for public infrastructure.
- Participation in Financial Action Task Force standard setting.
- International community collaboration in new standards development.
- Public–private partnerships on cybersecurity.
- Law enforcement cooperation and modernization of mutual legal assistance treaties.
- Cyber hygiene through government-led programmes.
- Private sector collaboration for consumer protection.
- Bilateral, regional and multilateral oversight coordination.

Moving onto such policy paths will both engender more financial services trade overall and boost intra-African financial services trade.

Policies facilitating and promoting bank cross-border expansion: Examples and case studies from other regions

Banks expand across borders for reasons such as globalization and financial integration among countries, competition and efficiency, financial inclusion, and risk diversification, despite such challenges as heterogeneity of regulatory architecture, inadequate institutional infrastructure and other environmental factors such as currency differences, political instability and linguistic divisions (Ngwu, Ogechie and Ojah, 2018). These challenges pose grave disincentives to cross-border banking.

In response, different integration institutions have adopted various policies. The European Union (EU) is reckoned to have succeeded. It began by creating the Single Banking Licence, then introduced the euro, which raised cross-border financial activity in the euro area by about two-fifths. The financial crisis of 2007 caused financial instability, exposed bank fragility in the euro area, and ultimately caused sovereign debt crises that led to altering the EU's financial regulatory architecture based on the three policy pillars of surveillance, crisis prevention and crisis management. Eurozone banks were put under the overarching supervision of the European Central Bank, and a single bank resolution scheme was created along with a common deposit insurance scheme. As a result, cross-border banking survived the financial crisis.

In Latin America and Asia, in contrast, no centralized regulatory bodies were introduced. Country level regulations were multiplied, aimed at strengthening country institutions against the effects of the financial crises. That activity created new regulatory and entry barriers impeding cross-border banking in both regions.

In Africa, most country-specific regulations and policies are heterogenous. At the REC and the continent levels, there have been efforts to expand borderless banking. For example, COMESA established a cheque clearing system (African Development Bank, 2010). The COMESA Regional Payment and Settlement System (REPSS) is a unique payment system aiming to promote, improve and expand trading among COMESA countries. The East African Payment System (EAPS) is a cross-border system that facilitates transferring funds within the East Africa Region. The SADC Integrated Regional Electronic Settlement System (SIRESS) is a regional electronic payment system developed by SADC member states to settle cross-border transactions faster, without having to rely on intermediary banks from outside the region. These systems are designed to ease cross-border payments and side-track slow and costly correspondent banking arrangements. The payments systems may end the need for national banks to expand across borders simply for the sake of cross-border payments alone.

Under EAPS, participating member countries are linked through holding reciprocal bilateral accounts with each central bank. Member banks hold multiple currencies at all times because settlement is in local currencies.

In WAEMU, financial sector participants in each country link directly to a regional processing hub, which clears and settles transactions between them. It is a centralized governance structure under the Central Bank of West African States (BCEAO), which, with a common currency (franc CFA), enabled development of shared payments infrastructures for real-time gross settlement system (RTGs), automated clearing house (ACH) and card payments among the member states. Some 118 participants from different member states process payments through the regional WAEMU Automated Transfer and Settlement System (BCEAO, 2016).

SIRESS is a multi-level hub-and-spoke regional payment system where regional interoperability relies on the linking of national payment systems to a central hub. A central administrative and technical-operational facility indirectly links participating RTGs. Participants (banks and payment service providers) link directly to their respective national payment systems which in turn link to the regional payment system as a central hub that processes cross-border transactions requests.

The Pan African Payment and Settlement System (PAPSS), launched in 2019 by the African Export-Import Bank (Afreximbank), is the first centralized payment market infrastructure for processing, clearing and settling intra-African trade and commerce payments. PAPSS is an infrastructure through which transactions between countries are settled in local currencies, significantly reducing dependence on hard currencies and making cross-border payments easier, cheaper and safer. The platform is expected to domesticate intra-regional payments and save the continent more than $5 billion in payment transaction costs a year while formalizing much of the estimated $50 billion informal intra-African trade.

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ANNEX 4.1

As understood in the World Trade Organization classification of service sectors (MTN.GNS/W/120) and the annex to financial services, the financial service sector is broadly classified into insurance and insurance-related services; and banking and other financial services. The specific coverage of insurance and insurance-related services consists of:

- a Life, accident and health insurance services.
- b Non-life insurance services.
- c Reinsurance and retrocession.
- d Services auxiliary to insurance, including broking and agency services.

The elements of banking and other financial services are:

- a Acceptance of deposits and other repayable funds from the public.
- b Lending of all types, including consumer credit, mortgage credit, factoring and financing of commercial transaction.
- c Financial leasing.
- d All payment and money transmission services, including credit, charge and debit cards, travellers' cheques and bankers' drafts.
- e Guarantees and commitments.
- f Trading for own account or for account of customers, whether on an exchange, in an over-the-counter market or otherwise, the following:
    - a Money market instruments (including cheques, bills, certificates of deposits).
    - b Foreign exchange.
    - c Derivative products, including, but not limited to, futures and options.
    - d Exchange rate and interest rate instruments, including products such as swaps, forward rate agreements.
    - e Transferable securities.
    - f Other negotiable instruments and financial assets, including bullion.
- g Participation in issues of all kinds of securities, including underwriting and placement as agent (whether publicly or privately) and provision of services related to such issues.
- h Money broking.
- i Asset management, such as cash or portfolio management, all forms of collective investment management, pension fund management, custodial, depository and trust services.
- j Settlement and clearing services for financial assets, including securities, derivative products and other negotiable instruments.
- k Provision and transfer of financial information, and financial data processing and related software by suppliers of other financial services.
- l Advisory, intermediation and other auxiliary financial services on all the activities listed in subparagraphs (a) to (k), including credit reference and analysis, investment.

The United Nations Central Product Classification (CPC) is different from the WTO listing above. Version 2.1, which is the latest UN CPC replaced the 1991 provisional version 2.1 is indicated as follows:

For financial and related services (71)

713	Insurance and pension services (excluding reinsurance services), except compulsory social security services.
7131	Life insurance and pension services (excluding reinsurance services).
7132	Accident and health insurance services.
7133	Other non-life insurance services (excluding reinsurance services).
714	Reinsurance services.
7141	Life reinsurance services.
7142	Accident and health reinsurance services.
7143	Other non-life reinsurance services.
716	Services auxiliary to insurance and pensions.
711	Financial services, except investment banking, insurance services and pension services.
7112	Deposit services.
7113	Credit-granting services.
7114	Financial leasing services.
715	Services auxiliary to financial services other than to insurance and pensions.
7151	Services related to investment banking.
7154	Trust and custody services.
71593	Financial transactions processing and clearinghouse services.
7159**	Other services auxiliary to financial services.
71521 71522	Securities brokerage services. Commodity brokerage services.
71592	Foreign exchange services.
71521	Brokerage and related securities and commodities services.
712 7151 71521**	Investment banking services. Services related to investment banking. Securities brokerage services. This subclass includes: ◆ services of acting as a selling agent of units, shares or other interests in a mutual (investment) fund. ◆ sales, delivery and redemption services of government bonds.
71599	Other services auxiliary to financial services n.e.c. This subclass includes: ◆ mortgage and loan brokerage services.
7153 7164 7154 717	Portfolio management services except pension funds. Pension fund management services. Trust and custody services. Services of holding financial assets.
71523	Processing and clearing services of securities transactions.
7155 [Excluding 71552 (Financial market regulatory services)] 71591	Services related to the administration of financial markets. Financial consultancy services.
71559 84399 844	Other financial market administration services. Stock price quotation services made available through an information server. Supply of financial news to the news media.

In as much as Paragraph 39 of the adopted negotiating guidelines for the AfCFTA trade in services negotiations mandated that both the WTO GATS W/120 Services Sectoral Classification List and the latest version of UN Central Product Classification (CPC) be used for the negotiations, it is sufficient here to take note of the coverage for the purpose of identifying regulations that apply to broad sectors or subsectors. In other words, analysis in this chapter covers the broad sectors and, where data permit, the subsectors of both the insurance and banking and capital market sectors.

ENDNOTES

1 Includes a policy which contains related or subsidiary provision within another class, and a reinsurance contract in respect of such policy.

2 In accordance with Ordinance No. 85/002 of 31 August 1985.

3 Article 8, Ordinance No. 85/002, 31 August 1985 (Relative à l'Exercise de L'Activité des Etablissements de Crédit).

4 Section 26 of the Long-term Insurance Act or section 25 of the Short-term Insurance Act.

5 Law No. 2008-8 of 13 February 2008.

6 Within the meaning of the Investment Incentives Code, as enacted by Law No. 93-120 of 27 December 1993.

7 These are: Benin, Cabo Verde, Côte d'Ivoire, Gambia, Ghana, Liberia, Nigeria, Senegal and Sierra Leone. The other six countries—Burkina Faso, Guinea, Guinea Bissau, Mali, Niger and Togo—have not scheduled any commitments.

8 These are, Benin, Côte d'Ivoire and Senegal.

9 https://cmi.comesa.int/roadmap-for-financial-and-monetary-integration-in-comesa/.

10 https://www.sadc.int/themes/economic-development/finance/financial-sector-liberalisation/Financian Systems Development Overview.

11 WTO-ITC database (https://www.trademap.org/).

12 Detailed methodology and results tables are in Bankole (2020).

13 See econometric results in Bankole (2020).

14 See Table of Changes in STRI of Banking and Insurance services for Selected African Countries in Bankole (2020).

15 E-KYC is an electronic means used to conduct the customer's identification process and allows the digital or online verification of customer identity.

CHAPTER 5
Transport Services Trade within the African Continental Free Trade Area Framework

With the African Continental Free Trade Area (AfCFTA) lowering regulatory and financial barriers to trade, cross-border trade gains can only be optimized if there is a well-functioning transport service sector on the continent as well as adequate infrastructure networks. But Africa's economic growth is being hampered by weak infrastructure—particularly cross-border infrastructure—that compromises physical connectivity, a major component of regional integration. In part, Africa's connectivity reflects its geography and its position in the global structure of transport and logistics networks.

This chapter presents the state of transport services in Africa, highlighting emerging trends, opportunities and challenges—including issues related to gender, youth and landlocked countries. The chapter discusses the Covid-19 pandemic in the context of trade and transport facilitation. It focuses on the liberalization and regulation of transport services trade, exploring progress made and highlighting key lessons from the liberalization of air transport markets in Africa in the framework of the Yamoussoukro Decision and the Single African Air Transport Market. Transport service liberalization is also discussed in the context of AfCFTA. Because Africa's economic growth is being hampered by weak infrastructure, especially connectivity, the chapter examines the major challenges and opportunities for facilitating trade in transport services.

The rationale for liberalizing transport services cannot be overstated—it will create jobs, enhance connectivity, reduce the cost of transport and boost the contribution of the sector to African countries' GDP. On a broader scale, a well-functioning transportation network has positive effects on intra-African passenger travel that can spark growth in education, healthcare and tourism services. As economic structural transformation continues to push more Africans into service sector jobs, passenger travel will be important in driving growth in the service sector and in knowledge-based jobs.

The transport service sector will play a crucial role in realizing AfCFTA gains. The sector facilitates the movement of goods and people—a key service in promoting intra-African trade—and also presents employment opportunities in the structural transformation of Africa's economies. A well-functioning transport service sector also allows for the cost-efficient movement of goods, fostering cross-border trade and broadening consumer choices. A two-pronged approach is needed when looking at the transport service sector. The role that transport service companies play in facilitating movement needs to be considered, as does the role of governments in providing hard and soft (physical and regulatory) infrastructure. Infrastructure contributes to economic development because it benefits enterprises by enlarging markets and lowering transport and trade costs (**FIGURE 5.1**).

There are significant opportunities for growth in the transport service sector. The logistics sector is estimated to be worth more than $160 billion in Africa, and—with continued e-commerce penetration, coupled with the expected increase in trade due to AfCFTA—the sector is expected to grow even further (Analytiqa, 2016). But, as transport services on the continent contribute as much as a third to the final price of goods compared with less than 10 per cent for all developing economies, this places undue burdens on both consumers and businesses in Africa (Export-Import Bank of India, 2018). The inadequacy of Africa's transport sector, however, allows significant scope for growth.

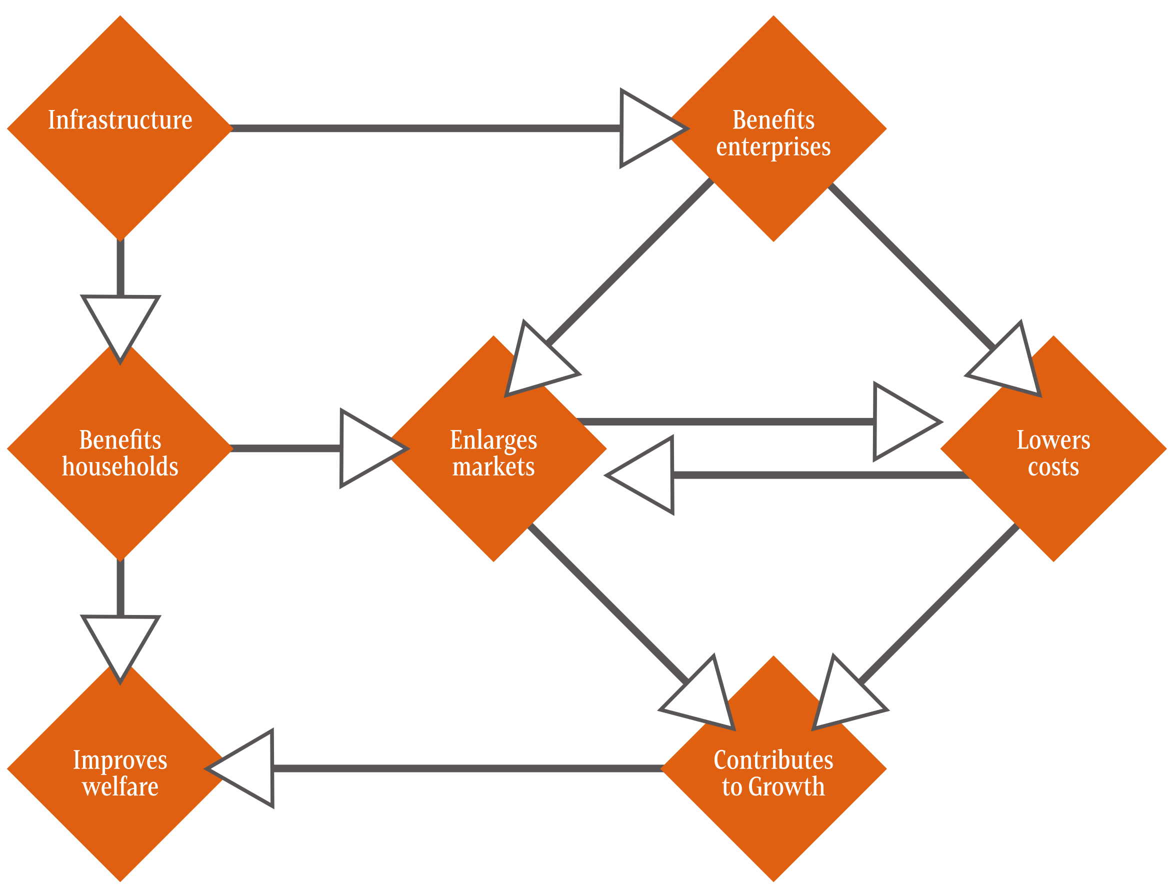
The UN Agenda 2030 for Sustainable Development and the African Union's Agenda 2063 both recognize the important role of multi-modal transport and transit corridors for the efficient movement of goods and people in supporting sustainable economic growth, improving social welfare and enhancing international cooperation and trade among countries (UN, 2015). This is underscored by the inclusion of the Single African Air Transport Market (SAATM) and the African Continental High-Speed Rail Project as flagship projects of Agenda 2063 (AU, n.d.).

THE SCOPE OF THE TRANSPORT SERVICE SECTOR

The transport service sector is made up of two types of businesses: transport service companies (split into modes of transport) and complementary services.

Transport services comprise different modes of transportation—road, rail, air, maritime and inland waterways—and these are split into freight and passenger transportation. Road transport is

FIGURE 5.1 HOW INFRASTRUCTURE CONTRIBUTES TO ECONOMIC DEVELOPMENT



Source: Briceño-Garmendia, Estache and Shafik, 2004.

by far the most dominant mode of transport in Africa, with upwards of 80 per cent of the continent's freight being moved by trucks (AEATTF, 2020). Inter-state trade is heavily dependent on road corridors that link seaports and the interior of the continent. Landlocked countries are particularly dependent on the corridors.

The complementary services include warehousing and port management services that allow transport services to operate more efficiently. Trade and logistics infrastructure of corridors comprises roads, railways, seaports, inland container depots, border-posts, bonded warehouses and modal interchange facilities. Services at corridor level include transport services (roads, rail, maritime and inland waterways), logistics services, clearing and forwarding, and customs and other border management agencies.

THE ROLE OF THE TRANSPORT SERVICE SECTOR

Success in realizing the gains of the AfCFTA hinges on establishing an efficient and cost-effective transport service sector. African goods are uncompetitive in price because of high transportation costs, so ensuring that goods and services can be shipped at competitive prices will foster the growth of intra-African trade. For many African commodity exporters, who primarily compete on price, efficient port management is also critical.

Whether products are ordered online or through traditional means, the distribution of goods—including international distribution—requires an efficient transport and logistics industry. In 2017, one-third of the value of global trade in transport ($529 billion) related directly to the cost of shipping goods across economies, mainly by sea or by air. Supporting transport services—such as cargo handling, storage and warehousing—made up an additional 16 per cent (WTO, 2019).

Transport services deliver important benefits to developing countries through the supply chain since they are critical inputs in both the production of goods and the provision of sales and after-sales services. Transport services can be viewed as inputs and outputs of manufacturing. So transport services, in particular logistics services, are essential for the development and optimal functioning of regional and global value chains, both of which have expanded over the last 30 years (World Bank, 2020). Industrialization can facilitate the creation of complementary markets linking goods and service markets, goods and goods markets, and services and service markets (Cronje, 2015; Roy, 2017).

THE TRANSPORT SERVICE SECTOR IN AFRICA

Trading under the AfCFTA, which started on 1 January 2021, provides significant tailwinds for the transport service sector, and the demand for services to ship goods across the continent will grow. But low levels of connectivity and inadequate infrastructure pose challenges for the sector's critical role in facilitating intra-African trade. In recent years, the continent has seen increasing high-level political leadership in mobilizing resources for regional infrastructure—notably in the context of the Programme for Infrastructure Development in Africa (PIDA), the Dakar Agenda for Action, Agenda 2063 flagship projects, the appointment of an African Union High Representative for Infrastructure Development, and New Partnership for Africa's Development (NEPAD) Presidential Infrastructure Champion Initiative—that can be reinforced and strengthened under the AfCFTA. The 2012 Boosting Intra-African Trade Action Plan, the sister initiative of the AfCFTA, identified trade-related infrastructure as one of seven critical clusters for unlocking constraints to intra-African trade and development. The trade-related infrastructure cluster focuses on road, rail, energy and information and communications technology, but ports could also be included.

TABLE 5.1 AFRICA'S ROAD NETWORK, EXCLUDING NORTH AFRICA

REGION	EXISTING NETWORK (KM)	% SHARE	PAVED ROADS (KM)	PAVED ROADS (% OF TOTAL)	PAVED ROADS IN GOOD CONDITION (%)	ROAD NETWORK DENSITY PER POPULATION (KM/1,000 PERSONS)	ROAD NETWORK DENSITY PER LAND AREA (KM/1000 KM^2)
Central Africa	344,083	12.1	79,139	23.0	58.7	2.1	36.5
East Africa	850,710	30.0	250,959	29.5	49.0	1.2	127.9
Southern Africa	998,334	35.3	353,410	35.4	47.8	5.5	99.8
West Africa	638,982	22.6	116,934	18.3	43.2	2.3	83.7
Africa, excluding North Africa (total)	**2,832,109**	**100.0**	**800,442**	**28.3**	**48.6**	**2.7**	

Source: African Development Bank, 2018.

The state of transport infrastructure

Africa's road, rail and port networks are ill adapted to the continent's regional economic development aspirations. And the transport service sector is fragmented. Within Africa's more developed economies (such as Egypt and South Africa), transportation networks have allowed domestic manufacturing sectors to grow and to offer opportunities for exporting goods to neighbouring countries. But most African countries face challenges in moving goods and people. With sparse and unreliable rail connectivity and high costs for air freight transport, most of Africa's trade in goods flows through its roads and maritime ports. Several factors—political, technical, institutional and financial—account for Africa's inadequate transport infrastructure. Investment in transport infrastructure is also not treated as a top priority in some countries, and a lack of bankable projects (due to weak capacity for project preparation), complexities in implementing regional projects and delays in implementing projects because of weak absorptive capacity are among the other reasons.

Even though road transport accounts for 80–90 per cent of freight and passenger traffic, road connectivity across the continent varies widely in coverage and quality (TABLE 5.1). Only 34 per cent of rural Africans live within two kilometres of an all-season road, compared with some 65 per cent in other developing regions, and only half of the existing rural road network is in fair or good condition**.** Only 25 per cent of the continent's road network is paved, while the world average exceeds 50 per cent. These challenges are compounded by the fact that existing roads are poorly maintained (ECA, 2018).

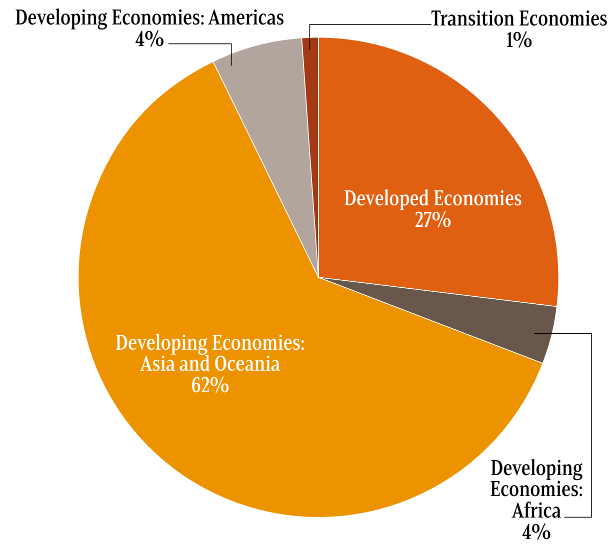
These problems increase production and transportation costs, harm product quality and lead to shipment delays. The World Bank estimates that Africa's infrastructure deficit holds back its economic growth by 2 per cent each year (Foster and Briceño-Garmendia, 2010). This is not surprising since a lack of paved roads is also a hurdle to the continued development of other infrastructure projects—such as high-voltage transmission cables—to connect neighbouring economies. Overall, there is evidence of the potential contribution of logistics infrastructure to economic growth. For example, private provision of cold storage logistics infrastructure has enabled the development of the Ethiopian floriculture value chain (World Bank, 2020). The prospects of improved ground connectivity in Africa are enhanced by initiatives such as the Trans-African Highways (TAH) and African Union's Agenda 2063, which aspire to world class infrastructure criss-crossing the continent.

Although an extensive rail system based in southern Africa stretches from Durban to the Democratic Republic of the Congo and to East Africa, most of the continent's railways are disconnected lines reaching inland from ports. Many of these railway structures and some of the tracks are now more than 100 years old (African Development Bank, 2021). But there are indications that Africa is committed to improving its rail network. The Addis Ababa–Djibouti railway was completed in 2018, and the Nairobi–Mombasa railway in Kenya, opened in 2017, is to be extended to neighbouring countries. The planned African High-Speed Rail project epitomizes the continent's desire to modernize its rail network.

In maritime trade, only three ports in Africa (Port Said, Egypt; Durban, South Africa; and Tanger-Med, Morocco) ranked in the world's top 100 seaports by volume in 2020 (Lloyd's List, 2020). In 2019, Africa unloaded 762 million tons of cargo at its maritime ports, making up only 6.9 per cent of total global unloaded cargo (UNCTAD, 2020b). **FIGURE 5.2** represents global maritime traffic, measured by containerized port traffic. In 2019, developing economies in Africa represent only 4 per cent of global volumes, highlighting the disparity between the continent and other regions. At the same time, maritime trade is also spread unequally across African regions (**FIGURE 5.3**).

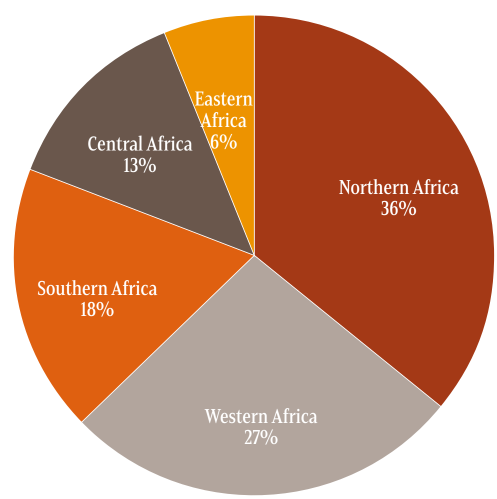
Enhancing the connectivity between ports, roads and other transport modes is critical to creating an efficient transport network. In this context, progress has been made in Africa in developing major transport corridors that link countries to key ports and new corridors are emerging—such as the Lamu Port–South Sudan–Ethiopia transport corridor (**TABLE 5.2**).

FIGURE 5.2 CONTAINERIZED PORT TRAFFIC BY GROUPS OF ECONOMIES, 2019



Source: Maritime Transport Indicators, UNCTAD (2020).

FIGURE 5.3 PARTICIPATION IN AFRICA'S MARITIME TRADE BY REGION, 2019



Source: UNCTAD's Review of Maritime Transport 2020: highlights and figures on Africa, UNCTAD (2020).

TABLE 5.2 SELECTED AFRICAN TRANSPORT CORRIDORS

CORRIDOR	COUNTRIES SERVED	DISTANCE (KM)	TRANSPORT MODES
Douala Corridor	Cameroon, Central African Republic, Chad	1,800	Road, some rail
Lobito Corridor	Angola, Democratic Replublic of the Congo, Zambia	1,345	Road, some rail
Walvis Bay Corridors	Botswana, Democratic Replublic of the Congo, Namibia, Zambia	3,900	Road
Port of Abidjan to Mali	Burkina Faso, Côte d'Ivoire, Mali	1,200	Road, some rail
Lagos to Niger	Niger, Nigeria	1,500	Road
Central Corridor	Burundi, Democratic Replublic of the Congo, Rwanda, Tanzania, Uganda	1,600	Road, rail, inland waterways
Northern Corridor	Burundi, Democratic Replublic of the Congo, Kenya, Rwanda, Uganda	2,000	Road, rail, inland waterways
Addis Ababa to Djibouti	Djibouti, Ethiopia	753	Road, rail

Source: ECA, 2010.

The implications of Africa's inadequate transport infrastructure and services

The consequences of inadequate transport and logistics infrastructure in Africa are severe. Freight cost, particularly maritime rates, are three times higher in Africa (excluding North Africa) than in other developing regions, with average nominal freight rates 60 per cent higher in West Africa than East and Southern Africa (UNCTAD, 2020b, 2020c).[1] Overall, for one-third of African countries (excluding North Africa) freight and insurance charges accounted for about 25 per cent of the value of exports. Because of time-consuming port procedures and services, inland transport costs are twice as high as transport costs to coastal countries. In some cases, complex documentation masks corrupt practices, and in some countries there is insufficient competition between road transporters and transport service providers. The result is that price and cost differentials are much higher in Africa (excluding North Africa) than in other developing regions. Since consumer prices are higher and export margins and incentives lower, trade is less competitive (NTU/LB Consortium, 2016).

In the East African Community's (EAC) landlocked developing countries (LLDCs), transport costs can be as high as 75 per cent of the value of exports, and each day spent in transit is equivalent to charging an ad valorem tariff rate 0.6–2.3 per cent (Hummels and Schaur, 2010). Poor infrastructure accounts for 40 per cent of predicted transport costs for coastal countries and up to 60 per cent for LLDCs (Hassan, 2020). The high average costs of logistics services relative to total exports in Africa (15 per cent of the value of traded goods), especially for least-developed countries (LDCs) (30 per cent of the value of traded goods), increases the overall cost of trade and this then hampers the formation of regional value chains (Cronje, 2015).[2] Transport costs are estimated to be as much as 20–30 per cent of the total cost of manufactured and agricultural products, and often exceed labour costs (UNCTAD, 2015).

An analysis of the trends in transport rates in the *Joint Northern and Central Corridors Performance Report* (2016–19) revealed that the cost of freight went down slightly for the period. But costs are still a concern for transporters in the region, and long distance freight costs remain high, with road tolls, multiple border charges and poor road conditions causing cost escalations.

Opportunities for landlocked countries

The AfCFTA provisions on trade in goods (annex 8 on transit) are peculiar to the African continent because Africa has the most landlocked developing countries (LLDCs), with 14 of its 16 landlocked countries designated as LDCs. The need to ensure that LLDCs have continued access to the global marketplace through maritime trade access points cannot be overstated. Presently, all of Africa's LLDCs have some form of transport arrangement with their transit neighbours allowing access to ports. But, even with access to maritime trade, the quality of roads varies greatly, and this can lead to longer transit times and more expensive ground transport for goods.

Cross-border transport facilitation (AU, 2018, annex 4; BOX 5.1) is of the upmost importance to LLDCs. This is reflected in the Vienna Programme of Action for Landlocked Developing Countries for the Decade 2014–24 (UN, 2014). On average, LLDCs trade 30 per cent less than their coastal neighbours. For LLDCs, border crossing points are a major source of trade costs, and any of their seaborne exports or imports must pass through at least one extra set of border controls. This increase in transit times reduces exports. For example, a one-day increase in transit time reduces exports by an average of 7 per cent in sub-Saharan Africa (Freund and Rocha,

BOX 5.1 AN OVERVIEW OF THE AFRICAN CONTINENTAL FREE TRADE AGREEMENT ANNEXES 4 AND 8

Annex 4: Trade facilitation

The objective of annex 4 is to facilitate processing trade across borders, encouraging state parties to publicize trade regulations and adopt measures to expedite customs procedures—such as pre-arrival processing and the use of electronic payments. Single windows are also encouraged to streamline documentation and customs processes. Annex 4 covers transport operators as well, encouraging the private sector's involvement in ensuring efficient trade procedures.

Annex 8: Transit

Annex 8 facilitates the customs procedures of transit vehicles and workers in cross-border trade. It outlines the role that customs offices play in facilitating the transport of goods. For example, it requires that customs officials from one AfCFTA country respect seals affixed by customs officials from another AfCFTA country. Additionally, it sets out the framework for customs offices to accept AfCFTA documentation from traders, easing the burden of preparing procedural documents for cross-border trade.

Source: AU, 2018.

2010). Additionally, the cost of imports adversely affects purchasing power in LLDC economies. On average, for LLDCs, transport costs represent 19 per cent of the price of a good, compared with the world average of 15 per cent. More stark is the 21 per cent that LDCs pay, especially considering that 14 of the 16 LLDCs in Africa are LDCs and that 33 of the world's 46 LDCs are in Africa (Youssef, 2019).

The connectivity bias that disadvantages landlocked economies from participating in world trade is more profound for landlocked economies where the level of intra-regional connectivity is very low. So, despite phases of economic growth in many African countries in recent years, insufficient infrastructure networks have limited cross-border flows of trade, people, capital and information, thus drastically affecting Africa's growth, industrialization, regional integration and broader development.

Gender and youth dimensions in the transport service sector

While there are significant gaps in the data to allow a full understanding of the gender and youth dimensions of transport services trade, the sector is largely informal and male dominated. A survey of freight and logistics firms in East Africa found that women made up less than 20 per cent of employees in the sector across the region. Most of these women were young and had some experience but did not have university degrees or formal training. They were employed largely in clerical roles (TMEA, 2018). Women were unrepresented in the delivery of transport services in East Africa and in decision making, as working conditions for women are poor (Stockholm Environment Institute, 2018). Women face work-based harassment, violence, discrimination, a lack of job security, and insufficient benefits (Wikman and Muhoza, 2019). Specific challenges identified for women in the logistics industry in East Africa include the gender pay gap, a glass ceiling on promotions, a lack of consultation with women, a lack of anti-discrimination guidelines in the workplace, and workplace bias and discrimination that relegate women to low-skilled, low-paid jobs (TMEA, 2018). Poor welfare and sanitation facilities, long working hours that conflict with time commitments at home, remote work locations with security risks, and insufficient rest stops all pose challenges for women in the transport and logistics sector. But technological advances, for instance in more manageable machinery, can create opportunities for women, and training opportunities can be targeted towards women. In addition to complementary national policies, regional women's business associations[3] can support the promotion of women in the sector by encouraging employment at higher levels, addressing gender-based barriers and creating opportunities for mentorship.

Evidence suggests that women are disproportionately disadvantaged in transport infrastructure (Higgins, 2012). Women tend to spend a higher proportion of their income on transportation, yet have less control over transport resources than men in the household. Ownership of motorised vehicles is higher for men, with women relying on rural roads with poor linkages to transport corridors and trade hubs, increasing their costs. Women depend more on walking and public transportation to bring goods to market, which limits their efficiency and creates security and safety risks. Poor road infrastructure and low investment in public or informal transport services have a disproportionate impact on women's economic empowerment, as well as an impact on the ability of people with disabilities to participate in regional economies. Women are most affected when the para-transit and non-motorized transport modes on which they rely—and that dominate the public transport industry—are either unrecognised or barred from accessing certain areas (Uteng and Turner, 2019).

Women also have different storage and logistics needs because of the different types of goods they typically trade. This is especially so for cross-border traders who often trade perishable agricultural commodities (UN Women, 2018). Small-scale or informal cross-border trade is an overlooked side of the transport service sector. It is estimated that up to 40 per cent of regional trade is conducted informally and that 70 to 80 per cent of traders in some regions are women (Afreximbank, 2020; Zarrilli and Linoci, 2020). Youth- and women-owned businesses—typically micro, small and medium-sized enterprises (MSMEs) that trade in small volumes—pay high unit costs for logistic services. Small-scale traders may also be exploited by middle-men because the traders lack market information, have inadequate business networks or need their perishable goods to reach the market quickly.

Non-tariff barriers—access to information, obtaining trade and transport documents, processing times, the costs of roadblocks, and corruption and insecurity at border crossings—are disproportionately high for women traders (Afreximbank, 2020). Social considerations, including additional time burdens of domestic responsibilities as well as cultural and legal restrictions on their movement, may limit their ability to travel for trade. These high costs and challenges limit the efficiencies of women and youth-owned businesses, restricting their profits and their ability to invest in other productive activities. Ultimately, women and youth's economic empowerment outcomes are constrained.

While the high proportion of women and youth in informal cross-border trade reflects its flexibility and low start-up costs, the AfCFTA, by reducing costs and trade barriers, incentivizes formalization. The onset of the Covid-19 pandemic has brought significant challenges to small-scale cross-border traders as, in an effort to control the spread of the virus, countries raised trade barriers and closed land borders. In the first months of the pandemic, all but nine countries closed their land borders (ECA, 2020b).[4] Even after borders reopened, licensing requirements and costly processes continued to pose challenges. Policy measures and regulations to facilitate safe cross-border trade amid Covid-19 have been confined to transporting goods by truck. This overlooks the large section of cross-border trade that is informal and that involves traders moving across borders on foot. So, making transport services available to informal traders plays a key role in sustaining their livelihoods. Since the pandemic, there has been an trend of small-scale informal traders joining forces (through cross-border trade associations), aggregating their goods, and paying a bundle of fees to truck drivers for transportation and clearance. The AfCFTA provides a key opportunity to encourage small-scale cross-border traders to join the formal transport service sector, which provides more protection and supports improved efficiency. With more education and training, many of these traders can better participate in trade corridors.

Complementary regional and national policies around strategic investments in transport infrastructure and services can address these inequalities. The participation of women and youth entrepreneurs and traders in national public–private dialogue is critical to ensuring that national AfCFTA implementation strategies identify and address their transport-related barriers to trade. The inclusion of youth groups, women's business associations and cross-border traders' associations in national AfCFTA implementation committees can also support inclusive AfCFTA implementation. While taking into account the gender digital divide, successful interventions and digital solutions—including private sector innovations and logistics and transport and REC level trade facilitation programmes—can be investigated and scaled up across the continent. Improved data are also needed on women and youth participation in the transport service sector.

Emerging trends in the digitization of the transport sector

Digital technologies are the main force driving the reduction of service trade costs, and they are fundamentally changing the ways in which business and trade are carried out. The digital economy permeates every aspect of trade. This is recognized in regional trade agreements around the world and is under discussion at the multilateral level. So, in negotiating the AfCFTA, member states cannot afford to ignore the reality of the digital economy or its role in enhancing trade facilitation, information and monitoring.

Digitalization pervades all areas of the economy, and digital considerations cut across many aspects of the overall trade in goods and services agenda (ECA, 2020a). So, specified or not, digital issues will be considered as part of the existing AfCFTA mandate. Doing this systematically, while not attempting to secure a specific mandate, is a practical way to ensure that the most important aspects of the digital trade agenda are incorporated into the agreement (Hope, 2020).

For other areas, such as customs cooperation and trade facilitation, national implementation in ways that support the digital economy is essential. This could mean creating regulatory underpinnings at the regional economic community (REC) or national level for the digitized signature allowed in the AfCFTA Rules of Origin (ROO) Certificate.

There are a growing number of initiatives to digitalize transport services at the subregional level in Africa, such as the Tripartite Transport Registers and Information Platform System (TRIPS), and the Corridor Trip Monitoring System (CTMS) being developed in the context of the Tripartite Transport and Transit Facilitation Programme (TTTFP).

Trip registration

The idea behind TRIPS is that member states make registering cross-border trips a regulatory requirement in their domestic laws. This is similar to regulating and enforcing laws and standards for drivers, vehicles and operators (Annex 2 of the Tripartite FTA). To improve corridor efficiency, TRIPS could be replicated at the AfCFTA level, thus facilitating safe and free corridor trade and trip monitoring.[5] The TTTFP proposes that an additional system—the Corridor Trip Monitoring System (CTMS)—be developed and hosted in conjunction with TRIPS (TTTFP, 2020a). In the context of Covid-19, integrating TRIPS and CTMS has benefits (BOX 5.2).

Location tracking

During a trip, CTMS will collect, monitor and consolidate vehicle movement information on a corridor by receiving vehicle and crew tracking information through TRIPS. This information will be supplemented by real-time location data recorded by the vehicle load management information system (VLMIS) at regional weigh stations on the corridor. Where available, the vehicle tracking information will be supplemented by tracking data from existing customs cargo tracking systems, such as the EAC's regional electronic cargo tracking system (RECTS) or the Common Market for Eastern and Southern Africa's (COMESA) virtual trade facilitation system (CVTFS) (TTTFP, 2020a).

Immigration and customs pre-clearance

All immigration and customs documentation recorded on the CTMS, including the Covid-19 clearance details that allows a vehicle to proceed to the border post, are accessible to the immigration and customs officials on TRIPS and could be used for pre-clearance.

Covid-19: Trade and transport facilitation

During the Covid-19 pandemic, most African governments have faced a difficult decision—risk cross-border transmission of the virus or risk disrupting cross-border supply chains, including those of essential life-saving goods. At the beginning of the pandemic, the World Customs Organization (WCO) and the International Road Transport Union (IRTU) jointly called on customs administrations worldwide to do the following:

- Ensure coordinated cross-border interventions in cooperation with other national border agencies and implement international standards.
- Use the IRU's TIR (International Road Transport) system and its information technology tools to facilitate secure transport under customs control with limited physical checks and less contact between people at borders.

BOX 5.2 COVID-19 INFECTION TESTING

In case of a pandemic, the integration of TRIPS and CTMS will allow mobile phones to track crew member movements and interactions with other people outside of their vehicles. The suggestion is that pre-clearance checkpoints be established at convenient locations some distance from the border and customs control area, preferably at facilities better equipped than border posts to deal with infected drivers or crew members. This will allow only vehicles with cleared crew members to proceed to border post immigration, security and other regulatory clearance processing (TTTFP, 2020a). At border posts with high traffic volumes, especially along the main regional corridors connecting the LLDCs to the seaports, a fully automated nose or throat swab pathogen test that produces reliable test results within hours should be deployed to test everyone, whether symptomatic or not. Once the test results are available, the test date, time, location and result, together with other symptomatic information, including the person's temperature reading, can be uploaded to the CTMS using the TRIPS handheld device (TTTFP, 2020a)

- Designate priority (green) lanes for commercial vehicles to reduce border waiting times and introduce other measures to ensure supply chain continuity.
- Avoid closing borders to the international transport of goods, particularly relief goods and personnel and essential goods.
- Avoid unnecessary checking of commercial vehicles at borders.

With a view to facilitating the free and timely flow of cross-border trade, Africa's RECs have played a crucial role in coordinating the responses of their member states to the pandemic. This has involved developing REC guidelines to provide common measures and practices for the movement of goods and services across regions. These guidelines typically include important provisions related to:

- Transport of goods and cross-border freight transport operations.
- Regulation and control of trucks, aircraft and vessels carrying essential goods and services.
- Movement of goods on transit/inland deliveries.
- Cross-border land transport and free movement of persons.
- Regional electronic cargo and driver tracking systems.
- Protection for transport sector workers and passengers.
- Capacity building at border crossings, airports and seaports.

BOX 5.3 DIGITAL SOLUTIONS IN THE EAST AFRICAN COMMUNITY: REGIONAL ELECTRONIC CARGO AND DRIVER TRACKING SYSTEM

On 29 May 2020, EAC partner states adopted the EAC Regional Electronic Cargo and Drivers Tracking System, which is now hosted at EAC headquarters in Arusha, Tanzania. The system is designed to share truck driver information, leveraging information managed by revenue authorities in the region and existing health information systems in partner states. Truck drivers are required to present themselves for testing before customs and immigration clearance. The Regional Electronic Cargo Tracking System is then used to trace the movement of drivers, so that when the results come in, those who test positive are immediately intercepted and quarantined. The system requires truck drivers to upload an application on their mobile phones, which allows users to share information across borders transparently. The digital surveillance tracker interfaces and connects directly to designated laboratories in the partner states. Other regional economic communities should consider rolling out similar electronic cargo and driver tracking systems.

Source: ECA, 2020b.

BOX 5.4 COORDINATING TRANSPORT-RELATED COVID-19 POLICIES IN THE SOUTHERN AFRICAN DEVELOPMENT COMMUNITY REGION

On 6 April 2020, the SADC Council of Ministers adopted regional guidelines for harmonizing and facilitating the movement of critical goods and services across the region during the Covid-19 pandemic. The SADC guidelines are aimed at the following:

- Limiting the spread of Covid-19 through transport across borders.
- Implementing transport-related national Covid-19 measures in cross-border transportation.
- Facilitating the flow of essential goods such as fuel, food and medicines.
- Limiting unnecessary mass movement of passengers across borders.
- Harmonizing and coordinating transport-related national Covid-19 policies, regulations and response measures.

The guidelines call for information sharing and simplifying and automating trade and transport facilitation processes and documents. The guidelines also provide guidance during the Covid-19 pandemic on the services to be provided by governments, transport operators and transport operator associations. Member States are required to assign or establish national transport and trade facilitation committees, and the committees are then responsible for implementing and coordinating the guidelines, in particular resolving operational issues at borders or roadblocks during the pandemic.

The SADC secretariat has also set up a regional Covid-19 trade and transport facilitation cell to assist member states with coordinating trade- and transport-related measures during the pandemic. This regional body has assembled a collection of Covid-19-related national transport laws and regulations from 11 member states, and has begun to check them for consistency with the regional guidelines.

All RECs should consider establishing a body to coordinate, implement and resolve Covid-19 border regulations and guidelines.

Source: ECA, 2020b.

There is a significant degree of alignment among the REC guidelines. But some differences exist, particularly in scope and terminology. And implementation at the national level has been inconsistent. Common African Union (AU) Covid-19 guidelines on trade and transport would help to harmonize and coordinate the implementation of trade- and transport-related regulations. This is important, given the overlap in membership of RECs and the shared trade facilitation goals of the AfCFTA.

In this context, the East African Community (ECA) is supporting the AU to develop an initiative titled Continental Guidelines on Trade and Transport Facilitation for the Movement of Persons, Goods and Services across Africa during the Covid-19 Pandemic. The initiative is in line with the efforts to implement the Africa Trade Corridor as recommended by the Heads of State and Government in April 2020. The continental guidelines have been designed to:

- Demonstrate a coordinated and united African position.
- Avoid confusion and misinterpretation of Covid-19 border regulations.
- Facilitate transit trade that crosses more than one REC.
- Create a system of oversight and of best practices to enhance enforcement and implementation performance.

The continental guidelines build on the best practices and experiences of the RECs. They are expected to be in force in 2021 to reinforce the recent start of trading under the AfCFTA.

THE CASE FOR LIBERALIZATION

Having access to efficient services contributes to overall economic competitiveness. More efficient services can help offset the high indirect costs related to Africa's inadequate infrastructure and public services. Investment in physical infrastructure, coupled with AfCFTA policies aimed at encouraging competition and liberalizing transport services, could potentially reduce trade costs—of which transport infrastructure and services costs account for one-third (WTO, 2019)—and foster services trade, while making goods cheaper and more competitive.

The AfCFTA is a game changer for investment in transport infrastructure in Africa. Its scope goes beyond that of a traditional free trade agreement, covering not only trade in goods but also investment, e-commerce, competition policy, trade in services and intellectual property rights. The AfCFTA investment protocol will provide common rules for state parties to introduce harmonized incentives for attracting investment to accelerate development, including transport infrastructure investment. This regulatory convergence on investment issues is expected to broaden access for African and foreign investors in the African market and encourage greater engagement in trans-boundary, multi-country transport infrastructure projects. The AfCFTA is also addressing challenges in Africa's investment environment that include non-tariff barriers, standards harmonization, customs cooperation and trade facilitation. Addressing these challenges will help provide a more enabling environment for private sector participation in the development of transport infrastructure.

UNCTAD proposes that infrastructure service regulation and policy need to better target existing market failures. Structural impediments need to be addressed to improve performance in the sector and unleash Africa's service economy potential.

The Yamoussoukro Decision provides ample evidence of the benefits of transport service liberalization. A study in 2014 by the African Civil Aviation Commission and the International Air Transport Association indicated that full air transport liberalization between 12 African countries—Algeria, Angola, Egypt, Ethiopia, Ghana, Kenya, Namibia, Senegal, South Africa, Tunisia and Uganda—would add $1.3 billion a year to tourism spending in these countries and create 155,000 more new jobs (IATA, 2014). Consumers would also benefit from a 75 per cent increase in direct services, and fare savings of 25–35 per cent—worth $500 million. A separate report by Embraer (2019) forecast the need for 555 aircraft in the 150-seat category over the next 20 years for 10 of the 34 countries that signed the Solemn Commitment to the Single African Air Transport Market (SAATM).

Progress in transport service sector liberalization

A number of regional, continental and international agreements, protocols and declarations govern various aspects of transport services and provide regulatory frameworks for the different modes of transport services. These agreements, protocols and declarations not only address trade-related matters but also offer best practices for regulatory frameworks in the transport sector. These frameworks

TABLE 5.3 SUMMARY OF AFRICAN UNION MEMBER STATES' GENERAL AGREEMENT ON TRADE IN SERVICES COMMITMENTS IN TRANSPORT SERVICES

		A MARITIME	B INLAND WATERWAY	C AIR	D SPACE	E RAIL	F ROAD	G PIPELINE	H AUXILIARY TO ALL MODES	I OTHER	MFN EXEMPTIONS
1	Angola										
2	Benin										
3	Cameroon										
4	Cabo Verde										
5	Dem. Rep. of the Congo										
6	Côte d'Ivoire										
7	Egypt										
8	Gambia										
9	Ghana										
10	Guinea										
11	Kenya										
12	Lesotho										
13	Liberia										
14	Mali										
15	Morocco										
16	Niger										
17	Nigeria										
18	Senegal										
19	Seychelles										
20	Sierra Leone										
21	South Africa										
22	Eswatini										
23	Tunisia										
	Total	9	4	4	0	2	10	0	4	2	12

Source: Compiled by UNECA

provide baselines for best practice principles relevant to developing the AfCFTA's transport services regulatory frameworks.

At the multilateral level, the General Agreement on Trade in Services (GATS) is the starting point for discussions on liberalizing trade in services. GATS extends the multilateral trading system to services, and it is the first and only set of multilateral rules covering international trade in services. All WTO members are signatories to GATS, and they have to assume its obligations. GATS contains the general rules and disciplines on liberalization of trade in services and the schedules of specific commitments.

GATS disciplines include the most-favoured nation (MFN) status, market access, national treatment, transparency, domestic regulation, monopolies and exclusive service suppliers, business practices and subsidies, and payments and transfers. The agreement adopts a positive-list approach to scheduling commitment. This entails listing in members' schedules of commitments the sectors and subsectors that are subject to liberalization. Member states list the market access and national treatment limitations applicable to each subsector and the four modes of supply. Of the 44 AU member states that are also WTO members, 17 have made commitments in at least one mode of transport (**TABLE 5.3**).

Other conventions adopted under the auspices of the United Nations Inland Transport Committee, such as the Customs Convention on the International Transport of Goods under Cover of TIR Carnets (1975) and the International Convention on the Harmonisation of Frontier Controls of Goods (1982), provide a framework for establishing closer cooperation in transport facilitation and harmonization of procedures in the movement of goods (Reis, 2016).

At the continental level, African countries have adopted policies and strategies to develop transport infrastructure to increase regional integration and to make African products more competitive. These instruments also offer best practices and a baseline for developing regulatory frameworks for the transport sector at the national level (**BOX 5.5**).

Due to the lack of harmonization, existing legal and regulatory frameworks are not always conducive to good organization or to facilitating transport and trade at national and regional levels. There are other inconsistencies between national and regional policies and regulations, and discontinuity on priorities, policy coordination and direction. The ratification and implementation of the continental instruments aimed at the inter-operability of transport systems—and ultimately the integration of the continent—have to be fast-tracked (AEATTF, 2020).

RECs and transport service sector liberalization

RECs play an important role in facilitating the growth of the transport service sector. Various RECs—COMESA, EAC, ECOWAS and SADC—have adopted transport sector facilitation and regu-

BOX 5.5 SELECTED CONTINENTAL FRAMEWORKS IN THE TRANSPORT SECTOR

The African Transport Policy Framework provides for an integrated, sustainable, harmonious and inclusive transport system, while accounting for the continent's regional and international regional connectivity and the welfare of its citizens.

The African Revised Maritime Transport Charter, 2010, provides the framework for implementing harmonized shipping policies, while encouraging the development of African fleets and regional and subregional shipping lines and promoting cooperation between the partner states.

The Programme for Infrastructure Development in Africa (PIDA), 2010, sets out objectives to enable Africa to build a common market by:

- Improving access to regional and continental infrastructure networks.
- Accelerating growth by facilitating the continent's integration in the world economy.
- Increasing intra-African trade by making possible the formation of large competitive markets in place of small ones.
- Improving living standards.

Inter-governmental Agreement on Harmonisation of Norms and Standards of the Trans African Highway Network (TAH) has the objective of setting up common minimum norms and standards for the design, construction and maintenance of the TAH network with good quality, all-weather roads.

The Yamoussoukro Decision and SAATM provide a framework for liberalizing the air transport market in Africa and establishing a single African air transport market.

The Traffic Light System is a methodology for assessing the performance of cross-border transport, developed by the African Union Development Agency (AUDA-NEPAD) under the MoveAfrica initiative. It consists of indicators to measure the efficiency of cross-border transport in countries along corridors and to identify existing bottlenecks and opportunities for improvement. The indicators are clustered around key dimensions of trade facilitation such as documentation, financial guarantees and infrastructure, among others.

Source: Compiled by ECA.

latory frameworks in line with their constitutive documents. Successes have also been realized through coordination among RECs, as under the COMESA–EAC–SADC Tripartite Transport and Transit Facilitation Programme (TTTFP).

The overall objective of the TTTFP is "to facilitate the development of a more competitive, integrated and liberalized regional road transport market in the East and Southern African region."[6] The project develops and implements harmonized road transport policies, laws, regulations and standards for efficient cross-border road transport and transit networks, transport and logistics services, and systems and procedures in the East and Southern African region. The project aims to reduce travel time through improved efficiency on the regional trunk road network.

Tripartite Member States adopted the Vehicle Load Management Agreement (VLMA) and Multi-Lateral Cross Border Road Transport Agreement (MCBRTA), which provide frameworks for harmonizing road transport policies, laws, regulations and standards. The Tripartite Member States are expected to adopt these agreements into their respective jurisdictions. As of August 2020, Ethiopia, all six EAC partner states and eight SADC member states are implementing the VLMA and MCBRTA.

At the technical level, system specifications, standards and design specifications for the integrated National Transport Information System were developed to operationalize the enabling legislation. These include the Vehicle Load Management Information System (VLMIS), Tripartite Transport Registers and Information Platform System (TRIPS), and systems for vehicles, drivers, operators, infrastructure, transgressions and accidents.

The Tripartite member states also adopted several compulsory standards for roadworthiness and safety:

- Driving licences.
- Transport of dangerous goods by road.
- Cross-border Road Transport Management System (XB-RTMS).
- Accreditation of weigh stations and verification (including calibration) of static and weigh-in-motion scales at weigh stations.
- Number plates.
- Equipment on vehicles and safety requirements for vehicles.
- Road-side rest stations.
- Road traffic signs.

The Tripartite member states also adopted standard design specifications for weigh stations, driving schools, driving testing centres and vehicle testing stations.

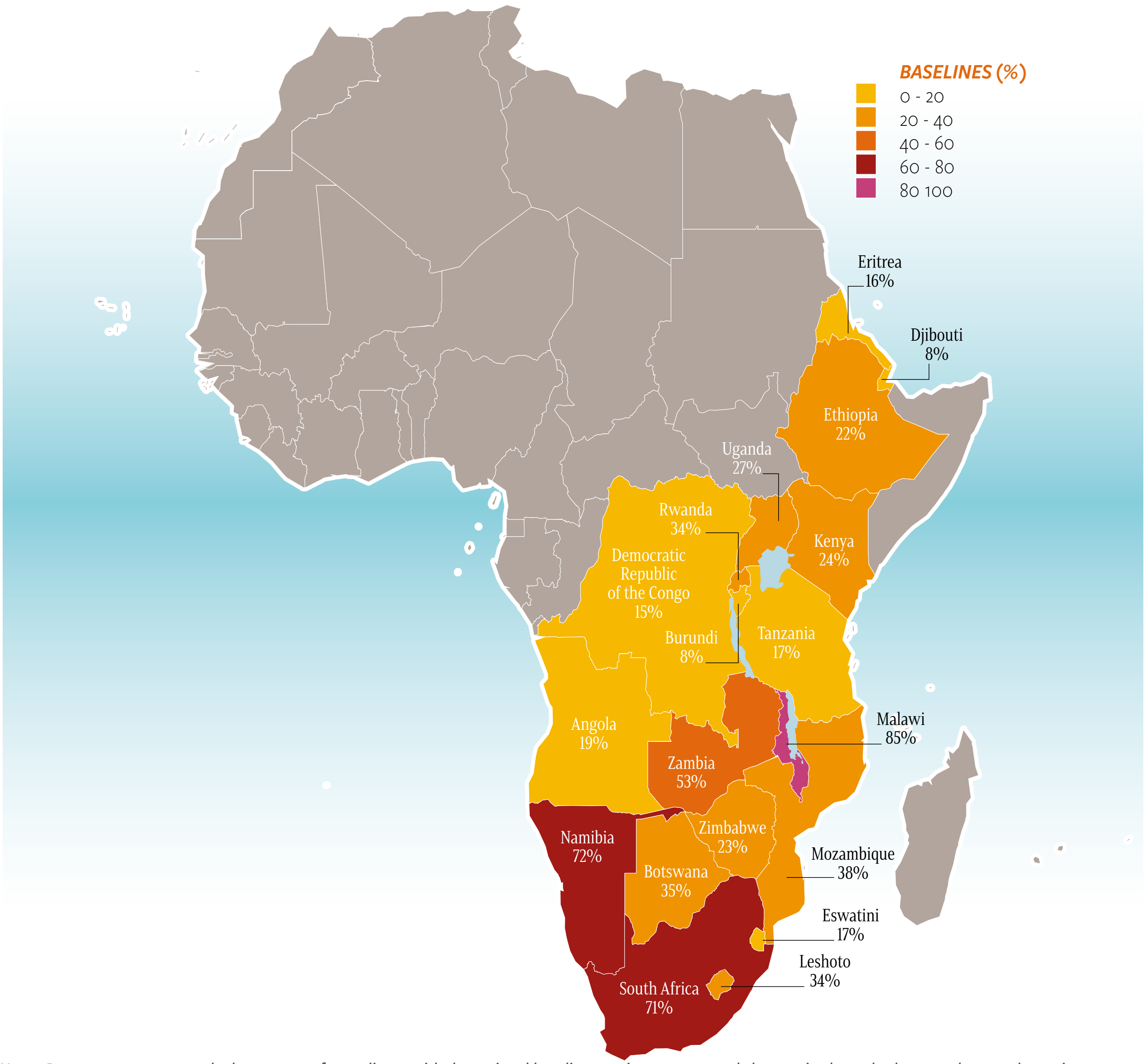
The TTTFP offers a good case study and lessons for the AfCFTA both from trade and customs facilitation and from harmonization of transport regulatory framework perspectives. Surveys conducted in 2016 provide the latest information on compliance with regional baseline requirements for transport and traffic harmonized standards, procedures and practices in the Tripartite region (**MAP 5.1**).[7] The East African Northern Corridor also provides a good example of a regulatory and institutional framework for trade and transport facilitation (**BOX 5.6**). AU member states should consider similar harmonizing policies and programmes on transport procedures.

Some African countries—Ethiopia, Kenya, Malawi, Tanzania, Zambia and Zimbabwe—have made strides in reforms by reviewing transport sector policies and regulatory frameworks. Reforms have included introducing dedicated road agencies and road funds (with the funds managed by boards or secretariats), restructuring railways and ports, and introducing private sector management to their operations. These reforms have resulted in improved infrastructure, connectivity and accessibility. But most African countries still face challenges in implementing their commitments to continental and regional transport frameworks. So it is vital that pro-liberalization domestic reforms also put more focus and effort into fast-tracking the implementation of continental and regional instruments.

Lessons from air transport liberalization in Africa

The importance of air transport to Africa's regional integration and economic development cannot be overestimated. Yet, the continent lacks effective and affordable air connectivity between countries. Trade in air transport is governed by an elaborate structure of bilateral agreements or air service agreements (ASAs) based on reciprocity—the granting of traffic rights to contracting states. ASAs determine the degree of market access and provide rules that give airlines the rights to fly on specific routes, define the capacity of designated airlines and limit the capacity of airlines from third countries. The system thus imposes a set of country-specific quotas in each market, as competition on each route is limited to suppliers designated by the relevant bilateral ASA. This often results in underdeveloped networks and a lack of competition and leads to higher fares (AU, 2016). Open skies agreements, on the other hand, remove restrictions on fares, capacity, frequency and aircraft type for designated airlines (ECA, 1999).

MAP 5.1 TRIPARTITE TRANSPORT AND TRANSIT FACILITATION PROGRAMME OVERVIEW—COUNTRY BASELINES



Note: Percentages represent the latest state of compliance with the regional baseline requirements towards harmonised standards, procedures and practices in transport and traffic related matters in the Tripartite Region. During the Baseline Survey the average compliance scores were calculated for each country based on the following criteria: vehicles, vehicle fitness, drivers and professional drivers, driving codes, operators, weighbridges and law enforcement.
Source: Country Baseline Scores—TTTFP, accessed 6 January 2021.

The lack of effective and affordable air connectivity in Africa led to the Yamoussoukro Decision, adopted in October 1988. The declaration aimed at creating a conducive environment for developing intra-African and international air transport services. The decision to implement the Yamoussoukro Decision was adopted in 1999 and established the gradual liberalization of scheduled and non-scheduled intra-African air transport services. The factors that underpinned the adoption of the Yamoussoukro Decision are still relevant today. These include globalisation of the world economy; the imperative for regional African integration, particularly the free movement of persons, goods and services; and the desire to stimulate the development of intra-African air transport. The Yamoussoukro Decision aimed specifically to eliminate the non-physical barriers that hamper the sustainable development of air transport services on the continent; to create a conducive environment for the development and provision of safe, secure, reliable and affordable air transport services; to establish a liberalized intra-African aviation market in relation to traffic rights,

BOX 5.6 THE EAST AFRICAN COMMUNITY'S NORTHERN CORRIDOR

The Northern Corridor, a multimodal trade route, links the landlocked countries of the Great Lakes region with the Mombasa seaport. The corridor was established under the Northern Corridor Transit and Transport Agreement (NCTTA) to facilitate inter-state and transit trade. It comprises six member states—Burundi, Democratic Republic of the Congo, Kenya, Rwanda, South Sudan and Uganda.

The NCTTA is a comprehensive agreement with 11 defined protocols on strategic areas for regional cooperation. The objectives of the agreement are based on three pillars of sustainable transport:

- The economic pillar, to promote efficient and competitive transport.
- The social pillar, to foster inclusive transport.
- The environmental pillar, to promote green freight transport.

The Northern Corridor Transit and Transport Coordination Authority (NCTTCA) was established and mandated by member states to oversee the implementation of the agreement, to monitor its performance, and to transform the northern trade route into an economic development corridor and to enhance efficiency and sustainability.

Some of the key achievements of the Northern Corridor are:

- Enhancing cooperation among member states on transit and transport issues.
- Reducing multiple security and customs posts, police and customs roadblocks.
- Interfacing customs systems and joint verification of multiple customs documents.
- Introducing high-speed weigh-in-motion systems to reduce multiple weighbridges.
- Decongesting Mombasa port by streamlining and automating procedures and operations.
- Domesticating some REC polices, such as implementing and monitoring EAC vehicle load control and some COMESA trade facilitation instruments.
- Harmonizing national customs laws and instruments.
- Mobilizing funding for rehabilitation of major highways to ensure road quality according to the International Roughness Index (IRI).
- Advocating for adequate border infrastructure, such as one-stop border posts and related facilities to minimize customs procedures and transit times.
- Setting up an effective monitoring system through the Transport Observatory and Dashboard.

Source: Northern Corridor Transit and Transport Coordination Authority, available at: http://www.ttcanc.org/page.php?id=20.

capacity, frequency and pricing; to enhance cooperation among African airlines; to promote fair competition among the air transport users and to improve the quality of service to consumers.

The Yamoussoukro Decision has the following annexes:

- **1: Form of declaration of commitment on the decision relating to the implementation of the Yamoussoukro Decision concerning the liberalization of air transport markets in Africa.**
- **2: Duties and responsibilities of the monitoring body of the Yamoussoukro Decision.**
- **3: Dispute settlement mechanism.**
- **4: Regulations on the powers, functions and operations of the Executing Agency.**
- **5: Regulations on competition in air transport services within Africa.**
- **6: Regulations on the protection of consumers of air transport services.**

These institutional and regulatory texts are essential for the successful operation of the SAATM. Annex 4, on the powers and functions of the executing agency, clearly defines the jurisdiction and regulations that would enable the agency to effectively manage and supervise SAATM. The agency is also tasked with promoting healthy competition and ensuring that consumer rights are protected—as guided by annex 5 and annex 6, which provide the necessary legal framework. The competition regulations address issues such as abuse of a dominant position, prohibition of discrimination in national regulations and regulations on other anti-competitive behaviour. Passengers within the Single African Air Transport Market can expect to be treated fairly. Consumers can expect compensation for any breach of their rights by air transport service providers, and this includes a mechanism for the consumers to seek redress.

As a key step in implementing the Yamoussoukro Decision, the 30th Ordinary Session of the AU Assembly, held on 28 January 2018 in Addis Ababa, launched SAATM and adopted the regulations for the operationalization of the Yamoussoukro Decision and SAATM. SAATM—also referred to as the Open Skies Treaty—is one of the flagship projects of the AU's Agenda 2063. As of February 2021, 34 AU member states, representing over 80 per cent of the existing aviation market in Africa, have committed to the single air transport market.[8] Eighteen member states of SAATM signed a Memorandum of Implementation to remove restrictions in existing bilateral air services agreements (BASAs) that are contrary to the Yamoussoukro Decision. ECA collaborated with African Union Commission and the African Civil Aviation Commission in 2020 to developed key performance indicators for the Yamoussoukro Decision. The indicators are being used to develop a dashboard to assess the performance of member states in implementing the decision.

The framework of the Yamoussoukro Decision offers important lessons for liberalizing transport services. It is important that the regulatory framework the AfCFTA promote and guarantee free and fair competition in transport services on the continent. The framework should promote ease of market entry and exit by removing restrictions. Other barriers and restrictions that are discriminatory are foreign equity limitations, discriminatory licensing and nationality requirements. The framework should also allow foreign market service suppliers the opportunity to compete equally with domestic suppliers and, as far as practicable, not to be treated less favourably than domestic suppliers. In logistics and transport infrastructure, monopoly power limits opportunities for other domestic and foreign competitors to enter and compete in the market. The regulatory framework should ensure access to logistic service providers to critical infrastructure-related services at ports, airports and road and rail terminals on reasonable and non-discriminatory terms.

MAP 5.2 SINGLE AFRICAN AIR TRANSPORT MARKET COMMITMENTS BY COUNTRY

In spite of the strong determination to liberalize air transport services under the Yamoussoukro Decision and the SAATM, the AfCFTA Protocol on Trade in Services—just like the WTO GATS—excludes air traffic rights and services. The protocol applies to measures affecting aircraft repair and maintenance services and to selling and marketing air transport services.[50]

The key takeaway from the Yamoussoukro Decision is that single African markets in other modes of transport—road, rail, maritime and inland waterways—require inter-governmental agreements at the continental level that clearly define the monitoring body, executing agency, and dispute settlement mechanisms. The agreements should also contain regulations on competition and consumer protection in the different modes of transport. The task at hand is to develop continental legal frameworks by harmonizing existing bilateral and subregional agreements in the different modes of transport and then putting in place effective monitoring and executing agencies. These legal frameworks could be developed as annexes for the implementation of the AfCFTA Protocol on Trade in Services. On adoption by the AU Assembly, the annexes would form an integral part of the protocol.

Liberalization in the context of the AfCFTA

The AfCFTA embodies reforms to liberalize and facilitate trade beyond tariff reductions. These reforms are complemented by trade-related infrastructure measures to take advantage of the AfCFTA, such as PIDA and strategic logistics management. But there are challenges in liberalizing and facilitating trade in transport services at the continental level in Africa, mostly related to inconsistencies in policies at regional and national levels.

Domestic regulation, in particular, can create barriers to trade in services. The AfCFTA Protocol on Trade in Services, in the preamble and article 18 (progressive liberalization), recognizes the government right to regulate. While ensuring that licensing, qualification and other requirements do not limit market entry or impede competition, the protocol does not impose many constraints on domestic regulation beyond non-discrimination and transparency obligations. AU member states should, therefore, negotiate sector-specific obligations by developing regulatory frameworks for each sector and by taking into account the best practices and accumulated legal actions of the RECs, as well as the negotiated agreement on sectors for regulatory cooperation.

It is vital that liberalization processes of trade in services under the AfCFTA be complemented by a strong regulatory focus that addresses behind-the-border measures affecting services, investment and competition. So, there is a need to introduce disciplines that induce regulatory coherence and reduce divergence in national regulatory standards. Regulations must be adopted only on the determination that there is a net benefit to society that goes beyond particular interest groups. Regulations should be set to the minimum level necessary to achieve the objective and avoid unnecessary restrictions. Regulations should also be integrated and consistent with other policies, laws and international obligations.

There is also a need for effective and constant communications, information flows and consultative processes between government entities in charge of trade ministries and sectoral service regulations, as well as with the private sector and civil society organizations.

It is important to mention that obstacles to trade in services can also emanate from diversity in national regulatory systems. Service providers supplying several markets have to bear the costs of adjusting to different regulatory requirements. Under the AfCFTA the emphasis should not be on eliminating regulations, but on managing regulatory diversity. Where regulatory divergence stems mainly from pursuing similar objectives through different regulations, AU member states and the AfCFTA secretariat should engage in regulatory cooperation in the transport sector, such as regulatory harmonization or mutual recognition or equivalence. Transport service regulatory frameworks should seek to reduce regulatory discretion by requiring that the measures not be more trade-restrictive than necessary.

Based on the analysis of this chapter, it is evident that transport services are subject to multiple restrictions and regulations. Transport services fall under the responsibility of many different regulatory authorities with varying domestic objectives—such as economic development, safety, security and customs revenue. In this regard, AU member states need a continental regulatory framework that allows them to undertake legitimate policy functions without hampering trade and investment and eroding the benefits of open, transparent and competitive logistics and transport service markets. A key challenge is to ensure the adequate pace and sequencing of liberalization and regulatory processes so that effective frameworks and domestic capacity are built before liberalization, while still retaining ability to adapt to new challenges—including those stemming from liberalized markets (UNCTAD, 2016).

The supporting role of transport infrastructure

Improving transport infrastructure is critical to achieving the full benefits of liberalizing and regulating transport services. It is important to improve infrastructure, for instance the condition of roads in regional corridors—particularly PIDA corridors. Rail transport in Africa is still declining, despite being less polluting, more resilient, cheaper over longer distances and consuming less fossil fuel than the road sector. Its management is often inefficient, and operating concessions have not brought about efficiency or increased traffic and investment. To ensure efficient rail transport services, there is a need to resolve these problems in support of AfCFTA.

The African Union Commission (AUC) and RECs place priority on enhancing inter-connectivity and facilitating trade by focusing on transport corridors as facilitators of regional integration and spatial development on the continent. To this end, AUC has developed the concept of SMART (safety, mobility, automated, real-time traffic Management) corridors, which focuses on the seamless movement of goods by using innovative digital technologies and harmonized upgrading of all transport modes along the corridors.

Maritime transport is also a key enabler and catalyst for competitiveness and for socioeconomic development and integration in Africa. Maritime transport services should be viewed as an essential and strategic area of economic cooperation, and sufficient capacity should be built for the expected increase in traffic. Port infrastructure in Africa has lagged behind vessel size expansion and cargo volume growth, leading to inefficiencies and lengthy delays that increase the costs of merchandise trade. In order to optimize efficiency and reduce the costs of development, African ports must engage a wide set of stakeholders and take advantage of the AfCFTA framework for establishing multi-modal ports.

Air travel route networks in Africa are inadequate and airfares are high compared with these in other regions. In many cases, airport and air traffic management infrastructure are also inadequate for the growth that is expected to take place over the next 40 years. And a key factor in determining that growth will be the extent of air transport market liberalization.

Multi-modal transport holds a high potential to facilitate merchandise trade on the continent, but it remains underdeveloped. A number of regulatory and other issues hamper the development of seamless multi-modal transport, with efficient logistics chains that include seaports, railways and dry ports. The development of multi-modal transport, which is key for successful corridor development, should be encouraged, as this will result in the best use of land transport modes and enhance connectivity between African markets—a critical factor in realizing gains from the AfCFTA.

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ENDNOTES

1 The UNCTAD–World Bank Global Transport Cost database covers transport costs by mode of transport (UNCTAD and World Bank, 2021).

2 The World Bank Logistics Performance Index (LPI) is based on a questionnaire sent to professionals in the logistics sector. It ranks countries on customs, timeliness, infrastructure, international shipments, quality and competence, and tracking and tracing,. A higher score indicates higher performance. South Africa is the best performing African country, with Angola scoring lowest at 2.05.

3 For example, Women in the Maritime Sector in Eastern and Southern Africa (WOMESA). http://womesa.org/.

4 15 countries kept land borders open, but 6 of them are island states (Cabo Verde, Comoros, Madagascar, Mauritius, São Tomé and Príncipe, and Seychelles).

5 For e-commerce and logistics efficiency rankings, see Wang, Kang and Valentine (2020).

6 This information is based an interview with the EAC TTTFP coordinator on the progress made towards Achievement of TTTFP Objectives and Outputs, on file with the authors (TTTFP, 2020b).

7 During the baseline survey, the average compliance scores were calculated for each country based on the following criteria: vehicles, operators, weighbridges, driving codes, vehicle fitness, law enforcement, and drivers and professional drivers.

8 See http://197.243.22.137/afcac.ea/index.php?id=17 (accessed 9 July 2020).

CHAPTER 6

Liberalizing and Regulating Communications Services Trade within the AfCFTA

The communications sector as conceptualized by the World Trade Organization (WTO)—which forms the starting point for the African Continental Free Trade Agreement (AfCFTA) negotiations on the sector—represents a narrow view of tradable services within a larger and more complex communications sector.[1] The sector is more appropriately understood as a broader technological ecosystem of dynamic interactions between people, communications systems and services. While this chapter focuses on the narrow WTO description,[2] the sector is a much wider and more complex system, with ever-increasing importance given its centrality in the global digital economy.[3]

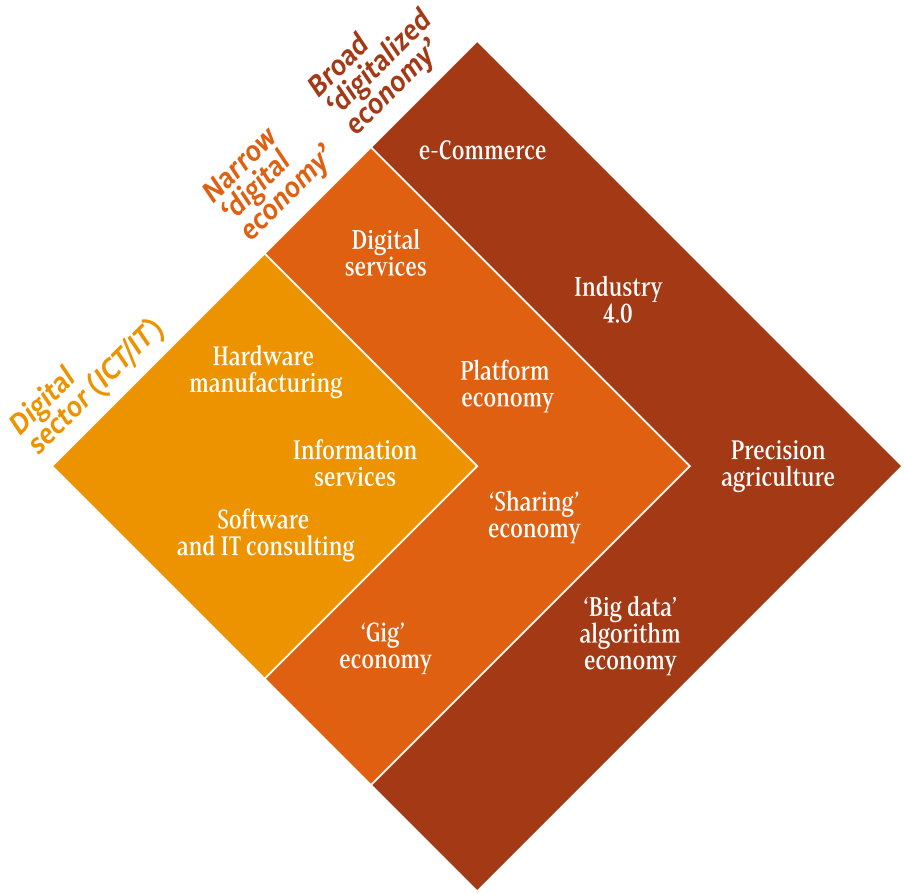
The AfCFTA-relevant communications sector can be seen as several layers either depending on or enabling the preceding layer or both. The layers are conceptualized as follows (**FIGURE 6.1**):

- Physical communication network infrastructure layer.
- Operators with minimal or virtual infrastructure like:
    - Communications service providers.
    - Broadcasting services.
    - Over-the-top (OTT) communications providers.
- Non-communications commercial and non-commercial services and sectors enabled by the communications sector but not part of it (using WTO and AfCFTA terms).

Physical communication network infrastructure: This layer aggregates all physical network infrastructure—core and access network elements, interconnection and traffic exchange points, and inter-network national and international transport.[4] It also includes infrastructure across access technologies, whether mobile or fixed. The layer corresponds to the public telecommunications infrastructure— altered, refined and expanded by the growth of the internet.[5]

Actors in this layer may offer retail services to consumers or business services to other businesses. Vertical integration along a value chain is not the norm, other than for a handful of the largest actors. This layer of services is traded through General Agreement of Trade in Services (GATS) mode 3—commercial presence in the foreign territory being supplied infrastructure[6] that enables basic connectivity for voice and data.[7] The layer is subject to sector-specific national laws and regulations and it is usually closely regulated, in many countries by a dedicated institution. Regulations normally include price controls and pro-competitive measures to guard against abuses, as the layer tends towards an oligopolistic market structure with few players holding essential facilities and resources.[8] For AfCFTA, negotiations should focus on opening the market to entry and participation.[9]

FIGURE 6.1 THE COMMUNICATIONS SECTOR IN THE BROADER INFORMATION ECONOMY



Source: Adapted from Bukht & Heeks (2017).

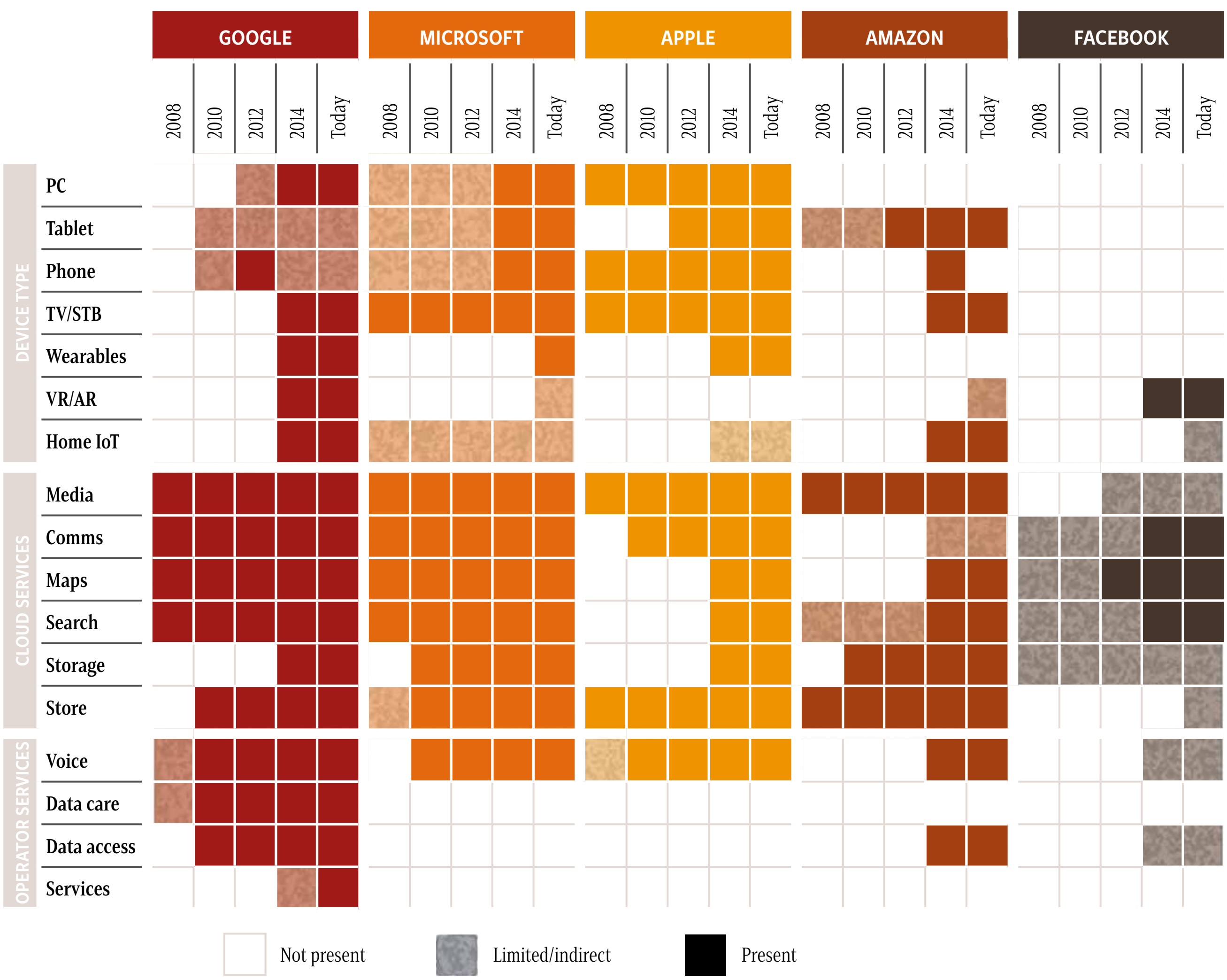
Operators with minimal or virtual infrastructure: This layer, relying on the physical communication network infrastructure layer for access and connectivity, is made up of communications service providers. Even though subcategories within this layer are converging and their boundaries are becoming more blurred, it can be divided into three sublayers:

- **Electronic communications service providers** who focus on service delivery and depend on or contribute to the basic transmission infrastructure. This subcategory encompasses a range of actors who provide telecommunications or telecoms-analogous communications and content services, such as mobile virtual network operators (MVNO),[10] consumer value-added services[11] or specialized network services for other industry players.[12] The subcategory is primarily mode 3 investment in location-bound infrastructure.[13] It is also subject to sector-specific national laws and regulations. As the subcategory is less likely to use scarce resources[14] (particularly the spectrum) or to control essential facilities, regulatory restrictions are less stringent. Even so, AfCFTA negotiations should focus on good regulatory practice and open entry and participation.
- **Broadcasting**[15] is not normally vertically integrated to cover both production and signal distribution.16 But both sound and television broadcasting are heavily regulated on the national level in recognition of the potential power of widely disseminated content. In this subcategory, regulations focus on content and standards for content, as well as on types of programming—for example, entertainment, content for children and news offerings. This contrasts with regulatory priorities for traditional telecommunications, which are not concerned with content. Dedicated and detailed regulatory norms exist in all countries, and ownership of multiple stations (to prevent concentration) is an area of regulatory focus, as is ownership by foreign entities, which is limited if not entirely precluded. Programming, another area of regulatory focus, is nearly universally subjected to national origin and other quotas. For services trade, actual operation of broadcasting is through mode 3 investment. But for trade in broadcasting content, modes 1 (cross-border supply) and

mode 2 (consumption abroad) apply. If changes to restrictive local or national content requirement regulations were negotiated to privilege any content of African origin, then African Union (AU) member states with domestic content industries would have major export potential.17 Regulatory change that encourages a market for pan-African broadcast content needs to be a priority in AfCFTA negotiations.

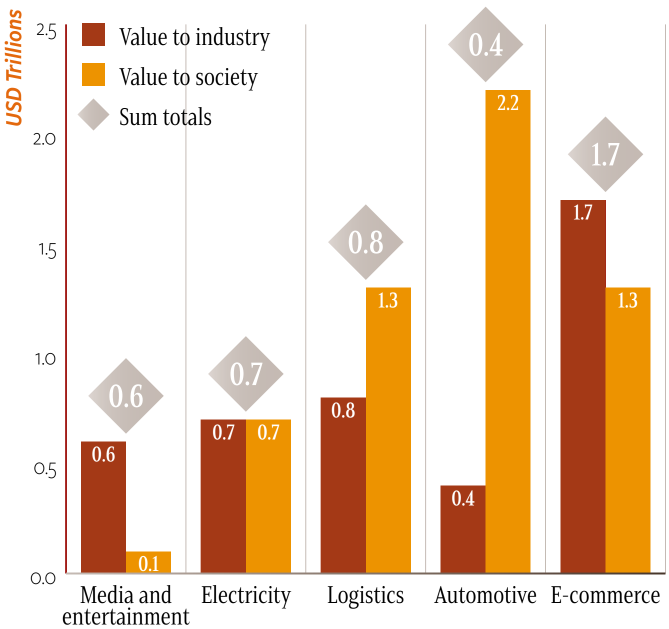
- **Over-the-top (OTT) communications providers**[18] offer a wide range of services and applications over the open internet[19] without owning or operating any of the underlying transmission infrastructure. These operators do not maintain any physical presence in a jurisdiction and have largely escaped regulatory scrutiny as telecommunications actors.[20] Globally, national regulators are attempting to level the playing field across regulated services, content providers and the OTTs, but a coherent regulatory paradigm has yet to emerge. Much of this industry is entirely unregulated and located outside the African continent (FIGURE 6.2). The OTT industry is dependent on telecommunications infrastructure actors and relies on consumers to gain access and pay for the internet connectivity required to receive their services.[21] As no domestic presence is required for OTT operators, their trade falls into modes 1 (cross-border supply) and 2 (consumption abroad). This layer is ill-defined, poorly measured and, as a result of non-regulation, not presently captured in trading regimes. Although OTTs do not need deregulation to enhance trade, AfCFTA negotiations may need to consider boosting the opportunities for African OTTs, relative to the overwhelmingly non-African entities operating and providing content.[22]

FIGURE 6.2 OVER-THE-TOP COMMUNICATIONS PROVIDERS INCLUDE MAJOR WEB ACTORS



Source: World Economic Forum, 2017.

FIGURE 6.3 CUMULATIVE DIGITAL VALUE AT STAKE ENABLED FOR EXTERNAL INDUSTRIES AND SOCIETY, USD TN, 2016-25



Source: World Economic Forum, 2017.
Note: The values above reflect only the share of total industry and societal value directly enabled by telecom infrastructure and applications.

Non-communications commercial and non-commercial services and sectors enabled by the communications sector but not part of it: While this layer is not part of the communications sector, it is critical not to underestimate its impact or ignore its contribution to the growth of other sectors and to overall economic and social development (FIGURE 6.3). A 2014 study, using EU data (Rana, 2013), noted that the following sectors have a high reliance on communication networks:

- The financial sector—public internet, e-banking, interaction with regulators and government, and private and specialized inter-bank networks for internal processes.
- The transport and logistics sectors—rail and road transport, warehousing, cargo handling and other support activities, broadband for internal and external activities, including customer relationship management, e-procurement and so on.
- The tourism sector—near-universal broadband use for sales, external marketing, internal processes and payment processing.

These non-communications sectors are all AfCFTA priorities. Given their regional and global nature, they should be enabled in Africa as in the European Union (EU). The continent has an Africa-specific advantage in some innovations (for example, mobile payments), but also disadvantages in some areas (for example, the lack of a fast, cheap and reliable postal service).

THE OUTLOOK FOR THE COMMUNICATIONS SECTOR AS ENABLER OF GROWTH AND DIGITAL TRANSFORMATION

While the electronic communications sector is crucial to global economic development and digital transformations of economies, this is particularly true in Africa, where traditional (analogue) communications provided by postal services have never had the reach that mobile communication networks have now. The on-going Covid-19 pandemic and the resulting changes to social and economic life—remote working, distance schooling, and so on—have shown further the importance of the electronic communications sector. This has been recognised for some time by African Union policy makers. In Agenda 2063, Africa's blueprint for achieving inclusive and sustainable development (AU, 2015), clause 25 makes the point: "By 2063, the necessary infrastructure will be in place to support Africa's accelerated integration and growth, technological transformation, trade and development. This will include… well-developed information and communications technology (ICT) and the digital economy." The clause goes on to refer to the goal of ensuring all major cities and capitals be connected, including via ICT broadband cables.

A survey by Bertschek et al. (2016) of the literature on the economic impact of telecommunications (specifically, broadband) networks concluded that "telecommunications and broadband infrastructure and services tend to exert a positive impact on economic growth as well as on productivity. On a macroeconomic level, increased broadband deployment not only translates into higher economic growth and productivity but also helps to create new jobs and, at least partially, facilitates economic development in rural areas (Bertschek et al., 2016). The review drew four conclusions relevant to the African context:

- Broadband adoption benefits information and communications technology (ICT)-intensive businesses and highly skilled workers, but lower-skilled workers do not necessarily benefit.
- Service sectors, rather than manufacturing sectors, tend to be the main beneficiaries. This may not be a concern for African countries without a substantial industrial base, because Africa has seen numerous examples of "leapfrogging" directly to a service-oriented economy.
- Global experience of the benefits from wired versus wireless broadband has varied. While wired broadband was relevant in developed countries with near-universal telecommunications infrastructures, mobile telecommunications were advantageous for economic growth and productivity in developing countries.
- Economic impact assessments underestimate the welfare gains from broadband availability since take-up curves closely follow the availability of these services. But unaffordability and a lack of functional literacy could constrain take-up in some countries.

While the Bertschek study did not consider all aspects of the communications sector—it focused on infrastructure and excluded the content industries of broadcast and OTT—a report by the Swedish innovation agency VINNOVA provided more sweeping set of claims (Giertz, Rickne and Rouvinen, 2015). The Swedish calculations show that digitalization contributed 32 per cent of the country's productivity growth from 1995 to 2005 and 42 per cent from 2006 to 2013.

A substantial body of work outlines how digitizing economies and societies will affect the communications sector, as well as how constraints and incentives will affect further digitalization. A white paper by the World Economic Forum noted that the telecommunications and broadcast industries have failed to reap the full benefits of the ever-greater reliance on electronic communications and connectedness (World Economic Forum, 2017). As new actors and business models emerge, they threaten to relegate the telecommunications and broadcast industries to serving as generic commodity providers. For example, the OTT layer is increasingly moving into the infrastructure layer. The white paper identifies four challenges:

- Network virtualization—self-optimizing, smaller and more distributed hardware creating more distributed and remotely operable networks.
- The need for the top layer of infrastructure providers to move "beyond the pipe"—beyond generic connectivity and towards integrated solutions for a more connected economy, including the internet of things.
- The coming-to-market of new consumer and business digital service packages and interfaces that offer more comprehensive solutions and redefine customer engagement.
- The need to bridge the innovation gap in the infrastructure-based telecoms subsector between incremental technical progress in standards (for example, 5G) but few new business models or service offerings.

The World Economic Forum paper's analysis and key messages point to a number of likely fundamental changes in the communications sector that are relevant in Africa to the future of regulatory and trade regimes on both the regional economic community (REC) and AfCFTA level.

A structural power shift in the communications sector threats both national and subnational infrastructure network telecommunications operators. These operators will increasingly compete with OTT actors building broader businesses that include proprietary communications infrastructure. Such changes could leave traditional operators as mere local access networks. Across the board, the broadcast industry is in crisis as its business model is under assault by OTT content providers, and traditional broadcasters have little competitive edge other than offering free access to the consumer. While these on-going developments may take some time to materialize, particularly in least-developed countries in Africa, they still have the following general implications for regulatory and trade regimes:

- Regulatory harmonization: There is a need for regulatory certainty and harmonization across jurisdictions, including both sector-specific aspects (service and spectrum licensing, and so on) and non-sectoral aspects (taxation). Harmonization should reduce complexity and transaction costs for investment, service provision and cross-national trade.
- Industry convergence: Updating or discarding traditional regulatory silos is needed where they no longer serve their intended purposes, treat competitors in the same market differently—such as OTT services and applications relative to telecoms and broadcast. Convergent regulatory regimes capable of encompassing the breadth of the changing communications sector are needed.
- Level playing field: Because of the trans-national nature of much of the communications industry, in particular the globally operating OTT market entrants, local regulatory barriers against non-national participation in the traditionally regulated sectors should be reconsidered. The experiences of regional economic integration in building trans-nationally applicable policies and rules (for example, by several African RECs, such as the EAC or ECOWAS, as well as by the EU experience) provide useful lessons.
- Locally specific market concerns on competition and consumer protection: Local market conditions should be accounted for, while competition and recognizing consumer interests in privacy, data protection, universal service and access, and consumer-rights monitoring and enforcement. Local regulations and institutions should be appropriately modernized, and the rules enforced. While some of these measures apply to regional and continental harmonization, competition analysis and enforcement and universal access and service, though they may proceed from a common transnational rulebook, are specific to local markets.
- Promoting and planning for digital society and economy: Beyond the immediate AfCFTA agenda, measures should be developed to expand digitalization and communications services. Long-term digital agendas should reduce and eventually eliminate underserved and unserved areas and strengthen education so that the population can fully participate in and take advantage of digital society, including its income-generating opportunities.

COMMUNICATIONS SECTOR ENABLERS

In addition to the downstream enablers of the communications sector just discussed, upstream conditions—enablers and mechanisms dealing with market failure—are just as important.

Network reliability and resilience: Infrastructure is critical to the communications sector. It must maintain maximum availability and avoid downtime for its core functions and as a necessary input for other sectors, including other critical infrastructure (ENISA, 2014). Disruptions must be avoided that would impose economic costs due to unreliability. Businesses incur losses from outages, and they incur additional costs from keeping infrastructure in reserve to ensure continuity. Electronic communications infrastructure depends on non-sectoral inputs and events: reliable and affordable grid electricity (as opposed to high-cost site-by-site generator power), safe road systems for constructing and maintaining transmission and access networks and protection from unplanned network damage (such as fibre cuts resulting from unpermitted or unplanned construction) through appropriate governmental planning, permitting and enforcement.

Stable, predictable and forward-looking planning conditions: Perhaps less dramatically noticeable but of equal importance as an enabler is an appropriate public policy and legal regime. Such a regime would have to include:

- A long-term policy for communications sector development (in the wider digital economy and society context). Such a public planning and priority document should provide a vision and roadmap orienting for the private and public sectors.
- A modern sectoral primary law following good practice and technology and platform neutral (for example, avoiding favouring particular technologies or service platforms), convergent (for example, accounting for the convergence of OTT, telecoms, internet and broadcast beyond traditional technology silos) and encompassing all necessary regulatory powers (including on competition). The primary law should be framed as a high-level document able to function without major changes for at least a decade, delegating the definition of specific, technical regulations to an independent and empowered regulator (Bankole, Osei-Bryson and Brown, 2013).[23]
- Complementary laws on issues such as cyber-security, data protection, intellectual property rights protection in a digital environment and other up-to-date instruments needed for digital transactions, commerce and government.

AFRICA'S COMMUNICATIONS SECTOR STATUS

Trade in communications services is a priority area in the AfCFTA negotiations, critical to trade and economic development in Africa. Good practice in regulation and regulatory reform has a good positive relationship with the growth of trade in communications services. That relationship suggests the need for harmonized regulatory environments supportive of liberalization, investment and pursuing socioeconomic development goals.

The numerous gaps, obstacles and constraints facing communications trade in Africa are well known. They include low literacy levels, unreliable fibre and other networks, limited cross-border and national fibre infrastructure, shortages of national and regional internet exchange points, shortages of metro fibre networks, low levels of regional and intra-African cooperation, lack of policy harmonization, and high costs of services infrastructure and rollout. But strides made in the past decade demonstrate that the African communications sector is transforming at an unparalleled rate.

The ascendancy of services and service trade

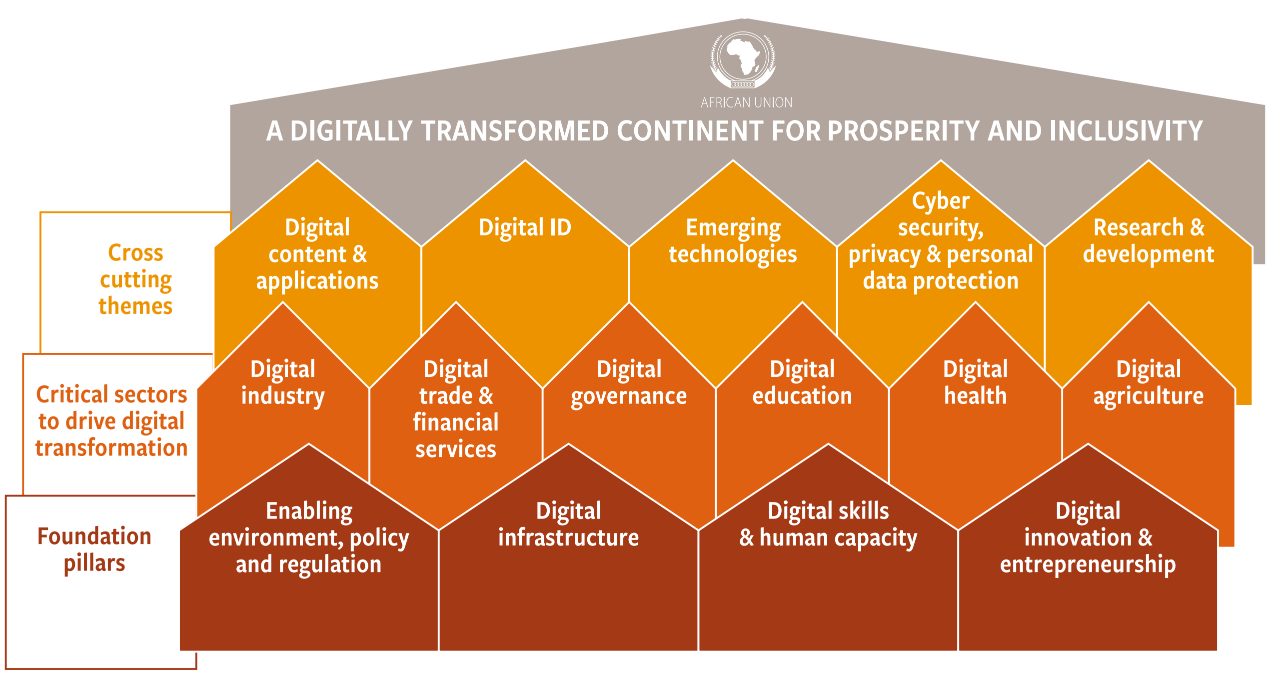
As services assume ever-greater economic importance, less developed countries (and Africa as a whole) need not follow the traditional agriculture-to-industrialization path. The world is in the midst of the Fourth Industrial Revolution, where services are being facilitated by digital technologies. The share of output (world GDP) accounted for by services sharply increased in almost all countries. Some developing countries have broken away from the conventional path to development by transforming directly into service economies without first developing a significant manufacturing sector. The growth in services has affected regional and global trading patterns: the relationship of GDP growth and services growth is clear and more stark in low and middle-income countries than in high-income countries, with the share of value added from services to GDP in low and middle-income countries rising from 45 per cent in 1997 to 54 per cent in 2018. High-income countries saw that share rise from 65 to 70 per cent over the same period.

The African Union's Digital Transformation Strategy 2030 calls for harnessing "digital technologies and innovation to transform African societies and economies to promote Africa's integration, generate inclusive economic growth, stimulate job creation, break the digital divide, and eradicate poverty for the continent's socio-economic development and ensure Africa's ownership of modern tools of digital management" (AU, n.d.a, 1). **FIGURE 6.4** details the interlocking layers of infrastructure, communications services and dependent digital and digitized other service sectors.

Communications sector trade

Data on cross-border trade in the communications sector are unsatisfactory. There are no reliable country-level data–particularly as much of the sector is focused on mode 3 service supply (investment abroad) rather than mode 1 (cross-border movement of services). Lacking such data, this chapter focuses on legal and regulatory issues constraining trade. While the direct impact of the communications sector on economic performance is well known, the specific impact of telecommunications on trade is less well known. Studies have found that "higher internet usage was associated with greater bilateral trade flows between countries" (Deloitte, 2018), and in the context of developing countries that "access to the internet was shown to improve export performance" (Deloitte, 2018). As services are increasingly delivered digitally, the trade landscape is being profoundly changed and reshaped by ICT-based innovations that give firms access to larger markets, allowing them to expand their customer base, increase their scale and raise profits (Deloitte, 2018).

FIGURE 6.4 THE AFRICAN UNION DIGITAL TRANSFORMATION PROCESS CHAIN



Source: African Union, 2020.

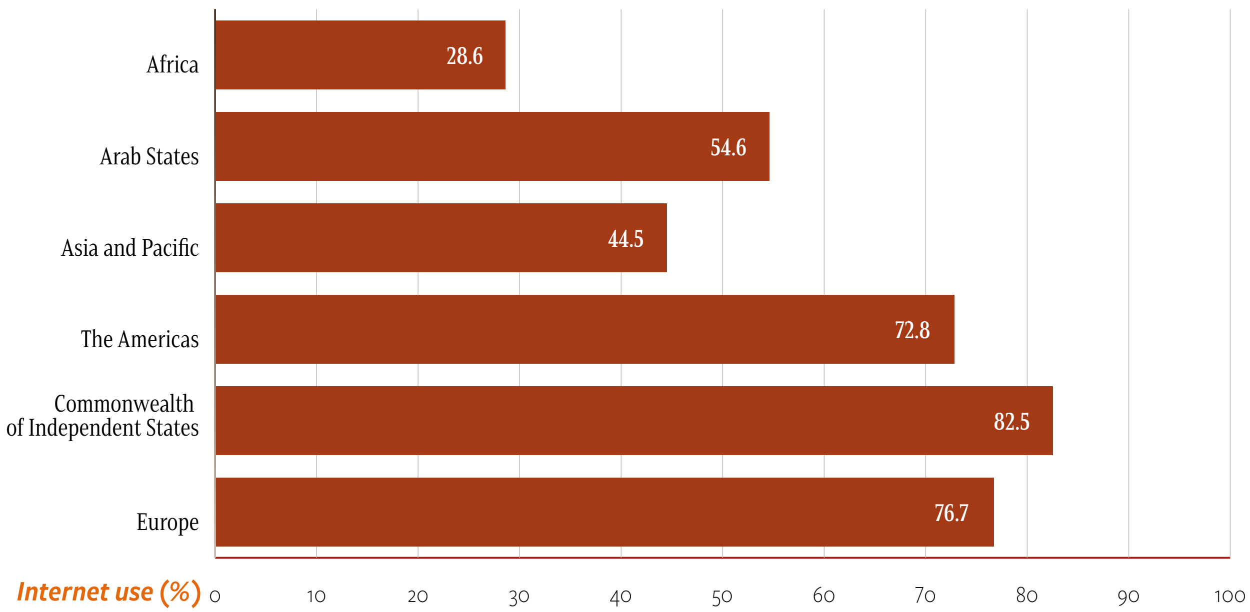
Given the low baseline in tele-density in Africa, its communications sector has room to grow. About 21 per cent of the African population use the internet, versus 80 per cent in Europe (**FIGURE 6.5**). While some of Africa's top-10 markets have mobile tele-density rates of well over 100 per cent (because of individual users having multiple SIM cards), mobile broadband penetration rates remain much lower (**TABLE 6.1**) (Ovum Consulting, 2019).

Despite space for growth, Africa's communications sector has a number of burgeoning digital hubs and marketplaces for e-commerce (**MAP 6.1**).

A SITUATIONAL ANALYSIS OF GOOD PRACTICES FOR COMMUNICATIONS REGULATION AND TRADE POLICIES

The communications sector is reliant, as few sectors are, on the interrelationship between the legislature, the executive, government, independent regulators, inter-governmental bodies and private sector operators for unlocking trade, economic growth and development. The reasons for this reliance, particularly in Africa, are that at the national level the sector has a tendency for market failure and is dependent on a finite natural resource—the

FIGURE 6.5 INTERNET USE BY CONTINENT AND REGION, 2019 (%)



Source: Commonwealth of Independent States.

TABLE 6.1 AFRICA'S 10 LARGEST MOBILE MARKETS, 2018

COUNTRY	MOBILE SUBSCRIPTIONS (MILLIONS)	MOBILE SUBSCRIPTION PENETRATION (% OF POPULATION)	MOBILE BROADBAND PENETRATION (% OF SUBSCRIPTIONS)
Nigeria	150.3	77.4	52.2
South Africa	99.0	177.9	74.2
Egypt	98.8	102.8	39.8
Ethiopia	64.0	60.6	16.0
Algeria	46.2	111.7	45.3
Kenya	43.3	88.3	50.1
Tanzania	41.7	72.2	44.4
Morocco	41.6	117.5	35.8
Ghana	39.2	135.4	47.4
Democratic Republic of the Congo	35.5	42.5	35.1
Africa	**1,038.1**	**82.3**	**43.5**

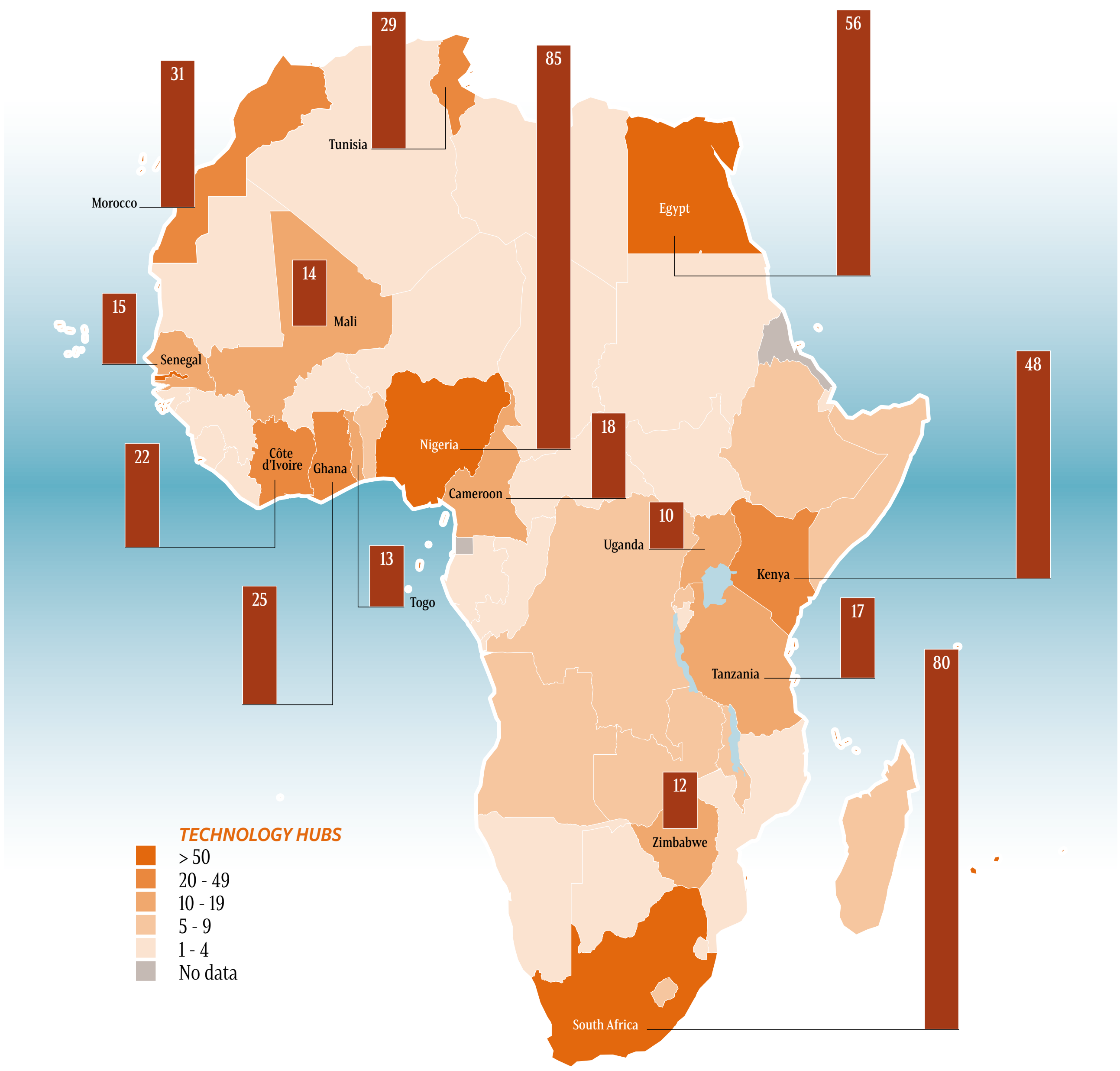
Source: ITU, n.d.b.

radio frequency spectrum. So, ensuring competition, protecting consumers through regulation, licensing and authorizing key players, monitoring and enforcing laws and regulations, and determining what is to be provided within the spectrum are crucial to a successful communications environment (FIGURE 6.6).

Regulatory imperatives for the communications sector

To achieve and maintain certain socioeconomic goals, regulating the communications sector should be viewed as instrumental—a necessity rather than as an end in itself. And country context and the sector's place on a continuum from state-owned quasi-monopolies to full private sector competition must be considered.[24] The need for regulation changes at each stage on the continuum,

MAP 6.1 MAPPING THE TECHNOLOGY HUBS ACROSS AFRICA, 2019



Source: GSMA, 2019

with greater intersectoral and inter-governmental regulatory harmonization and cooperation required as the sector evolves beyond traditional telecommunications (FIGURE 6.7).

In fully competitive markets not as many regulatory interventions are required. At the national level, an appropriate interrelationship between government, the regulator and market operators is needed, along with an understanding of the roles of these key players. First, the role of government, in particular the executive branch, is to develop a national roadmap for the communications sector. In the absence of such policy, the other actors flounder. Second, the legislative branch builds on policy to develop and update laws, the foundation upon which the communications sector fails or flourishes. A legal framework that restrains competition, hampers independent regulation, fails to allocate resources efficiently, or provides for a state monopoly over certain commu-

FIGURE 6.6 THE REGULATORY RATIONALE

REGULATION NOT END IN ITSELF

Why regulate?
- Avoid market faillure.
- Ensure consumer interests are protected.
- Create safeguards for effective competition.
- Prevent anti-competitive practises.

END GOAL

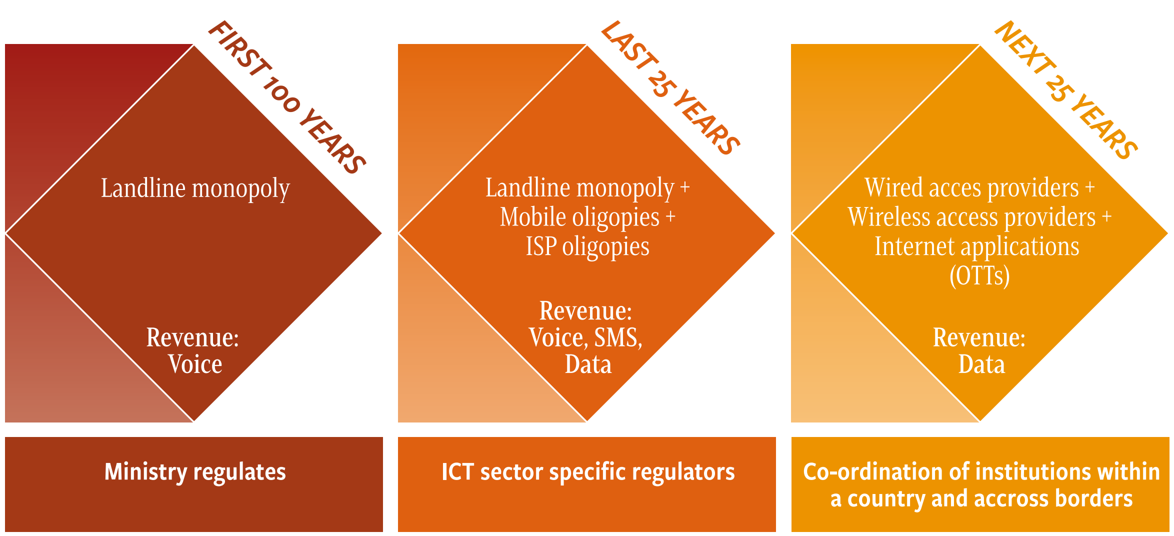
- Effective and robust competition.
- Protect customers.
- Widespread acces to networks and services.

WITHDRAW OR AMEND REGULATIONS

- On a regular basis, conduct market reviews to withdraw or amend regulations once effective competition. in the relevant market exists or the rules are no longer warranted.

Source: TMG.

FIGURE 6.7 INDUSTRY REGULATORY EVOLUTION



Source: CTO.

nications services will limit the sector's prospects for economic growth. Third, an independent regulator should have the power to promulgate regulations within the parameters of statutory law. Last, to drive sector growth, a competitive communications market needs to be created. To fuel investment, the market needs to be characterized by robust competition between different private sector operators, whether they are national, African or extra-African. There needs to be few departures from treating non-national actors as national actors, at least within the AfCFTA community.

Eight countries' trade-relevant regulatory practice in the communications sector

African countries have a range of national trade commitments. Tables TABLE 6.2 and TABLE 6.3 present a cross-section of trade commitments under the WTO the General Agreement on Trade in Services (GATS) treaty, understood to be the minimal baseline for AfCFTA negotiations and the current status of sector-specific regulatory practices for a range of African economies. The tables show GATS commitments made by specific countries and the degree of "autonomous liberalization" that has taken place, representing the current degree of openness of the national communications markets. The tables (taken from earlier research done AfCFTA support purposes)[25] prompt the following observations:

- The situation in audio-visual services differs from that in telecommunications. Although many countries made meaningful commitments in telecommunications, only four countries made commitments in broadcasting. While foreign participation (ownership) in broadcasting is allowed on minority levels and foreign content remains severely restricted, the telecommunications commitments represent progress from the GATS status quo.
- With regard to telecommunications, TABLE 6.2 (left-hand column) shows three sets of GATS-commitment starting points:
  - Countries making no commitments (or, in the case of Ethiopia, being a non-member).
  - Limited commitments to specific telecommunications services (Nigeria).
  - Extensive commitments, not only to specific services opened to competition but also to an adherence to good regulatory practice (as set out in the so-called Telecommunications Reference Paper).

  The countries that have made strong commitments have achieved a large degree of liberalization (TABLE 6.2, right hand column). But even countries with weaker or no GATS commitments have found it appropriate to liberalize their telecoms markets and implement at least some good practice regulatory reforms.
- Broadcast and related content remain heavily restricted, though a substantial degree of liberalization has taken place since GATS. In telecommunications, there has been a sea change towards greater openness, driven not by GATS but by national initiatives and reforms. Such liberalization has not been limited to higher income countries, but includes least-developed countries. The tables show that the negotiation's baseline should be the actual on-the-ground status of regulatory regimes and their remaining restrictions. They also show that, at least in telecommunications, there is wide acceptance of good-practice regulatory principles.

TABLE 6.2 EIGHT COUNTRIES' GENERAL AGREEMENT ON TRADE IN SERVICES COMMITMENTS AND REGULATORY SYSTEM STATUS IN TELECOMMUNICATIONS SERVICES

COUNTRY	GATS COMMITMENTS MARKET ACCESS AND NATIONAL TREATMENT (MODE 3—COMMERCIAL PRESENCE IN FOREIGN COUNTRY—UNLESS NOTED)	ACTUAL REGULATORY FRAMEWORK MARKET ACCESS AND NATIONAL TREATMENT (MODE 3 UNLESS NOTED)
Egypt	Egypt's GATS commitments in telecommunications, made in 2002, are post-Uruguay Round. • Commitments on basic and value-added services • Commitments under 4th Protocol on Basic Telecoms • Reference paper	• The Egyptian legal and regulatory system can be characterized as modern and designed to establish and support a competitive environment across the subsector. The regulatory agency is granted sufficient and appropriate powers, including with respect to licensing (entry). Specific licensing regulations exist. The regulator's board is staffed with executive branch officials, and it therefore cannot be considered independent • While Egypt Telecom lost its legal monopoly in 2006 it continues to dominate the small fixed-line market—less than 8 per cent penetration • The major market platform in Egypt is mobile, with four mobile operators, with overall penetration below 95 per cent. The licensing scheme is fairly comprehensive with standardized processes and timelines for applications and their processing • Access to essential facilities—interconnection, reference IC, competition powers of the regulator, and so on—is provided for in law and regulation • No foreign ownership limitations for licensees were observed. Local incorporation requirements apply (as do mode 4 training and local staff requirements)
Ethiopia	Ethiopia does not have any GATS commitments, since it is still in the accession negotiations process.	• The Ethiopian legal and regulatory system is changing from a monopoly, state-led model to a modern, competitive model. Because of the ongoing nature of these reforms and the establishment of the first independent sector regulator, many details remain unclear • Under the new regulatory system, there do not appear to be any incumbent (or other) reservations across the subsector • Because the sector was operated as a monopoly, there are no established competitive players. For the same reason, market penetration is low. Looking forward, the primary law appears to create an open system for licenses across the full sector • Access to essential facilities—interconnection, co-location, competition powers of the regulator, and so on—is provided for in the new law • No foreign ownership limitations for licensees and the law specifies eligibility of foreign investors for licences
Ghana	Ghana's GATS commitments in telecommunications, made in 1997, are post-Uruguay Round • Commitments under 4th Protocol on Basic Telecoms • Reference paper	• The Ghanaian legal and regulatory system can be characterized as modern (last substantially updated in 2008/9). It governs a vibrant and competitive subsector. The regulatory agency is granted sufficient and appropriate powers, including licensing (entry). Specific licensing regulations exist. The regulator's board includes executive branch officials, but no suggestion of interference with regulatory action was observed • There are no incumbent reservations: Ghana Telecom was privatized in 1996 and subsequently purchased by Vodafone • The major market platform is mobile (with three major operators), with urban area fibre networks and metropolitan wireless offering broadband alternatives. The licensing scheme is fairly comprehensive with transparent processes for applications and their processing • Access to essential facilities for facilities-based actors—interconnection, reference interconnection, competition powers of the regulator and so on—are provided for in law and in regulation • There are no foreign ownership limitations for licensees. Local incorporation and presence requirements apply (as do limited mode 4—movement of natural persons—requirements)

COUNTRY	GATS COMMITMENTS MARKET ACCESS AND NATIONAL TREATMENT (MODE 3—COMMERCIAL PRESENCE IN FOREIGN COUNTRY—UNLESS NOTED)	ACTUAL REGULATORY FRAMEWORK MARKET ACCESS AND NATIONAL TREATMENT (MODE 3 UNLESS NOTED)
Kenya	Kenya offered both Uruguay Round commitments and post-Uruguay expansions in 1999: • Commitments on basic and value-added services • Commitments under 4th Protocol on Basic Telecoms • Reference paper	• The Kenyan legal and regulatory system can be characterized as modern (last substantially updated in 2013), and it governs a vibrant and competitive subsector. The regulatory agency is converged (cross-sectoral) and granted sufficient and appropriate powers (except to make regulations), including licensing (entry). Specific licensing rules for all licence types exist. The staffing of the regulator's board is structured to ensure regulatory independence from the executive branch • There are no incumbent reservations. Kenya Telecom was privatized, continues to operate a small fixed network and competes in the mobile sector, where the market leaders are private operators • The major market platform is mobile (currently with two small and three major operators), with urban area fibre networks and metropolitan wireless offering broadband alternatives. The licensing scheme is systematic and largely platform-neutral, with transparent processes for applications and their processing • Access to essential facilities—interconnection, reference interconnection, competition powers of the regulator, and so on—is provided for in law and in regulatory instruments • There are no foreign ownership limitations other than a 20 per cent local ownership share to be achieved over time. Local incorporation requirements apply
Malawi	Malawi offered no telecommunications commitments in the Uruguay Round or thereafter	• The Malawi legal and regulatory system can be characterized as modern (major legislative updates last in 2016) and governs a relatively vibrant and competitive subsector. The regulatory agency is converged (cross-sectoral) and granted sufficient and appropriate powers, including in respect of licensing (entry). The licensing regulations that provide for process and criteria requirements exist. The regulator is by law designed to be independent, even though the staffing of the regulator's board provides for majority executive-branch representation • No incumbent reservations of any kind. Malawi Telecom continues to operate a small fixed network and has a stake in one of the mobile operators • The major market platform is mobile (with two major operators), with limited (urban) service areas that also have access and fixed wireless offering broadband alternatives. The licensing scheme is systematic and largely platform-neutral, with transparent processes for applications and their processing • Access to essential facilities—interconnection, reference interconnection, competition powers of the regulator, and so on—are provided for in law and in regulatory instruments, with regulatory powers to promote and safeguard competition strengthened in the 2016 law • No foreign ownership limitations other than a 20 per cent local ownership share. Local incorporation requirements apply, as does a mode 4 limitation on foreign managerial staff
Nigeria	Nigeria made telecommunications commitments during the Uruguay Round but did not update them thereafter: • Commitments on basic and value-added services • Commitments on basic telecommunications	• The Nigerian legal/regulatory system can be characterized as modern. It governs a vibrant and competitive subsector. The regulatory agency is granted sufficient and appropriate powers, including for licensing (entry); specific licensing rules for all licence types exist, including a recent "unified access" technology-neutral type. The regulator is independent by law, with the board appointed by the president • No incumbent reservations. • The major market platform is mobile (currently with four major operators), with urban area fibre networks and metropolitan wireless offering broadband alternatives. The licensing scheme is complex, retaining older licence types while also having a newly introduced unified technology neutral licence. Prescribed processes and criteria for license applications and their processing exist • Access to essential facilities—interconnection, reference interconnection, competition powers of the regulator, and so on—is provided for in law and in regulatory instruments • No foreign ownership limitations apply, though local incorporation requirements do limit foreign ownership

COUNTRY	GATS COMMITMENTS MARKET ACCESS AND NATIONAL TREATMENT (MODE 3—COMMERCIAL PRESENCE IN FOREIGN COUNTRY—UNLESS NOTED)	ACTUAL REGULATORY FRAMEWORK MARKET ACCESS AND NATIONAL TREATMENT (MODE 3 UNLESS NOTED)
Rwanda	Rwanda offerd no telecommunications commitments in the Uruguay Round or thereafter	• The Rwandan legal and regulatory system can be characterized as modern (major legislative updates in 2013 and 2016), and it governs a vibrant and competitive subsector. The regulatory agency is converged (cross-sectoral) and is granted sufficient and appropriate powers, including for licensing (entry). Licensing regulations providing for process and criteria requirements exist. The regulator is by law designed to be independent. However, presidential and line ministry oversight and involvement are designed into the system • There are no incumbent reservations of any kind. However, the policy of furthering service-based (rather than facilities-based) competition has a public–private joint venture offering the sole 4G (open access) network in the country. An initiative to unwind this structure is presently underway • The major market platform is mobile (with two 3G operators, plus the public–private 4G open access network), with limited (urban) service areas also having other broadband alternatives. The licensing scheme is systematic and largely platform-neutral, with transparent procedures for applications and their processing • Access to essential facilities—interconnection, reference interconnection, competition powers of the regulator, and so on—is provided for by law and regulatory instruments • There are no foreign ownership limitations. Local incorporation requirements apply, and tax and related investment incentives are offered
South Africa	South Africa offered both Uruguay Round commitments and post-Uruguay expansions thereof in 1997: • Commitments on basic and value-added services • Commitments under 4th Protocol on Basic Telecoms • Reference paper	• The South African legal and regulatory system can be characterized as modern, as it was an early adopter of converged, technology-neutral licensing (the present law dates to 2006) and it governs a strong and competitive subsector. The regulatory agency is converged (cross-sectoral) and granted sufficient and appropriate powers, including with respect of licensing (entry). Specific licensing rules for all licence types exist. The staffing of the regulator's board is structured to ensure regulatory independence from the executive branch • There are no incumbent reservations. Telkom SA was privatized and continues to operate the incumbent fixed network • While mobile is the major market platform (with three operators), the fixed network infrastructure has a substantially larger reach than in many other African countries (with two network operators). The licensing scheme is systematic and largely platform neutral, with transparent processes for applications and their processing • Access to essential facilities—interconnection, reference interconnection, competition powers of the regulator, and so on—is provided for by law and regulatory instruments • While South Africa does not have across-the-board foreign ownership restrictions, it requires a 30 per cent or higher equity stake to be owned by "historically disadvantaged" persons. The application of this "black economic empowerment" provision to non–South Africans is unclear. For an upcoming tender for a major open access wireless infrastructure, it appears that 70 per cent local ownership is required. Local incorporation requirements apply

Source: AfCFTA Support Unit, 2019.

TABLE 6.3 EIGHT COUNTRIES' REGULATORY SYSTEM STATUS IN AUDIO-VISUAL SERVICES: COMMERCIAL BROADCASTING AND OVER-THE-TOP SERVICES

COUNTRY	PRIVATE SECTOR PARTICIPATION	FOREIGN OWNERSHIP LIMITS	LOCAL CONTENT REQUIREMENTS	OTT REGULATION
Egypt	Yes, terrestrial and satellite radio and TV	Unclear	Unclear	De facto unregulated
Ethiopia	Yes, terrestrial and satellite radio and TV	Maximum 25 per cent foreign equity	High requirements on content type but unclear on origin rules (referring to licence area which covers—60 per cent of time—the remainder covers national affairs)	Registration requirement—specifics not yet known
Ghana	Yes, terrestrial and satellite radio and TV	Minimum 30 per cent local equity	Unclear—proposed but not implemented for 70 per cent of prime time	De facto unregulated (other than IPTV)
Kenya	Yes, terrestrial and satellite radio and TV	Minimum 30 per cent local equity	Comprehensive multiple criteria, including 50 per cent of actors and 20 per cent Kenyan productions	De facto unregulated/ potential licensing not enforced at present
Malawi	Yes, terrestrial and satellite radio and TV	Maximum 20 per cent foreign equity	Local content requirements exist but could not be quantified	De facto unregulated
Nigeria	Yes, terrestrial and satellite radio and TV	Majority national equity required	Local content requirements include, for example, 60 per cent for TV, 80 per cent for radio and 20 per cent for satellite broadcast	De facto unregulated
Rwanda	Yes, terrestrial and satellite radio and TV	No foreign ownership limit specified	Local content requirements include, for example, 50 per cent local production for terrestrial free-to-air TV and radio	Registration requirement exists, de facto regulation unclear
South Africa	Yes, terrestrial and satellite radio and TV	Maximum 20 per cent foreign equity/directors	Local content requirements include, for example, 45 per cent local content (free-to-air TV) or 15 per cent of channel acquisition budget to be spent on local content (subscription TV). Of the local content obligation, 40 per cent must be spent on independent production (subscription and free-to-air TV) and 35 per cent on local music (community radio).	De facto unregulated except IPTV

Source: AfCFTA Support Unit, 2019.

Trade-relevant best practice principles for communications-related regulatory reform

The telecommunications sector has already been substantially liberalized because many member states have acted on their own. Further liberalization to allow easier market entry and effective competition—by enhancing competition regulations and enforcement, relaxing entry barriers such as easier and broader licensing and enabling all forms of service- and facilities-based competition[26]— will have positive effects. These effects have been shown in some African countries and elsewhere, not only within the sector but externally by reducing costs to consumers and businesses.

There has been much less liberalization in the broadcasting subsector because the regulatory burden is much higher and competition and diversity much lower, both for operating broadcast outlets and in the programming content trade. Given how closed national markets are in most African countries, the benefits of a liberalized market, particularly for audio-visual content of pan-African origin, could be dramatic. In contrast to broadcasting, the audio-visual OTT industry benefits from a near-total absence of regulation. But the major beneficiaries of this subsector—Google, Facebook, and YouTube—are outside AfCFTA considerations.

AfCFTA's coming-into-force will be a seismic event for the communications sector, demanding concomitant action of national governments and regional trading blocs. What key markers are required to encourage intra-African trade and to secure the most appropriate climate for economic growth and development in the sector? How should countries approach this difficult task? Turning to internationally-accepted good practice models for the communications sector is essential. A number of international treaties, charters, protocols, conventions, agreements and declarations provide good practice baselines for developing the electronic communications regulatory environments necessary to facilitate AfCFTA negotiations. These good practice models are applicable to all three regulatory tiers—national, regional and continental—critical to the success of the AfCFTA. Most of these documents have been developed by civil society initiatives and by such international bodies as the African Union, United Nations and International Telecommunications Union (ITU), among others. The following are the most relevant to the AfCFTA negotiations:

- The African Charter on Broadcasting, 2001.
- The African Charter on Democracy, Elections and Governance, 2007.
- The African Continental Free Trade Area (AfCFTA) agreement, 2018.
- The Declaration of Principles on Freedom of Expression and Access to Information in Africa, 2019.
- The Declaration on Internet Governance and Development of Africa's Digital Economy, 2018.
- The 2030 Agenda for Sustainable Development, 2015, and the AU's Agenda 2063, 2015.
- UNESCO's Media Development Indicators, 2008.
- World Summit on the Information Society Geneva Principles, 2003.
- WTO General Agreement on Trade in Services (GATS), 1995.
- WTO Telecommunications Reference Paper, 1998.

The following summary groups a number of general regulatory principles key to promoting free trade in electronic communications services.

Key principles on general trade obligations

Principle 1: **National treatment.**[27] This means having foreign service providers treated in the same way as domestic providers in terms of legal and regulatory requirements. This important trade principle will require significant amendments to national regulatory regimes, which often impose foreign ownership restrictions on audio-visual services and, less often on telecommunications services. The African Union might adopt an approach where ownership by a business or person from another AU member state is regarded as having national or quasi-national status. This will encourage intra-African trade and investment in strategic sectors, while still restricting extra-African ownership.

Principle 2: **Transparency and disclosure of information.**[28] Extensive industry obligations for transparency and disclosure are applied across the sector. They include disclosing pricing, market share, network status and performance and so on. They also include disclosing and publishing industry information held or generated by the regulator on potential price regulation, competition and market analyses, network and infrastructure sharing, as well as on the procedures for assigning rights and resources to operators—particularly regarding the spectrum. To ensure sustainability and the ability of non-government actors to monitor and challenge opaqueness, access to information laws should enshrine the public's right to know.

Principle 3: **Domestic administration of general matters relating to trade.** This is to be reasonable, objective and impartial.[29] This principle relates to the application and administration of trade matters and disputes. It requires the administrative agency or agencies to act reasonably (proportionately and in line with the letter and spirit of the law), objectively (treating each case on its own merits irrespective of the identity of the parties involved or of contextual matter outside the application of the law and regulations) and in an impartial manner (requiring adherence to a specific, narrow focus on the dispute or issue without letting the identity or nationality of the party in question affect the way the matter is handled). Ensuring that this principle is adhered to in practice can be furthered by access to information laws enshrining the public's right to know.

Principle 4: **Liberalization of market access.**[30] Since many African countries have already liberalized their communications markets far beyond their WTO commitments (see Table 7.3), it makes little sense to use GATS commitments other than as a point-of-departure standard by which to measure liberalization. Instead, the AfCFTA negotiations should adopt a non-static standard with time-bound commitments to progressively open markets to non-national investors, preferably in support of intra-African trade and sustainable development.

Key principles of overall electronic communications services regulation

Principle 1: **National frameworks for the regulation of communications to be documented in law.**[31] Legal frameworks for communications should be set out clearly in writing. The frameworks should be published—including electronically—and easily accessible at no cost.

Principle 2: **Independent regulation of communications.**[32] The public authority that applies the law should be independent and protected from political and economic interference, including interference by market participants. A number of well-tested supplementary standards for such independence cover the status of such agencies, whether board appointments should be for fixed terms and whether they should be staggered, what the authority's rights are regarding ministerial intervention, whether they should have an independent revenue base and so forth.

Principle 3: **Fair, equitable, transparent and participatory licensing and resource assignment processes, including frequencies.**[33] The aims of licensing are to know the identity of providers and to ensure jurisdiction over them. In the case of major infrastructure licences, this ensures that potential providers have the financial, technical and managerial ability to provide the required services. A fair, equitable and transparent process also promotes competition and diversity of ownership in the various service categories.

Principle 4: **Strengthened universal service and access for users and consumers.**[34] Universal service and access to electronic communications services must be promoted by ensuring that infrastructure systems cover the whole country (geographic access) and provide low-cost access options (including through communal rather than individual- or household-access approaches). This should not be understood as calling for a statist intervention with governments directly responsible for developing infrastructure systems. Instead, these systems should rely on licensed industry actors to deliver services, while providing the subsidies needed to make universal service viable. Universal services require an enabling regulatory environment that creates mechanisms and incentives for investment in widespread access and affordable services. This is typically done through a fund that draws on mandatory industry contributions from revenue. The fund is then used to extend or sustain access in areas that are sparsely populated or underserved. This principle makes government action to shut down internet access a clear violation, whether wholesale shutdowns, brownouts where internet speed is slow or unusable, or to shutdowns of social media applications (Twitter, WhatsApp and Facebook).

Principle 5: **Equitable access to scarce resources and essential facilities.**[35] These resources (particularly spectrum) are scarce on a national basis since only limited and unique supplies exist. The resources include terrestrial television bands, top-level national domains for the internet, addresses from the national numbering plan for telephone and mobile phone connectivity and internationally designated bands for the mobile access spectrum. The core principle is that non-discriminatory access to scarce resources is key to encouraging investment and trade in communications services. In this context, spectrum assignment methods that focus on gaining the "highest economic value" (for example, through auction proceedings) do not necessarily violate the principle.

Principle 6: **Access to information.**[36] This principle applies to the communications sector as a whole, ensuring that consumers and civil society organizations can monitor adherence to good practice and lawful action. Strong and effective public information laws and positive publication obligations are useful in this regard.

Key principles of telecommunications-specific regulation

In addition to the above general principles, subsector-specific regulatory principles for the telecommunications sector should be highlighted:

Principle 1: **Competitive safeguards.**[37] **These prevent major suppliers from engaging in anti-competitive practices, such as cross-subsidization, abusing dominant market positions, colluding in anticompetitive behaviour or abusing or withholding commercially relevant information. Competition law at the primary and regulatory levels should be updated and strengthened, and a secondary law should be tailored specifically to the sector. The regulatory agency should investigate and enforce violations of the law, conduct periodic market surveys, develop ex-ante restrictions or impose ex-post restrictions.**

Principle 2: Interconnection and facilities-sharing.[38] In linking public telecommunication networks or services, one supplier's users should be able to communicate with another supplier's users—all-to-all connectivity. Interconnection is normally required and can subject dominant telecommunications suppliers to additional conditions.[39] For mobile networks, as a partial alternative to facilities-sharing, national roaming is a requirement so all mobile operators must permit roaming by all other operators over their facilities at regulated rates. Facilities-sharing refers to a wide range of obligations. These range from co-location (an operator places its equipment in the facilities of another operator) to multiple parties sharing and jointly operating a facility and infrastructure (lines, ducts, remote terminals, and so on), to sharing antenna sites (for mobile networks). Generally, these arrangements are regulated to require non-discriminatory terms and conditions (including technical standards and specifications), while other elements of the agreement are left to the operators to settle. Dominant firms can face a range of additional requirements, such as granting competitors access to their network, setting conditions and charge-out-rates for access, and ensuring the quality of service for the facilities accessed or rented by a competitor. These often highly technical requirements form an essential element for enabling and sustaining facilities-based competition. The requirements evolve over time as new technologies and business models are introduced.

Key principles of audio-visual regulation focused on broadcasting and over-the-top

Negotiators need to be aware of additional subsector-specific regulatory principles for the audio-visual electronic communications subsector—broadcasting and OTT services.

Principle 1: **Diversity and pluralism in the audio-visual subsector (especially in broadcasting and OTT).**[40] This includes a three-tier licensing system for broadcasting: public (autonomous public broadcasters, not state broadcast institutions), commercial, and community (limited-area or community-of-interest operations) broadcasting in both television and audio. Pro-competitive restrictions should exist to preclude the emergence of dominant media chains, while licensing processes should aim for a diversity of formats and views in both commercial and community broadcasting. Since OTT services are currently subject to little or no regulation, ensuring diversity is more difficult. Under present national regulatory regimes, ensuring diversity is unlikely to be achievable for national regulators acting on their own.

Principle 2: **Effective self-regulation of content of audio-visual services.**[41] This principle is recognized as essential for promoting high standards in the media. Many countries regulate content through statutory means. International best practice requires that categories of content subject to statute be regulated on legitimate, internationally-recognized grounds. The recognized grounds for regulating content include restricting hate speech, child abuse imagery and incitement to violence, ensuring public safety and security and, more recently, preventing disinformation. Some African countries have come under criticism for heavy-handed regulation of media or for using overly broad interpretations when criminalizing disinformation (Kaye, 2020). Generally, it is preferable to aim for co-regulation or industry self-regulation, such as having non-statutory self-regulatory bodies set and enforce content standards, with a statutory regulatory body acting as a backstop.

Principle 3: **Provision of local content.**[42] Audio-visual content providers should be required to promote and develop local content. Traditionally this has meant nationally produced content. But in the context of the AfCFTA negotiations this could be expanded to add a further category of African-as-local content. Minimum local content quotas can be modified to include the new category. It is critical that AU member states move away from national definitions of local content to embrace African content more broadly. It is also important to note that many countries have insufficient economic bases to develop and maintain local content production across the range of forms and genres. This regionalization of local content has been done with significant success in other regional trade blocs, such as the European Union (European Parliament and the Council of the European Union, 2019).

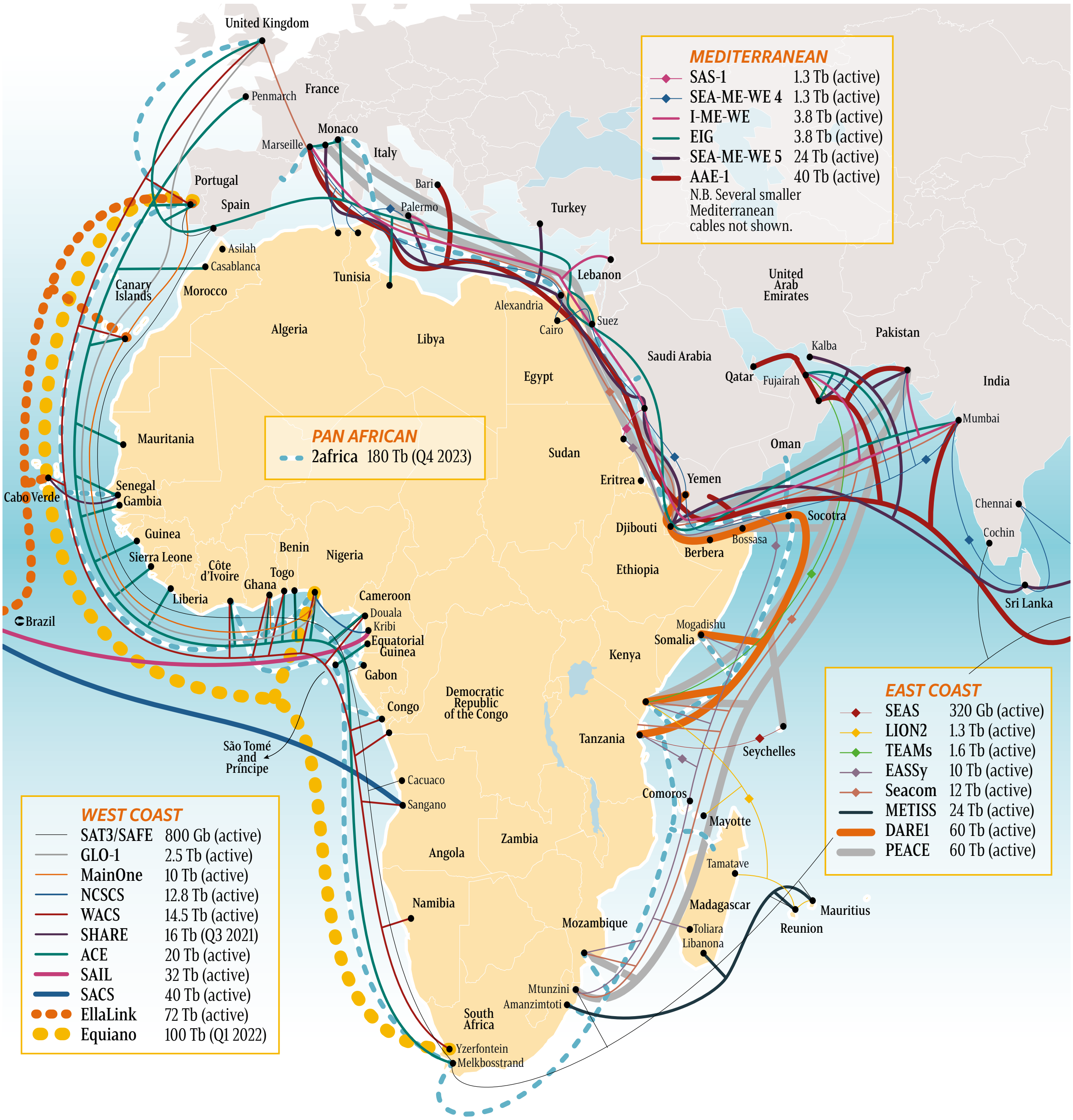
National, regional and continental communications regulation and regulatory cooperation

If the African communications sector is to continue to grow and perform optimally, there is a clear need for appropriate regulatory principles and practices for the sector at national, regional and continental levels.

Africa's RECs—such as the Common Market for Eastern and Southern Africa (COMESA), the Economic Community of West African States (ECOWAS) and the Southern African Development Community (SADC)—developed independently and organically. But they are now integrated more concretely into the African Union as a result of the Abuja Treaty, the AU Constitutive Act and the 2008 Protocol on Relations between the RECs and the AU (African Union, n.d.b). The RECs continue to play crucial roles in the regional trade blocs, and they will increasingly be the drivers and building blocks of the continent-wide trade bloc envisioned in the AfCFTA. The RECs thus affect the communications sector in several ways:

- RECs can facilitate trans-border trade and travel by lowering the costs of telecommunications through mutual agreements—between governments and regulators or under a REC common market treaty framework—to gradually cap the regional roaming prices charged by telecommunications operators. Capping prices would enable nationals from one country to make use of telecommunications services—voice, data, text (SMS)—on their devices in another country (GSMA, 2012) at the same rates they pay in their home country. High roaming costs discourage the movement of tourists and business travellers between countries. They also discourage access to communications and other digital services, creating unnecessary trade costs. Lowering roaming charges would result from a trade and business facilitation role for RECs. Some RECs have developed regional roaming agreements, including the Southern African Development Community (SADC) (SADC, 2015) and the East African Community's (EAC) East Africa's One Roaming Initiative (ITU, 2016). Others are developing such agreements.
- RECs can encourage, facilitate and coordinate private investment in regional infrastructure, particularly for large backbone infrastructure projects that benefit or involve more than one country. Perhaps the most of important of these have been the undersea cable facilities along

MAP 6.2 SUBMARINE CABLE LINKS SERVING AFRICA



Source: 'African Undersea Cables (2023, version 52)' © Steve Song, ManyPossibilities.net, July 2021.

the west and the under-served east coast of the continent, and the inland links from the coasts to the landlocked countries in Africa's interior (MAP 6.2). These communications links have facilitated telecommunications traffic and services, not only between African countries and the rest of the world, but between African countries themselves. Intra-African networking is crucial to facilitating trade, both in communications services and in trade that relies on telecommunications—transport, e-commerce and general business-to-business trade.

- RECs can promote policy, legal and regulatory harmonization, and consistency within regional trade blocs on key communications issues. This role can take a number of forms depending on the mandates and parameter of the underlying REC agreement. It need not involve standardization or centralization beyond high-level policies and minimum legal and regulatory standards. RECs can also play a role in training, knowledge exchange and mutual assistance through existing regulatory cooperation institutions in the communications sector. An example is the Communications Regulator's Association of Southern Africa (CRASA), whose stated aim is "the harmonisation of the postal and information communications and technologies (ICT) regulatory environment in the SADC region in order to improve the postal and ICT business environment and investment climate in SADC (CRASA, n.d.)." Another example is the West Africa Telecommunications Regulator's Assembly (WATRA), whose objective is "to encourage the establishment of modern legal and regulatory structures for telecommunications service delivery in all states in the sub-region (WATRA, n.d.)." These specialized regional bodies are also best placed to assist and coordinate baseline regulatory audits to aid AfCFTA negotiations in setting up goals, frameworks and transition periods.

RECs, as organizations with both the experience and the institutional structures relevant to regional intra-African trade in the communications sector, should be seen as important actors in building the continental free trade area. They have the potential to be useful platforms harmonizing regulatory good practice principles in the member states and for achieving multi-national regulatory cooperation, such as that required to set up roaming agreements.

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ENDNOTES

1 For the AfCFTA, the communications sector is based on the WTO General Agreement on Trade in Services. That represents a particular, antiquated and narrow vision of communications as postal, courier, broadcasting, telecommunications and some minor audio-visual services, but it excludes a wide range of infrastructure and services. The decision to define the sector in this manner was apparently taken in the 7th Senior Trade Officials meeting endorsed by the 7th AMOT in December 2018, latter endorsed by the Assembly, which declared "[t]he services sectors covered under the [AfCFTA] negotiations will be those sectors set out in GATS W/120 Services Sectoral Classification List (MTN. GNS/W/120 (10 July, 1991)) and those elaborated in the latest version of the UN Central Product Classification (CPC)." This decision implies that the broad sectors (that is, communication, transport and so on) will be listed in schedules of commitments is the order set out in the WTO's W/120 classification list, but the subsectors will be defined in accordance with the latest UN Central Product Classification (CPC) (version 2.1). See also, General Agreement on Trade in Services, 15 April 1994, Marrakesh Agreement Establishing the World Trade Organization, Annex 1B, 1869 U.N.T.S. 183, 33 I.L.M. 1167 (1994). For a comprehensive discussion and detailed classificatory treatment of the WTO system and recommendations for its application in the AfCFTA negotiations, see AfCFTA Support Unit (2019).

2 For example, the WTO/GATS classificatory document MTN.GNS/W120 as mapped to the United Nations Central Product Classification (CPC). Apparently in the AfCFTA context, both the outdated CPC Provisional version or the current CPC 2.1 may be used. For an extensive elaboration of the communications sector classificatory mapping, see AfCFTA Support Unit (2019).

3 For another source of classificatory correspondence and grouping information, as well as illustrative 2012 data, see also UNCTAD (2015).

4 International transport includes both satellite and overland and undersea cable systems grouped within this layer. For the satellites, the terrestrial elements are under national regulatory jurisdiction where they are located, while the actual satellites are jurisdictional to the country in whose name the ITU-coordinated orbital slot was granted. Overland fiber optic cable systems are under the jurisdiction of the national regulator(s) where they are located. Undersea cables (whether owned by consortia or single firms) are under national jurisdiction where they are landed and traffic originates or terminates.

5 Under some circumstances, non-public telecommunication networks can be of some trade-restriction relevance where these have their own infrastructure to offer proprietary telecommunications services (for example, vehicle location, remote sensing and monitoring, specialized payment processing networks, and so on), while others tend to be dedicated corporate or government-internal services (for example, electrical or other utilities and government agencies) not likely to be relevant from a trade perspective.

6 Mode 3 services are supplied by a foreign supplier through commercial presence in another territory. Mode 2 services are supplied in the territory of one country to the service consumers of another member country, which might apply to mobile roaming. Mode 4 services through the presence of natural persons in a foreign country are understood to be relatively insignificant here because of the low number of specialized professionals involved. For a concise overview of the WTO modes based on the GATS agreement, see: https://unstats.un.org/unsd/tradekb/Knowledgebase/50665/Modes-of-Supply.

7 The chapter focuses on the mode of supply and the regulatory restrictions on cross-border investment and its consequences and the need for harmonization. As noted elsewhere, there are cross-border flows of data (including voice) and some flows can still be accounted for under international settlement rates from which, were this data properly compiled across operator pairs, estimates of volumes and potential imbalances could be computed. However, with the transition to all-IP networks, traffic is increasingly exchanged through aggregate mechanisms (for example, total volume of data) and it is often not accounted for (for example, peering mechanisms assuming rough parity of data flows between operator parties).

8 Without limitations, issues concerning competition protection within the sector would relate to the terms and conditions of interconnection, facilities access and sharing, and the potential need for price controls, where issues such as predatory pricing based on market power appear to be at issue.

9 The infrastructure and electronic communications service groupings include a range of satellite telecommunications (and internet) networks, ranging from legacy technologies like individual GMPCS (satellite telephones with limited data capability) and single-site satellite-based data terminals (for example, INMARSAT), to the newer actors offering area-wide satellite broadband internet. These networks could be left out of consideration, since the hub earth stations tend to be located in a handful of non-African countries, while the space stations utilized are owned and ITU-classified as non-African. The consumer end service is often handled through third party marketing and service agents, who have no control over the underlying network and hence are subject to little regulation. The situation may differ in countries that impose a "landing rights" licensing regime, and by doing so bring the space station operator or lessor into the country's regulatory ambit. The issue of satellite television broadcasting is a separate matter.

10 The label "mobile virtual network operator" (MVNO) describes a continuum of operators, from those offering simple resale of other operators' capacity for infrastructure (with little more than a billing switch), to more sophisticated operations, including a core network using the host mobile network operator (MNO) only for its access network.

11 This business model is in decline and is focused on "premium services and content" over telecommunication networks.

12 These tend to be businesses operating elements of network infrastructure primarily as service providers to the telecommunications/ICT industry. Example include network operations and monitoring centres, bulk text message (SMS) distribution, physical hosting infrastructures and so on.

13 This layer may or may not have its own direct interconnection to cross-border links (depending on the nature of the service provider and its size). So, cross-border traffic data is even more impossible to obtain—and again the emphasis must be on mode 3 investments in nationally licensed service providers.

14 While mobile virtual network operators (MVNOs) do not hold spectrum licenses, they conventionally obtain their own number blocks, which are specific blocks of phone numbers, from the regulator. Variations exist (for example, obtaining numbers from the host MNO).

15 There are a number of regulatory distinctions between terrestrial and satellite broadcasting and between free-to-air (advertising supported or otherwise) and subscription (recurring or pay-per-view) platforms.

16 There are exceptions, such as subnational or community radio stations that maintain their own transmission infrastructure rather than use a third party signal distributor.

17 No data for country-by-country trade (for example, properly disaggregated data) in such specific content are available.

18 Over-the-top providers offer services and applications equivalent or analogous to any communications service. Examples are interactive text or audio-visual communications (calling, messengers and video-conferencing), one-way audio-visual media distribution (analogous to broadcast—such as Netflix or YouTube), and interactive audio-visual communication-centered applications (games), and so on. Other OTT offerings provide primarily non-communications services (for example, banking/financial, e-government, storage and retrieval, software and applications, education or health functions) that are enabled by, but conceptually outside, the communications sector.

19 For example, these OTT services and applications are distinct from IP-based services designed to utilize dedicated platforms, channels or infrastructure. IPTV services are not OTT (being designed for service through dedicated channels), while Netflix, YouTube and Amazon Prime utilize existing internet connections to the end customer and need only minimal applications at the consumer interface, server hardware at the point of origin, and no dedicated infrastructure at any point in between.

20 Some services interface with the telecommunications infrastructure—such as Skype, which offers calls to PSTNs as well as numbers off of national numbering plans—do have minimal regulatory obligations in some countries that are akin to non-facilities-based providers. Others, by virtue of their non-communications commercial activities (for example, subscription and payment processing, and restricted services such as gambling), can be subject to other sectoral regulation.

21 In this context, this layer of the communications industry (by virtue of lack of jurisdictional presence or licensing) is not subject to sectoral taxation or levies such as universal service contributions intended to expand access to communications infrastructure and services.

22 In this context, factual and entertainment OTT content could (depending on the application of the CPC 2.1 schedule) be considered within the communications sector, but numerous other OTT services and applications must be considered outside of it.

23 Bankole, Osei-Bryson and Brown (2013) looked at the impact of telecommunications infrastructure both on trade and on what the authors termed institutional quality. The study focused on four areas: rule of law, corruption perception, bureaucratic quality and government stability. They found that while telecommunications infrastructure had a direct impact on trade, it also had an indirect impact through its influence on institutional quality.

24 See, for example, ICT Regulation Toolkit (Section 6.2.2) for a summary discussion of these matters.

25 For example, AfCFTA Support Unit (2019).

26 For example, ensuring initial licensing is:
Open and transparent without numerical or other limitations, including in terms of ownership, platforms and so on.
Not unduly limited in scope (for example, simplifying or unifying licenses classes and ensuring these include all necessary rights, such as international gateways.
Available as the lower-cost option of non- or limited-facilities based competition (resellers, MVNOs and so on) and that the appropriate obligations on (dominant) infrastructure providers exist to make these viable (for example, resale at wholesale obligations).

The second leg of such liberalization must focus on adequate competition regulation, including monitoring and enforcement. It must include dominant operator criteria and measures to create or safeguard competition—interconnection, national roaming, facilities access and sharing, accounting separation and wholesale and retail price controls.

27 WTO GATS Agreement 1995, Art. II; AfCFTA 2018, Art. 5(h).

28 WTO GATS Agreement 1995, Art. II; AfCFTA 2018, Art. 5(e) and Part IV.

29 WTO GATS Agreement 1995, Art.VI.

30 AfCFTA 2018, Arts. 3(b), 4 and 5(j).

31 African Charter on Broadcasting, 2001, Art.1.

32 WTO Telecommunications Reference Paper, 1998, Art. 5; Windhoek+10 African Charter on Broadcasting, 2001, Part II Art. 2; ACHPR Declaration of Principles on Freedom of Expression and Access to Information in Africa, 2019, Principles 14(3) and 17.

33 WTO Telecommunications Reference Paper, 1998, Art. 4; Windhoek+10 African Charter on Broadcasting, 2001, Art. 5; ACHPR Declaration of Principles on Freedom of Expression and Access to Information in Africa, 2019, Principle 14(4).

34 WTO Telecommunications Reference Paper, 1998, Art. 3; ACHPR Declaration of Principles on Freedom of Expression and Access to Information in Africa, 2019, Principles 37 and 38. UN 2030 Agenda for Sustainable Development, 2015, Goal 9(c).

35 WTO Telecommunications Reference Paper, 1998, Art. 6; Windhoek+10 African Charter on Broadcasting, 2001, Arts. 3 and 4 of Part I and Art. 7 of Part II.

36 AU Declaration on Internet Governance and Development of Africa's Digital Economy, 2018, preamble; Windhoek+10 African Charter on Broadcasting, 2001, Art. 1 of Part I; WSIS Geneva Principles, 2003, Principle 55; AU African charter on Democracy, Elections and Governance 2007, Article 2(10).

37 WTO Telecommunications Reference Paper, 1998, Art. 1.

38 WTO Telecommunications Reference Paper, 1998, Art. 9.

39 Interconnection and traffic exchanges of internet providers, particularly at the wholesale level, are traditionally subject to lesser regulation. They may—particularly for large operators—be simple "peering arrangements" without traffic accounting or mutual payments being due. Smaller operators tend to be disadvantaged, particularly where there is no national internet exchange (IX), so that all internet traffic needs to be routed through backbone providers out of country and returned.

40 Windhoek+10 African Charter on Broadcasting, 2001, Arts. 1(1) of Part I; WSIS Geneva Principles, 2003, Principle 55; ACHPR Declaration of Principles on Freedom of Expression and Access to Information in Africa, 2019, Principles 11 to 15; UNESCO Media Development Indicators, 2008.

41 ACHPR Declaration of Principles on Freedom of Expression and Access to Information in Africa, 2019, Principle 16.

42 Windhoek+10 African Charter on Broadcasting, 2001, Art. 6 of Part I; WSIS Geneva Principles, 2003, Principle 53; ACHPR Declaration of Principles on Freedom of Expression and Access to Information in Africa, 2019, Principle 11(3)(f); UNESCO Media Development Indicators, 2008; AU Declaration on Internet Governance and Development of Africa's Digital Economy, 2018, Art. 15.

CHAPTER 7
Regulating and Facilitating Intra-Africa Tourism

The tourism industry is now a priority sector across the African continent (AU/NEPAD, 2004; 2010). The African Union (AU) Agenda 2063, identifies the sector as a pathway through which Africa could be transformed. Such recognition is premised on the potential of the industry to advance the continent's economic diversity and resilience. With a strong pan-African orientation, Agenda 2063 marks the turning point from previous approaches to tourism development, which focussed on externally driven growth, to an approach based on internal potential—in terms of existing and largely untapped products and markets.

Agenda 2063 has set ambitious goals for the tourism industry. The first 10-year Implementation Framework proposes that the industry's contribution to the continent's gross domestic product (GDP) should increase by 100 per cent—from $138 billion to $276 billion by 2023—and that the level of intra-Africa tourism should double (AU, 2015; WTTC, 2020). By 2063, the industry contribution to GDP should have increased five-fold (UNWTO, 2019a). For these targets to be realized, the formulation and full implementation of the African tourism strategy and the establishment of the African Tourism Organization are strongly recommended.

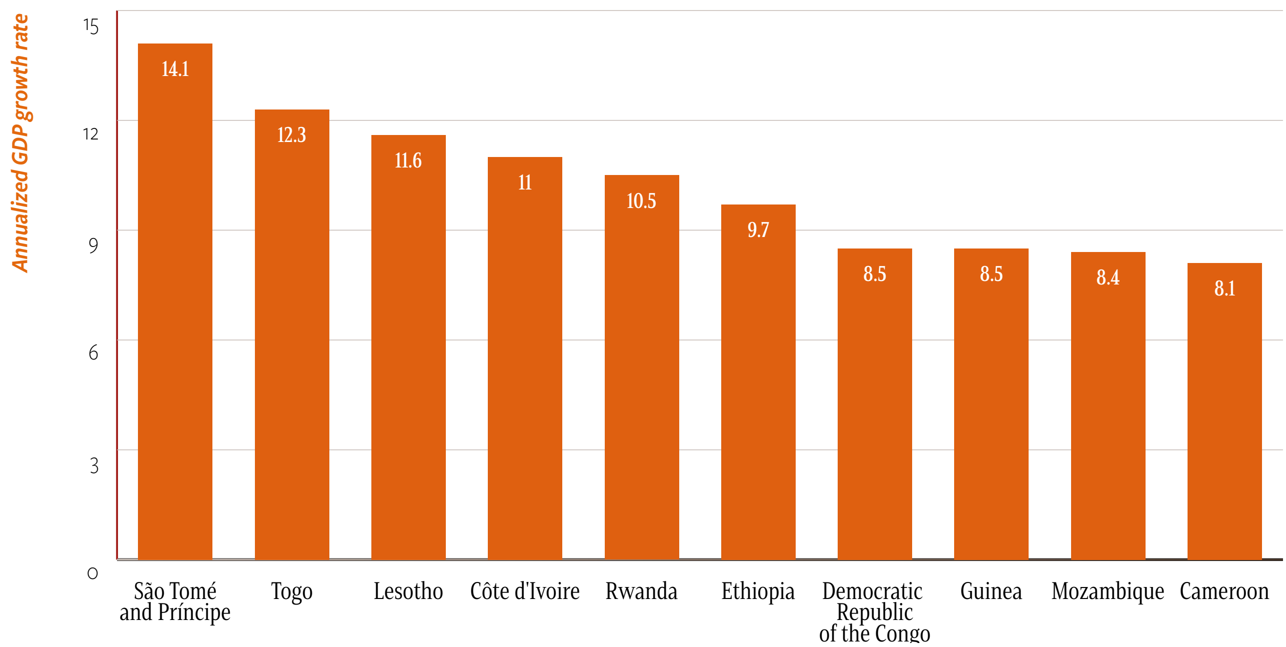
The goal of this chapter is to establish what key tourism sector strategic, regulatory and policy-related interventions are necessary to facilitate intra-African tourism within the context of the African Continental Free Trade Area (AfCFTA) services trade liberalization agenda. Tourism is defined here as a service industry, comprising "tangible components—transport systems and hospitality services including accommodation, food and beverage, tours and souvenirs, and related services and intangible components—rest and relaxation, culture, escape, adventure" (UNCTAD, 2017, 11).

THE ECONOMIC IMPORTANCE OF TOURISM IN AFRICA

Up until the 21st century, tourism activity was concentrated in the northern, eastern and southern parts of the continent. Though the status quo of tourism remains, there has been a gradual change as an increasing number of member states embrace the industry. This paradigm shift in development could be attributed to the failure of traditional sectors, such as mining and agriculture, in bringing about meaningful economic growth and development. Over the past 10 years, a number of new destinations have recorded the highest annual growth rates. Of these, the fastest growing destinations (FIGURE 7.1 ON PAGE 182) have been Lesotho (11.6 per cent), São Tomé and Príncipe (14.1 per cent) and Togo (12.3 per cent), while the destinations with slowest average growth have been South Africa (0.9 per cent), Egypt (1.3 per cent), Mauritius (1.8 per cent) and Nigeria (1.9 per cent).

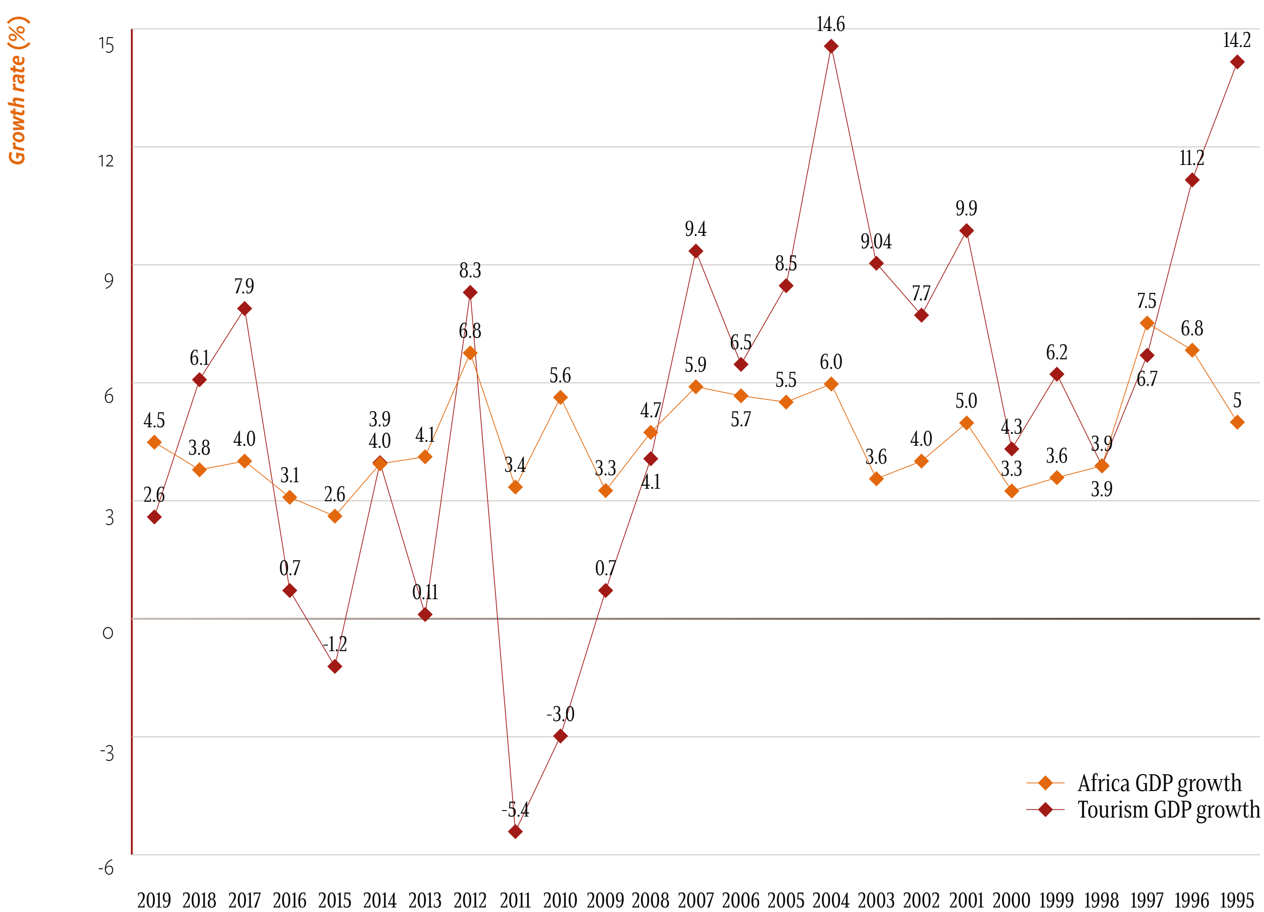
As a result of the increased prioritization of the tourism industry, there has been a significant rise in its economic impact on the continent. For example, with an average annual growth rate of 5.3 per cent since 1995, tourism's value has grown five-fold to $168 billion, accounting for 7 per cent of GDP in 2019 (WTTC, 2020; World Bank, 2020a). But the growth rate has been erratic and has declined, the fastest period having been between 1999 and 2008 at 8 per cent. FIGURE 7.2 ON PAGE 182 shows the growth trajec-

FIGURE 7.1 TOP 10 FASTEST GROWING AFRICAN TOURISM ECONOMIES, 2009–19 (%)



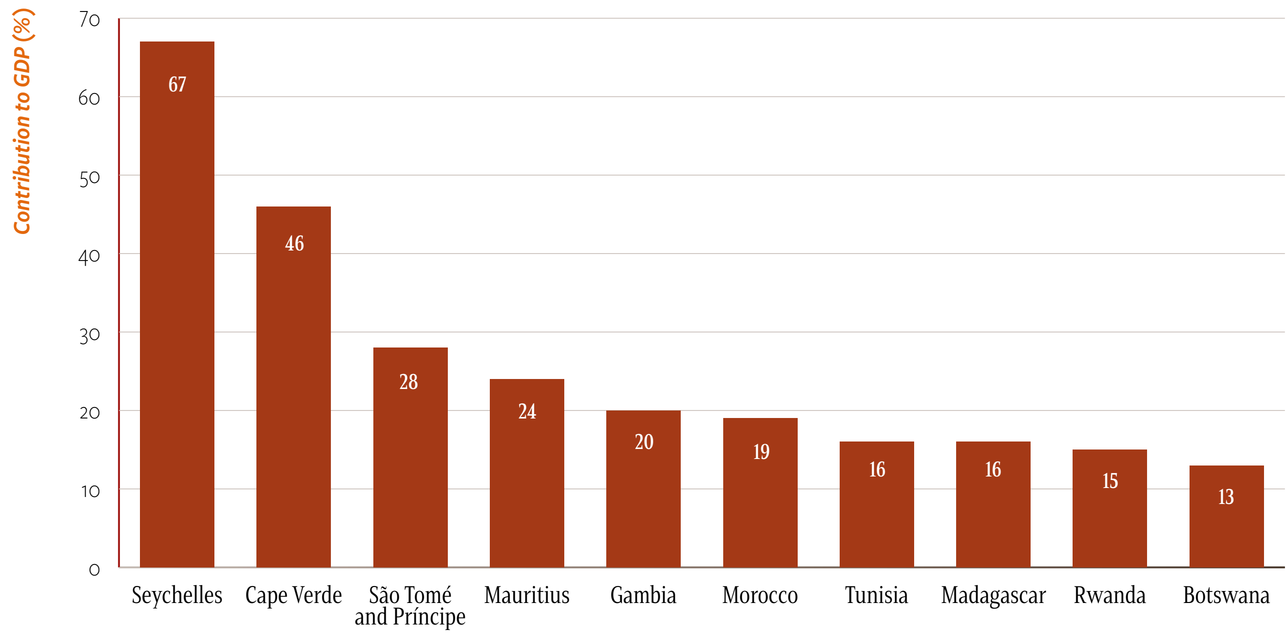
Source: World Travel and Tourism Council, 2020.

FIGURE 7.2 AFRICAN TOURISM GDP GROWTH RATE COMPARED WITH AFRICA GDP GROWTH RATE, 1995–2019 (%)



Source: World Travel and Tourism Council, 2020.

FIGURE 7.3 TOP 10 AFRICAN COUNTRIES BY TOURISM CONTRIBUTION TO GDP, 2019



Source: World Travel and Tourism Council, 2020.

tory of the tourism industry in Africa in comparison with that of the continent in general. Between 2009 and 2016, the tourism industry registered only an average annual growth rate of 0.5 per cent, mainly due to the negative growth in 2010, 2011 and 2015, whereas the continent's average GDP growth was 4.1 per cent. This negative growth was caused by external shocks—the global financial crisis, the Arab Spring and the Ebola outbreak in Central and West Africa—and demonstrates the sensitivity of the industry (as is currently the case with the Covid-19 pandemic), compared with other sectors—such as agriculture and extractive industries—whose market prices remained strong during this period (EU, 2016).

The role of the tourism industry as a driver of economic activity varies across the continent. For a number of small island states it is the major economic driver, contributing upwards of 67 per cent of GDP in the case of Seychelles (**FIGURE 7.3**). In absolute terms, tourism activity has remained concentrated in the traditional destinations, which collectively account for close to 90 per cent of tourism receipts, some $151.3 billion in 2019 (WTTC, 2020).

The tourism industry, as an export-oriented sector, has also continued to be an important source of foreign exchange earnings and a positive contributor to the balance of payments for a number of member states. In 2019, the industry generated more than $50 billion in international tourism receipts, accounting for 10 per cent of the continent's total exports (UNWTO, 2020a; WTTC, 2020). Of total tourism receipts, Africa's largest tourism destinations, Egypt and South Africa, accounted for 41 per cent. As a percentage of total exports, the industry plays an important role in small island states such as Cabo Verde (50 per cent), Comoros (54 per cent) and São Tomé and Príncipe (73 per cent) (World Bank, 2020a).

The tourism industry in Africa has played a key role in attracting investments to the continent (hotels and convention bureaus), valued at $34 billion, accounting for 6 per cent of total investments in Africa (WTTC, 2020). This has been driven by the rapid growth of the tourism industry, coupled with the comparatively low levels of tourism infrastructure, opening up the sector for potential investments. The investments have been focused in emerging destinations on the continent, where a consider-

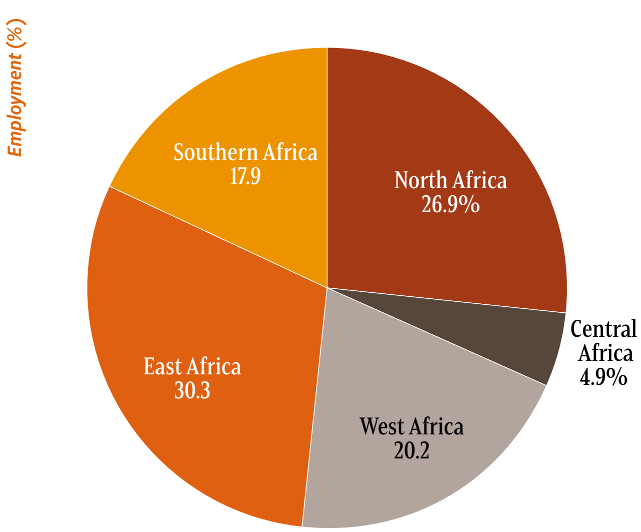
TABLE 7.1 SHARE OF TOTAL EMPLOYMENT FROM TOURISM FOR THE TOP 10 AFRICAN COUNTRIES, 2014–19 (%)

	2014	2015	2016	2017	2018	2019
Cabo Verde	36.1	34.4	35.2	37.5	38.4	39.3
Lesotho	11.8	13.7	16.0	15.0	14.9	15.4
Madagascar	11.7	12.7	14.7	12.6	13.2	13.5
Mauritius	19.5	21.7	22.6	22.7	23.2	22.9
Morocco	16.8	16.2	16.5	17.0	16.7	16.7
Namibia	13.6	15.6	16.1	14.8	15.7	15.5
Rwanda	10.4	11.4	11.2	12.4	13.0	13.1
São Tomé and Príncipe	21.2	24.6	24.6	22.4	23.3	23.0
Seychelles	58.0	65.1	64.0	66.2	66.6	65.2
Tunisia	16.3	13.1	13.0	13.7	14.6	14.9

Source: Torld Travel and Tourism Council, 2020.

able chunk of new investments has been directed (ECA, 2020). The growth prospects of the tourism industry have attracted investors and leading international global hotel chains to diversify their property portfolios, with West Africa leading in hotel pipeline activity as of 2017. Investors and global hotel chains are attracted to Africa because, unlike in developed parts of the world where international hotel brand penetration is high—70 per cent and in North America and 40 per cent in Europe—brand penetration is only at 10 per cent in Africa (W Hospitality Group, 2018). So, this presents immense investment opportunities for global hotel chains.

FIGURE 7.4 BREAKDOWN OF TOURISM EMPLOYMENT BY REGION, 2019 (%)



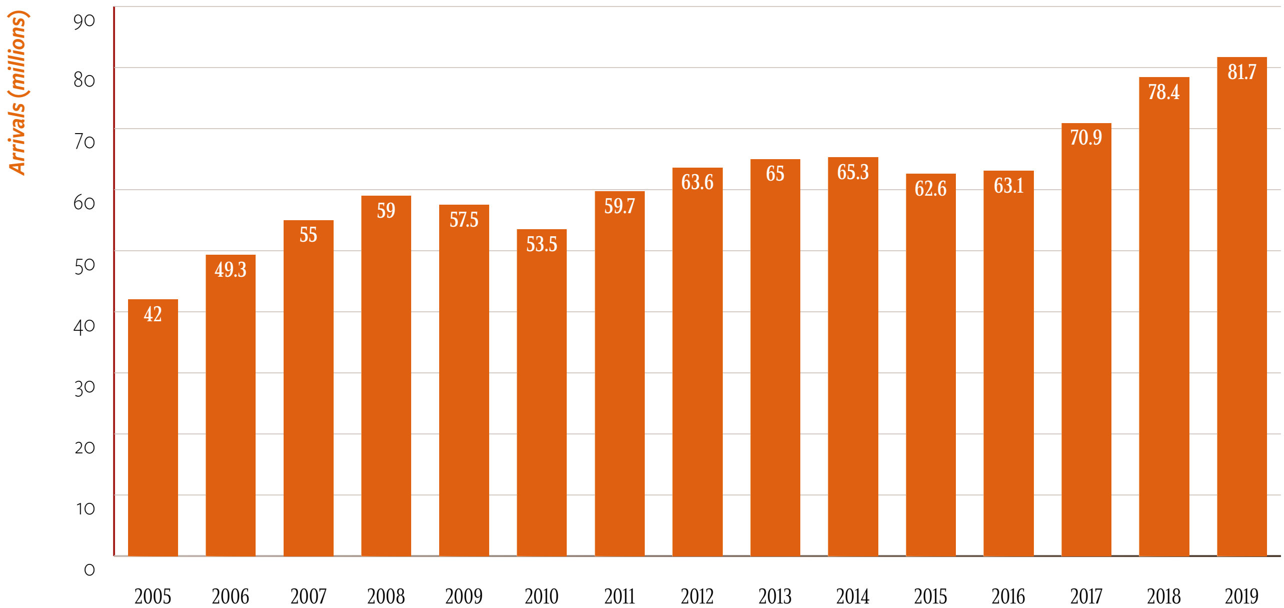
Source: orld Travel and Tourism Council, 2020.

The tourism industry has also become an important source of employment on the continent. This is because the industry is labour intensive, generating direct employment. Because of its multiplier effect, the tourism industry is able to generate more jobs, both induced and indirect, compared with other traditional sectors. A study conducted by the World Bank in Zambia revealed that an investment of $250,000 in the tourism industry yields 182 (formal) full-time equivalent jobs, which is 40 per cent more than a similar investment in agriculture and 50 per cent more than in the mining sector (World Bank, 2013). Other studies have shown that the tourism industry has a multiplier factor of 3.2, which is higher than the communications, financial services and education sectors have (Croes and Rivera, 2017; Klychnikova and Dorosh, 2013; WTTC, 2019).

With an average growth rate of 4 per cent a year over the past two decades for both direct and total employment, the tourism sector now employs 2.5 million people directly and accounts for over 24 million jobs (WTTC, 2020). This translates to 2.5 per cent direct employment and 6.8 per cent total of the industry share of employment on the continent. Going by the share of total employment, tourism is one of the main sources of employment for a number of AU member states (TABLE 7.1).

The importance of tourism as an employer varies across the five regions of the continent. East and North Africa account for over 57 per cent of the jobs in the industry (more than 13 million jobs), while Central Africa only accounts for 4.7 per cent, about 1 million jobs (FIGURE 7.4).

FIGURE 7.5 AFRICA'S TOURIST ARRIVALS, 2005–19 (MILLIONS)



Source: UNWTO, 2020a.

The tourism industry generally employs a higher proportion of women than men. In Africa, for the past two decades, women's share has consistently been above 60 per cent, compared with men's 35 per cent (ILO, 2021). In 2019, of the 10.6 million jobs generated in the accommodation and restaurant sector, close to 7 million (66 per cent) were occupied by women.

The industry's appreciable contribution to the continent's economy was brought about by a rapid growth in tourist arrivals, currently more than 78 million a year (UNWTO, 2019a; World Bank, 2020a) (**FIGURE 7.5**). Although the growth trajectory is steadily upwards, there have been dips in arrival numbers, which are attributable to externalities and follow the same path as tourism receipts. It is also expected that arrivals will fall sharply by 50 million in 2020, due to the Covid-19 pandemic (UNWTO, 2020c).

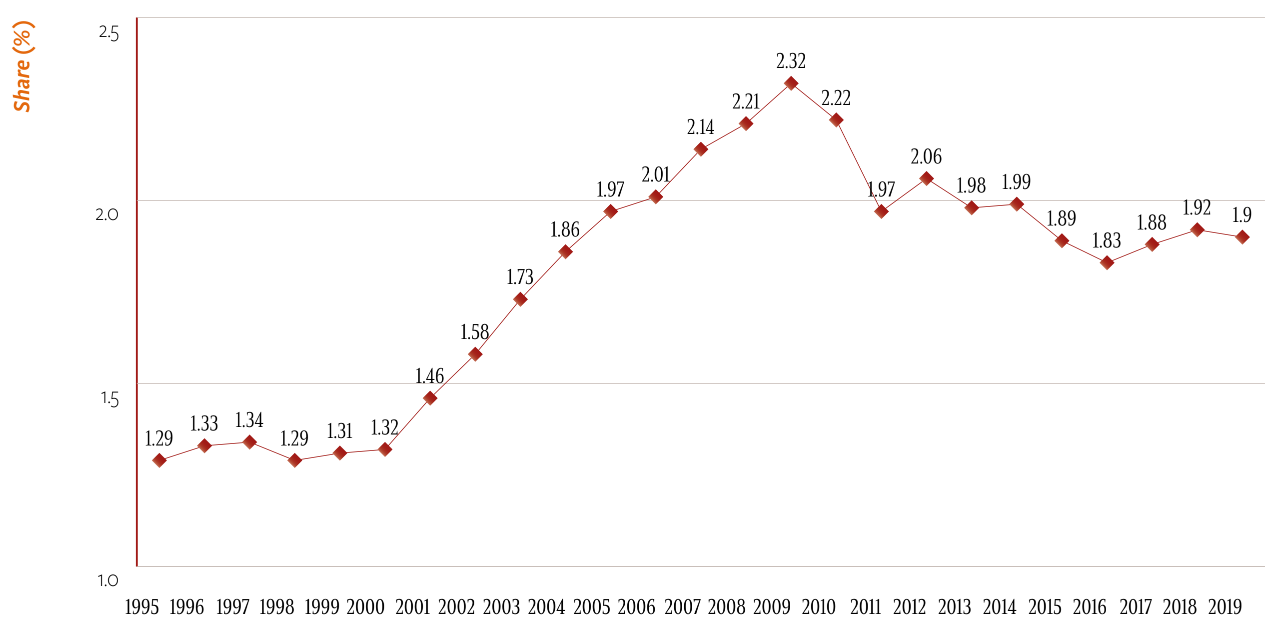
THE GLOBAL CONTEXT OF THE AFRICAN TOURISM INDUSTRY

The tourism industry's emergence as a key global economic sector is driven by a number of factors, including advancements in the transport sector, in particular changes in aviation; increased ownership of private cars; enhanced organizational capacity of the industry; increased disposable incomes and increased leisure time and holiday entitlements. With over 1.4 billion international tourist arrivals in 2019, the industry currently generates $1.7 trillion in tourism receipts, accounting for 6.8 per cent of total global exports and 28.3 per cent of the total service exports (UNWTO, 2020a; WTTC, 2020). The industry also accounts for 10.3 per cent of global GDP, valued at $8.9 trillion, and is a major employer, with 1 in 10 jobs worldwide attributed to tourism (WTTC, 2020).

Although the growth of the tourism industry in Africa has been phenomenal when looked at in isolation, the picture is somewhat different when juxtaposed with the rest of the world. With the industry's contribution to Africa's GDP at 7 per cent, the importance of tourism on the continent is not on a par with the global norm. Moreover, the continent's share of global tourism GDP was just 1.9 per cent in 2019 (**FIGURE 7.6**). Africa's share of global tourism GDP has been on a downward slope since 2011, having peaked at 2.3 per cent in 2009.

Tourism receipts in Africa deviated from the global trends because of externalities. And while tourism is very sensitive to externalities, the effects vary across regions. In 2003, while there was negative growth for global tourism receipts, the continent registered positive growth. This was because the 2003 SARS epidemic mostly affected the Asian market. Africa has also had periods of negative growth when the rest of the world was positive—such as in 2011, 2015 and 2016. These negative growth patterns were because of perceptions of instability and insecurity in the leading Africa destinations. In 2011, the tourism industry was affected by the Arab Spring, while South Africa's was affected between 2015 and 2016 because of xenophobic-related issues.

FIGURE 7.6 AFRICA'S SHARE OF GLOBAL TOURISM GDP, 1995–2019 (%)



Source: orld Travel and Tourism Council9, 2020.

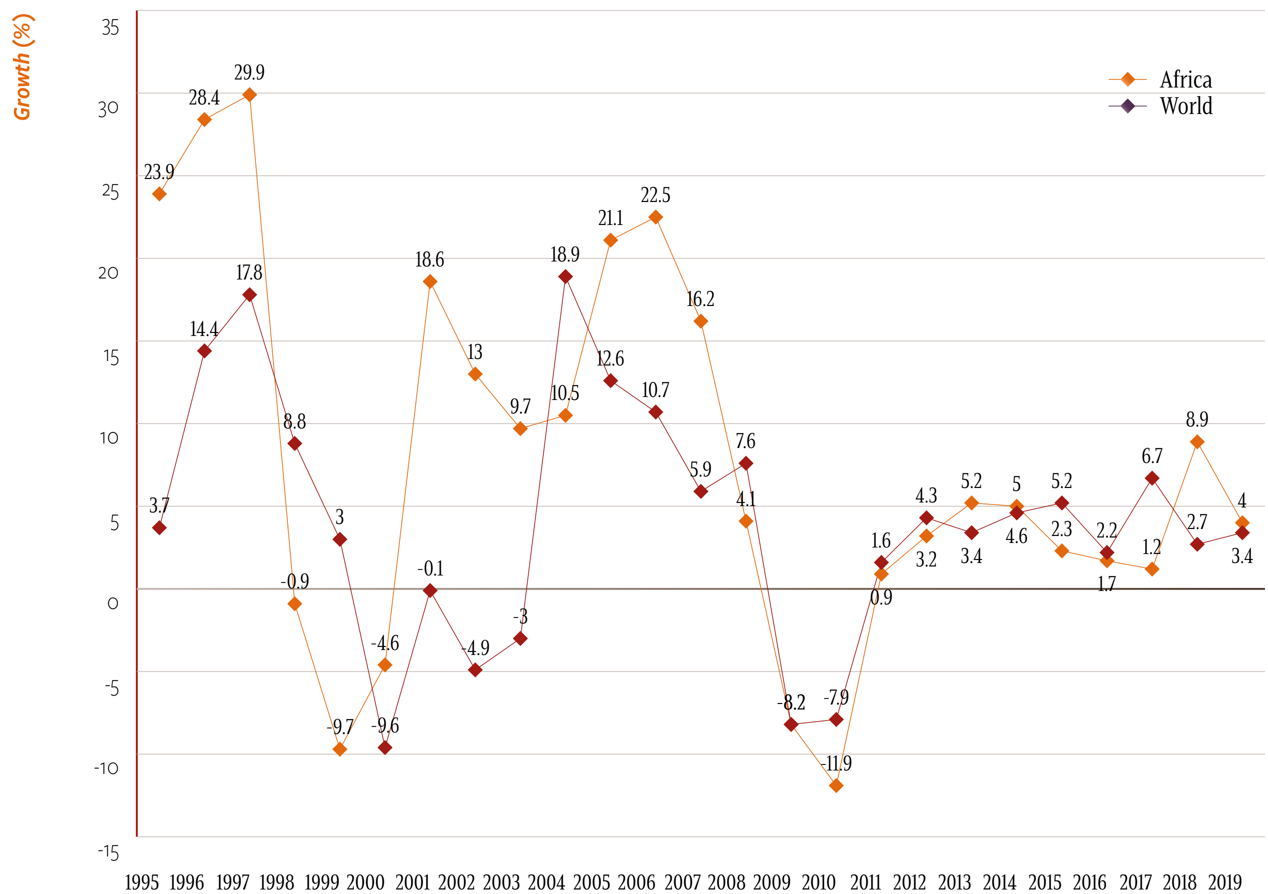
The average $626 spent per tourist in Africa in 2018, a figure way below the global average of $1,000, is disconcerting given the potential tourism has for the continent. While the average spent per tourist in Africa has slightly improved, the gap with the rest of the world has widened. In 2005, the difference was $250. In 2018, it was $400 (UNWTO, 2020a). The difference is attributed to factors ranging from the nature of the tourism product (urban tourism tends to have higher costs) to the length of stay, (more is spent on longer stays) (Gossling, Scott and Hall, 2018).

Globally, the bulk of tourism activities take place within urban areas—they have been and still are the growth drivers for the industry (Al-Saad and Ababneh, 2017). Urban tourism can be understood as travel to neighbourhoods, towns, cities and areas where the main motivation is the enjoyment of attractions, facilities and services (Al-Saad and Ababneh, 2017). Currently, at 22 million international visitors, Bangkok is the most visited city in the world, followed by Paris (19.1 million), London (19 million), Dubai (15.9 million) and Singapore (14.7 million) (Mastercard, 2019). It follows that these cities are also found in countries that are also top global destinations. Of the top 100 most-visited cities, only seven are in Africa. These are Johannesburg at position 39, Cairo at 67, Cape Town at 73, Casablanca at 82, Durban at 92 and Lagos at 100. For the majority of the 100 most-visited cities in the world, the main purpose of travel is for leisure (85 per cent of visitors), as is the case of Bangkok. With an average length of stay of 3.5 nights in 2017, Dubai had the highest average spent per day per international visitor—$537—earning the city a total of $29.7 billion.

The tourism sector has emerged globally as a key destination for capital investments, currently valued at almost $1 trillion, about 4.4 per cent of the world's total capital investments. Africa only accounted for 3.6 per cent of capital investment in the tourism sector. The growth rate of Africa's capital investments has, nonetheless, been above the global average, especially in the 1990s and 2000s. While world tourism registered negative growth rates in capital investments between 2000 and 2004, the tourism sector in Africa received a boost. As with the rest of the world, however, the global financial crisis had a negative impact on capital investments for the tourism sector in Africa, resulting in negative growth in 2009 and 2010. In 2011 capital investments recovered (**FIGURE 7.7**).

Africa's small share of the global tourism industry can be attributed to a number of factors, including a relative lack of competitiveness. This is illustrated by the Travel and Tourism Competitiveness Index (TTCI), released biannually since 2007 by the World Economic Forum. The TTCI identifies the key national-level factors and policies necessary for driving destination competitiveness. Between 2007 and 2019, the five most competitive destinations in Africa—in descending order—have consistently been Mauritius, South Africa, Seychelles, Egypt and Morocco (**TABLE 7.2**).

FIGURE 7.7 AFRICA AND WORLD GROWTH IN TOURISM CAPITAL INVESTMENTS, 1995–2019 (%)



Source: orld Travel and Tourism Council, 2020.

TABLE 7.2 TRAVEL AND TOURISM COMPETITIVENESS IN AFRICA, 2019

AFRICA RANKING		GLOBAL RANKING	ENABLING ENVIRONMENT		POLICY AND ENABLING CONDITIONS		INFRASTRUCTURE		NATURAL AND CULTURAL RESOURCES	
			GLOBAL RANKING	INDEX*	GLOBAL RANKING	INDEX*	GLOBAL RANKING	INDEX*	GLOBAL RANKING	INDEX*
1	Mauritius	54	43	5.3	43	4.6	41	4.3	117	1.8
2	South Africa	61	105	4.2	102	4.1	60	3.7	17	3.9
3.	Seychelles	62	61	5.1	103	4.2	30	4.7	118	1.8
4	Egypt	65	86	4.5	45	4.6	76	3.3	33	3.1
5	Morocco	66	71	4.8	47	4.6	69	3.5	54	2.6
6	Namibia	81	100	4.4	80	4.4	62	3.6	70	2.3
7	Kenya	82	110	4.1	68	4.5	90	3.0	42	3.0
8	Tunisia	85	78	4.7	57	4.5	84	3.1	100	2.0
9	Cabo Verde	88	84	4.6	63	4.5	64	3.6	135	1.5
10	Botswana	92	99	4.4	82	4.4	93	2.8	67	2.3

Source: WEF, 2019.

Note: *Index guide: 1 is least competitive (red), 7 is most competitive (green).
The system colour ranking goes from green ( ) to yellow ( ) to orange ( ) to red ( ).

Even for the most competitive destinations in Africa there is reason for concern. The best position achieved globally for an African destination was Seychelles (at 38) in 2013 (WEF, 2013) . Since then, Africa's global positioning declined. This implies that efforts to improve the continent's competitiveness have not been on a par with those in the rest of the world, which could explain the African industry's corresponding declining share of global tourism GDP and tourism receipts.

The challenges afflicting Africa tourism development can be seen through the lens of the TTCI. The cultural and business travel pillars, for instance, is a testament to the narrow range of African tourism products, which are predominantly nature-based—for which the continent is well endowed, with Tanzania ranked 12 globally. But nature-based tourism is similar across Africa and hence not suitable for regional promotion. In Africa, cultural resources are largely untapped, with sporting infrastructure—which plays a key role in leading global destinations—remaining underdeveloped. The exception is South Africa, with its high global ranking at 23. Business travel—especially for meetings, as incentives, and for conferencing and exhibitions—is also underutilized. Of the 12,951 global meetings in 2018, Africa only hosted 414 (3 per cent), and South Africa accounted for 24 per cent those (100 meetings) (ICCA, 2019).

The aviation industry is underdeveloped and operates in a very restrictive environment, given the lack of supporting agreements and protocol ratifications (IATA, 2020). The continent only accounts for 2.1 per cent of the global passenger market (of which 0.3 per cent is the domestic market) and 1.8 per cent of the global cargo transport market. As a result, travel within the continent is the most expensive globally. This is due to high operating costs, heavy taxes and charges, coupled with the lack of low-cost carriers and a lack of connectivity. A passenger wishing to travel from Kinshasa, Democratic Republic of the Congo, to Lagos, Nigeria, should expect the itinerary to cost about $1,200 and for the trip to take 12 hours in travel time (Hattem, 2017; Ogunfowoke, 2018). What is more, prevailing visa regimes remain a hindrance to regional travel, with 42 per cent of African citizens needing visas to travel to other African countries, compared with 45 per cent of the global population (UNWTO, 2019c). This means that Africa is almost as closed to itself as it is to the rest of the world.

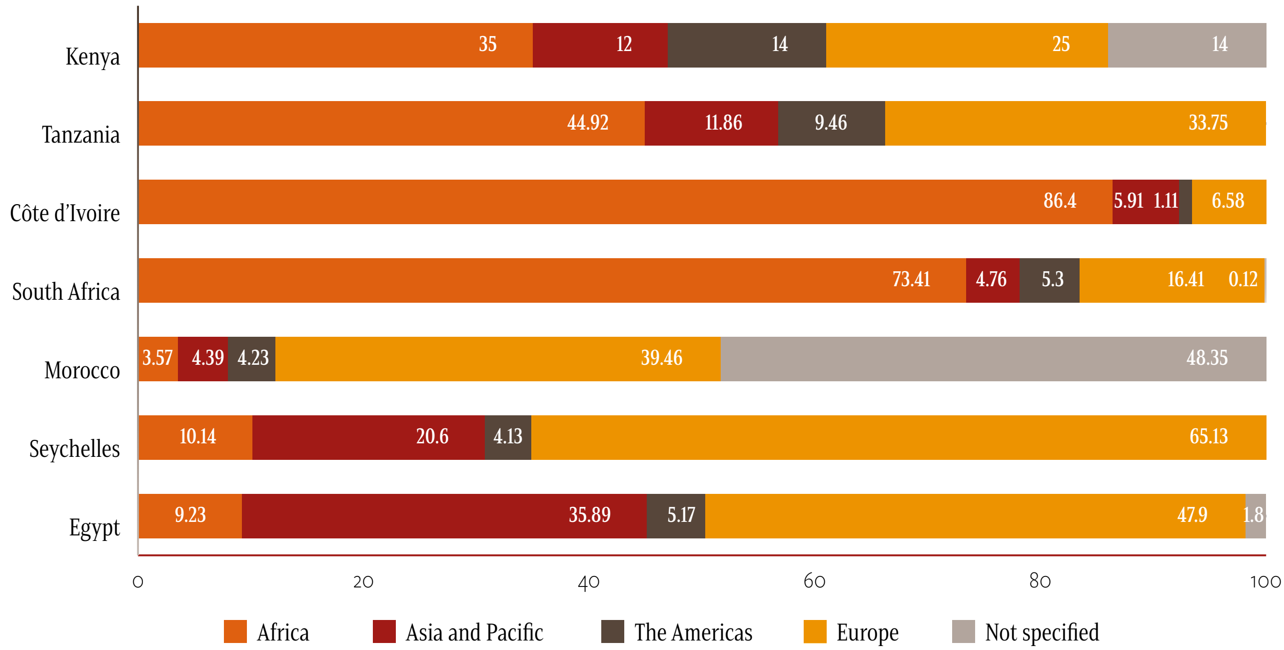
Regional tourism in Africa

Globally, 80 per cent of tourists travel within their regions, and even more so within their country (UNWTO, 2020a). France, which hosted over 86 million visitors in 2018, had 79 per cent of all its visitors come from the European market. In the Americas, the United States, with 76 million visitors, drew 60 per cent of its visitors from the region. In Asia, China (63 million arrivals) had 92 percent come from the Asia–Pacific region, and Thailand (38 million arrivals) recorded 70 per cent from the region.

The key pull factor for regional tourism is urbanization, with major cities being the main destinations. Kuala Lumpur, which is the seventh-most-visited city in the world, recorded that all five of its top feeder cities were from within the region— Bangkok, Jakarta, Manila, Seoul and Singapore—from which the city earned $3.29 billion in 2016 (Mastercard, 2016). The same applies to Barcelona—whose main feeder cities were Amsterdam, Brussels, Frankfurt, London and Paris—from which the city earned $2.8 billion over the same period.

Regional tourism in Africa has hovered around 48 per cent since 2013 (UNWTO, 2019a). A closer look at the continent reveals that the prominence of regional markets varies across the five blocs—central, east, north, southern and west. In Southern Africa, 77 per cent of tourist arrivals come from within the region, which is close to the global average of 80 per cent. Central Africa is at 47 per cent and East Africa at 42 per cent. North Africa has the lowest share of arrivals from the continent at 16 per cent (UNWTO, 2019a).

FIGURE 7.8 **BREAKDOWN OF TOURIST ARRIVALS BY REGION FOR SELECT COUNTRIES, 2019 (%)**



Source: UNWTO, 2019a.

For a number of member states, regional tourism is important. In 2018, for South Africa regional arrivals stood at 74 percent and for Côte d'Ivoire at 86 per cent (above the global average). The large share of the regional markets in South Africa is partially attributable to the government's country-specific target strategies to tap into the intra-Africa tourist market (SA Tourism, 2007; 2010). The importance of regional markets is also now embraced by a number of member states and the share of regional arrivals has gradually grown because of initiatives such as the Intergovernmental Authority on Development (IGAD) Sustainable Tourism Master Plan and the East African Community (EAC) tourism marketing strategy. For other member states, such as Egypt and Seychelles, the European market remains crucial. Egypt attracts 61 per cent of its arrivals from Europe but only 9 per cent from the continent, and Seychelles gets 65 per cent from Europe but only 10 percent from the continent (FIGURE 7.8).

THE REGIONAL TOURISM AND TRADE NEXUS

A closer look at a number of global destinations, in particular the top 10, reveals a consistent pattern between tourist and trade flows that tends to be regional (TABLE 7.3). Close to 80 per cent of source markets are regional and trade also takes place regionally—with the exception of the United States, where the leading tourist market is not regional. But, even in the case of the United States, China, Japan and the United Kingdom are its major trading partners.

There is some causal relationship between tourist and trade flows, with the expectation that the higher the level of intra-regional travel, the higher the level of intra-regional trade and vice versa (see Table 8.3). Past studies to understand the tourism–trade relationship, using co-integration and causality techniques, have yielded diverse results that nevertheless confirm the existence of a causal relation. A study on tourism and trade for OECD countries that used a dynamic heterogeneous panel data analysis revealed that international tourist arrivals boosted international trade and that the converse was also true, thus suggesting a complementary relationship (Santana-Gallego, Ledesma-Rodriguez and

TABLE 7.3 SELECT TOP GLOBAL TOURISM DESTINATIONS AND THEIR TRADING PARTNERS

	TRADE (2018)			TOURISM (2017)		
	TOP TRADING PARTNERS	TRADE AMOUNT ($ BILLION)	TRADE SHARE (%)	TOP INTERNATIONAL ARRIVALS	INTERNATIONAL ARRIVALS (MILLIONS)	INTERNATIONAL ARRIVALS SHARE (%)
France	Germany	83.2	14.6	United Kingdom	5.1	14.2
	United States	45.3	8.8	Germany	3.5	9.5
	Spain	44.3	7.8	Belgium	3.2	8.7
	Italy	42.7	7.5	Spain	2.4	6.6
	Belgium	40.3	7.1	Italy	2.1	5.8
USA	Canada	299.7	18.0	Canada	20.2	26.2
	Mexico	265.4	15.9	Mexico	17.8	23.2
	China	120.1	7.2	United Kingdom	4.5	5.8
	Japan	75.2	4.5	Japan	3.6	4.7
	United Kingdom	66.3	4.0	China	3.2	4.1
China	United States	479.7	19.2	Hong Kong	79.8	52.1
	Hong Kong	303.0	12.2	Macau	24.6	16.1
	Japan	147.2	6.0	Vietnam	6.5	4.3
	South Korea	109.0	4.4	Taiwan	5.9	3.8
	Vietnam	84.0	3.4	South Korea	3.8	2.5

Source: For trade—World Bank, 2020b. For tourism—UNWTO, 2019a
Note: indicates regional, signifies long haul, indicates a mismatch with trading partner, and indicates a mismatch with tourist markets.

Perez-Rodriguez, 2011; 2016). A more targeted study using fractional integration showed that German tourists to Spain had a sustained post-tour impact for several months on the Spanish wine industry (Fischer and Gil-Alana, 2009). With these results in mind, the tourism industry should be seen as a potential avenue for quickly accomplishing some of the goals of the AfCFTA.

Drivers of intra-Africa tourism

Intra-regional tourism continues to be an important contributor to the African economy. More than 215 million tourists travelled to African countries between 2016 and 2018, of whom almost 45 per cent were from within the region.[1] This, however, is low compared to other regions, such as Asia–Pacific (80 per cent) and Europe (78 per cent) (UNWTO, 2018). Key factors in boosting intra-regional travel include the ease and cost of travel, the level of regional integration (including commonly used currencies), and the desirability and maturity of the tourism products offered. The intuition behind this is that when countries are more economically and socially integrated, residents will be more motivated to opt for a regional destination to travel for both pleasure and business. This section of the chapter builds on and updates some of the analysis conducted in the 2017 *Economic Development in Africa* report (UNCTAD, 2017) and analyses the impact of African regional integration on international and intra-regional tourism.

Regional integration is proxied by two recently published indices—the 2019 Africa Regional Integration Index (ARII) (AfDB, AU and ECA, 2020) and the 2019 Africa Visa Openness Index (AVOI) (AfDB, 2019).[2] The ARII assesses the status and efforts all African countries to integrate their trade, production, economy and infrastructure in the region, and to facilitate the free movement of people. South Africa was the most regionally integrated country on the continent, while South Sudan was the least. Overall integration was low, but the widespread implementation of the AfCFTA is expected to improve this in coming years. The AVOI further evaluates how open African countries are to visitors from the region. Seychelles and Benin are the most open countries, with a visa-free policy for all African visitors. At the other end of the spectrum, Equatorial Guinea requires a visa before travel for all visitors.

In addition to regional integration, a destination's level of development and tourism competitiveness may have an influence on international and intra-regional tourism. Development is proxied by GDP per capita. By this measure, Seychelles is the most developed (or highest-income) economy and Burundi is the least. The expectation is that more development would attract more tourists, who would spend more. Destination competitiveness is measured by the most recent Travel and Tourism Competitiveness Index (TTCI)—the overall index, as well as the subindices measuring the enabling environment, the travel and tourism policies and enabling conditions, the travel and tourism infrastructure, and the natural and cultural resources. While Africa lagged behind the rest of the world in all dimensions, Egypt, Mauritius, Morocco, Seychelles and South Africa were notable exceptions. Discouraging conditions, weak infrastructure and underdeveloped resources led to Chad's poor performance on the global index.

Currency restrictions were also briefly assessed for their impact on regional tourism. This factor was measured by a binary indicator of whether the government had controls on payments for invisible transactions and currency transfers (IMF, 2019). Results of this assessment were not presented in the *Annual Report on Exchange Arrangements and Exchange Restrictions 2018*, as no conclusive pattern emerged. This finding aligns with the results of the more rigorous 2017 UNCTAD analysis that suggested there was no linear relationship between currency restrictions and total inbound tourism expenditures (export revenues). However, currency restrictions had a negative and statistically significant relationship on the growth in international tourism receipts (UNCTAD, 2017). (All variables assessed in the following analyses are listed in Annex 8.1).

Analysing the impact of regional integration on tourism service export revenues

The first analysis looked at the potential impact of regional integration on total tourism export revenues, measured as average annual travel exports to world between 2016 and 2018. The two proxy measures of regional integration had contrasting relationships with tourism export revenues. As expected, a better performance on the ARII was correlated with higher tourism export revenues (correlation coefficient .57). However, just as in the 2017 UNCTAD analysis, visa openness was negatively correlated with travel exports (correlation –.26). Visa openness was a clear enabler of tourism development. In the data, the negative correlation emerges because the three countries with the highest tourism export revenues—Egypt, Morocco and South Africa—were in the bottom 20 on the AVOI. When these countries were excluded, the relationship was positive (correlation .14).

To further analyse the impact of regional integration on tourism export revenues, successive models were estimated using the form:

$$T_i = K + \beta_1 R_i + \beta_2 V_i + \beta_3 X_i + \varepsilon_i$$

where T is the dependent variable travel service exports in country i; K is the intercept; R is the country ARII score; V is the country AVOI score; and X is control variables. β_1 represents the effect of improved overall regional integration on tourism revenues. The results of the regression analysis are presented in **TABLE 7.4**. One of the main determinants of changes in tourism spending is the size of the local economy, estimated by the primary control variable GDP. It was included in the first model (1). Other control variables were added and assessed in the subsequent models (2) and (3).

The results strongly suggest that increasing overall regional integration will stimulate more travel export revenues. Visa openness had a negative relationship with travel exports, and the coefficient was statistically significant. Among the control variables, the analysis confirmed that GDP is robustly associated with travel service exports. Larger economies tend to have larger tourism export earnings. It is difficult to assume causality as the interaction goes both ways—higher tourism earnings boost GDP, and vice versa. The other control variables were not consistently significant.

TABLE 7.4 THE IMPACT OF REGIONAL INTEGRATION ON TOURISM EXPORT REVENUE

VARIABLES	DEPENDENT VARIABLE: AVERAGE TRAVEL SERVICE EXPORTS ($ BILLIONS) (1)	(2)	(3)
Africa Regional Integration Index	11.19[a] (2.48)	4.45 (3.33)	8.34[a] (3.02)
GDP ($ billions)	0.01[a] (0.00)	0.01[a] (0.00)	0.01[a] (0.00)
Travel & Tourism Competitiveness Index		1.93[a] (0.63)	
TTC Subindex: Natural and Cultural Resources			1.1[b] (0.53)
Constant	−3.39[a] (0.84)	−7.29[a] (1.53)	−4.67[a] (1.11)
Number of observations	46	37	37
Adjusted R-squared (coefficient of determination)	0.61	0.71	0.68
Standard Error (goodness of fit)	1.22	1.16	1.23
Significance F	1.89E-09	3.4E-09	2.86-08

Note: Standard errors are in parentheses: [a] Probability < 0.01. [b] Probability < 0.05. [c] Probability < 0.1.

Analysing the impact of regional integration on African visitor penetration

The second analysis looked at the potential impact of regional integration on African visitor penetration, measured as average number of tourists from Africa between 2016 and 2018 for every 100 persons in the country. Just like the previous analysis, visa openness was negatively correlated with African visitor penetration (correlation −.04), but the correlation remained negative when the previously mentioned countries were excluded (−.08). Additionally, African visitor penetration had a stronger relationship with the ARII subindex specific to trade (.62) than the overall ARII (.04).

To further analyse the impact of regional integration on African visitor penetration, successive models were estimated using the form:

$$P_i = K + \beta_1 R\, T_i + \beta_2 V_i + \beta_3 X_i + \varepsilon_i$$

where P is the dependent variable African visitor penetration in country i; K is the intercept; RT is the country ARII–Trade score; V is the country AVOI score; and X are control variables. β_1 represents the effect of improved overall regional integration on Africa visitor penetration. The results of the regression analysis are presented in TABLE 7.5. A likely determinant of changes in visitor penetration is the level of development, estimated by the primary control variable GDP per capita. It is included in the first model (4). Other control variables are added and assessed in subsequent models (5) and (6).

The results strongly suggest that trade integration, level of development (of destination), tourism and travel infrastructure, tourism policies and conditions, and natural and cultural resource availability are key determinants of African visitor penetration. For example, a 10 per cent improvement in the ARII trade subindex is associated with an additional nine African visitors per 100 inhabitants. So, for a country like Seychelles, with an open visa regime and a competitive tourism product, the number of visitors from other African countries could be improved as a by-product of a deeper trading relationship with the continent.

TABLE 7.5 THE IMPACT OF REGIONAL INTEGRATION ON AFRICAN VISITOR PENETRATION

VARIABLES	DEPENDENT VARIABLE: AVERAGE ANNUAL NUMBER OF TOURISTS FROM AFRICA (PER 100 POPULATION)		
	(4)	(5)	(6)
Africa Regional Integration Index: Trade Subindex	87.02[a] (17.00)	103.59[a] (19.78)	95.57[a] (17.71)
GDP per capita ($ thousands)	2.67[a] (0.68)	3.59[a] (0.98)	4.77[a] (1.27)
Travel & Tourism Competitiveness Index		−11.08 (7.95)	
TTC Subindex: Travel and Tourism Policy and Enabling Conditions			18.04[b] (7.41)
TTC Subindex: Infrastructure			−16.41[b] (7.15)
TTC Subindex: Natural and Cultural Resources			−10.35[b] (4.45)
Constant	−31.21[a] (7.01)	−5.35 (7.95)	−48.27[b] (22.79)
Number of observations	41	33	33
Adjusted R-squared (coefficient of determination)	0.53	0.57	0.68
Standard Error (goodness of fit)	13.73	14.47	12.34
Significance F	1.91E-07	4.60E-06	4.76E-07

Note: Standard errors are in parentheses; a Probability < 0.01. b Probability < 0.05. c Probability < 0.1.

The results of the analysis suggest that overall regional integration, and particularly trade integration, can influence both total international tourism revenue and intra-African visitor penetration. One major limitation of the analysis is the omission, due to data unavailability, of air travel connectivity and costs. In Africa, poor roads and long distances (or complete inaccessibility of island states), increase the tourism industry's dependence on air travel. Unfortunately, irregular and infrequent routing of airlines, high costs and concerns about safety and security, hamper the competitiveness of destinations to tourists from within and outside the region (UNCTAD, 2017). So, although greater regional integration may boost the desire to travel within the region, to do so air transport services need to be available and affordable.

HARMONIZING TOURISM POLICIES IN AFRICA

Owing to the increased prioritization of the tourism industry on the continent, a number of policy documents have been formulated at the national, regional and continental levels. The majority of these were initially nationalistic and, in some instances, regional bloc-centric and informed by a post-colonial agenda in which former colonies still maintain strong ties with former colonizing countries (Manyara and Jones, 2009). Consequently, ensuing policies were not geared towards the promotion of regional tourism, but rather aimed at the Western European market. The main markets for African francophone countries were and still are the French-speaking European countries, and likewise for anglophone countries, the United Kingdom.

The quest for a continental approach to tourism development can be traced back to 2002, when work on the African Tourism Action Plan was first initiated by the African Union's New Partnership for Africa's Development, and finally endorsed at the AU Summit in 2004. The action plan sought to nurture a continental collaborative approach to tourism development through jointly mobilizing resources, marketing tourism, strengthening institutional capacity, creating an enabling environment, doing research and development, investing in tourism infrastructure and products, reinforcing human resources and quality assurance, and establishing and adopting a code of conduct and ethics (AU/NEPAD, 2004).

Prioritizing the tourism industry at the regional level can be traced back to the establishment of the Common Market for East and Southern Africa (COMESA). The aims and objectives of the COMESA treaty were, among others, to promote joint development in all fields of economic activity and the joint adoption of macroeconomic policies and programmes to raise the standards of living of people and to foster closed relations among member states (COMESA, 1994). The treaty has specific pronouncements on a number of key economic sectors. The pronouncement on tourism is articulated in chapter 19, article 138, and calls for joint and coordinated efforts towards the development of the industry. Despite the recognition of the importance of tourism, it was not until 2012 that COMESA started work on a framework for implementing the treaty's objectives for the industry (COMESA, 2012).

Actual commitments towards joint efforts for tourism development at the regional level should have started in 1998 with the signing of the Protocol on the Development of Tourism by the Heads of State and Government of the Southern Africa Development Community (SADC) (SADC, 1998). The motivation for the protocol was the region's low share of the global tourism industry despite the immense potential it harboured. Joint action was necessary because tourism in the region remained underdeveloped. The protocol has a number of objectives, including aggressively marketing the region as a single but multifaceted tourism destination that capitalizes on its common strengths and highlights individual member states' unique tourist attractions, and facilitating intra-regional travel for the development of tourism through easing or removing travel and visa restrictions and harmonizing immigration procedures (SADC, 1998).

Also signifying the importance of the tourism sector was work started in 2002 on the EAC tourism marketing strategy, which then only covered Kenya, Tanzania and Uganda. The main aim of the strategy, finalized in 2003, was to position the community as a single tourism destination under the brand name and slogan, "Destination East Africa: The more you see the more there is to see," and this was encouraged by the existing mainly nature-based tourism products (EAC, 2003). The strategy recommended easing travel restrictions for foreign tourists and establishing an independent institution to coordinate the marketing activities. Its implementation, however, faced hurdles. The then-three member states had similar tourism products and competed for the same traditional markets. Unlike the SADC protocol, the EAC effort gave little emphasis to intra-regional and continental travel.

There have been other steps towards harmonizing tourism policies at the regional level. In 2010, the East African Community (EAC) commissioned the study *Towards Sustainable Tourism in Eastern Africa*, which identified challenges the region faced. The study recommended a regional approach as essential for enhancing the industry's development (ECA, 2012). This recommendation was embraced by the Intergovernmental Authority on Development (IGAD), which immediately started formulating a sustainable tourism master plan, which was completed and launched in 2013. The master plan recommended that IGAD's eight member states align their national tourism development instruments with the regional framework. The Ethiopian and Ugandan tourism master plans—formulated during the implementation of the IGAD sustainable tourism master plan—were both aligned to the regional framework and emphasized partnerships (IGAD, 2013). As a result, the share of regional tourism is on the rise across the IGAD region (Kitomo, 2020).

Over the past few decades there has been little activity in formulating regional tourism policies in the other African regional economic communities. Only recently, for instance, has the Economic Community of West African States (ECOWAS) embarked on formulating its Regional Tourism Policy 2019–2029, which—like other regional tourism development instruments—lays emphasis on nurturing the intra-regional tourist market and aligning national policies (ECOWAS, 2019). ECOWAS's policy is cognisant of the challenges facing the region, some of which are common throughout the continent and include issues related to safety and security, the lack of price competitiveness and the prohibitive cost of travel, especially of accommodations. To implement the policy, ECOWAS also formulated the Ecotour 2019–2029 Action Plan, with the goal of positioning the region by 2029 as a premier destination.

In the effort to harmonize tourism policies across Africa, the African Union Minimum Integration Programme (MIP) is worth mentioning. It is an instrument informed by a number of treaties and declarations, such as the Lagos Plan of Action, Final Act of Lagos, and the Abuja Treaty and the Sirte Declaration. The MIP strives for an African Economic Community through the identification of common grounds for regional integration (AU, 2009, 2). Some of the main objectives of the MIP include identifying regional and continental projects within RECs and the African Union Commission, and identifying priority sectors that call for bold coordination and harmonization measures within and among RECs.

The Agenda 2063 recommendation for a continental strategy provides common ground for RECs to work together. Coordinated by the AUC through technical support provided by ECA, and in close collaboration with RECs and other key stakeholders, work on the African Strategic Tourism Framework 2019–2028 started in 2017 and was completed and endorsed by the Heads of State and Government in Niamey, Niger, in 2019. The main aim of the continental strategy is to provide a pathway through which Agenda 2063 tourism targets can be realized (AU, 2019a). Given its emphasis on intra-Africa tourism, the framework provides a platform through which various regional initiatives can be harmonized to achieve the ambitious Agenda 2063 tourism targets.

The implications of African Union protocols and declarations on the tourism industry

International tourism entails the consumption of services outside the traveller's usual environment and country borders. Tourism is thus classified as part of the services trade, and so the AU Protocol on Trade in Services is of relevance. Based on the consumption abroad mode of services supply, the main objective of the protocol is to establish a single liberalized market for trade in services (WTO, 2001; AU, 2018a, 36). The full implementation of this protocol could, therefore, provide a pathway to improving the continent's tourism competitiveness and to fostering regional value chains, which remain underdeveloped.

Tourism has been identified—together with transport, financial and business services, and information and communications technology (ICT)—as one of the five priority services sectors under the AfCFTA. A major challenge facing the development of intra-regional tourism in Africa, however, is the limited mobility of people. Owing to a number of factors, including restrictive visa regimes, African citizens are some of the least mobile people globally. But there has been progress in addressing the challenge. In 2016, 55 per cent of Africans were required to obtain traditional visas for travel within the continent (AfDB, 2017), but by 2018 this had decreased to 45 per cent (UNWTO, 2019c). The full implementation of the Protocol on Free Movement of Persons, Right of Residence and Right of Establishment will bolster intra-Africa travel and could additionally boost investments. Adopted by the AU Heads of State and Government in January 2018, the main objective of the protocol is to facilitate the Treaty Establishing the African Economic Community by providing for progressive implementation of the free movement of persons, right of residence and right of establishment in Africa (AU, 2018b). To realize this objective, the protocol advocates removing visa requirements for durations of stay of up to 90 days. The protocol also supports the free use of vehicles by African citizens in member states other than their own for up to 90 days. Using vehicles could provide an alternative to air transport, given that globally on average 37 per cent of tourists travel by road (UNWTO, 2019b).

The continent continues to endure several challenges where lack of infrastructure impedes integrating member states. The African Development Bank estimates a yearly funding deficit of $108 billion for infrastructure development (AU, 2019b). The Heads of State and Government recognized this and in 2012 adopted the Programme for Infrastructure Development in Africa (PIDA), which will provide a framework for infrastructure development in information and communications technology (ICT), water, energy and transport sectors. PIDA's transport sector vision calls for the free movement of goods and people through an efficient transport system founded on modern rail, roads, ports and air transport services. To achieve this, the continent was divided into several transport corridors and, based upon priority actions plans, several projects were implemented. A number have been completed and are having a positive impact on the tourism sector. In 2017, as part of the Northern Transport corridor—covering Burundi, Democratic Republic of the Congo, Kenya, Rwanda, Uganda and South Sudan—a 485 kilometre standard gauge railway section between Nairobi and Mombasa was launched. This resulted in a rise in domestic tourism in the coastal region (Mwakio, 2017). The finalization of cross-border road projects, such as the Abidjan–Lagos highway, and the rolling out of one-stop border posts will ease the movement of people and vehicles across member state borders, thereby boosting regional tourism. This has seen countries such as Côte d'Ivoire benefit from regional tourism. In 2018, the country had 1.7 million visitors, of whom 1.6 million used road transport (UNWTO, 2019a).

The continent's small share of the global air transport market is of concern (IATA, 2020). Because of the limited liberalization of air space, coupled with poor connectivity and lengthy travel times, the costs of travel within the continent remain the highest globally. About 25 per cent of intra-Africa air travel and 35 per cent of international travel require at least one stop to get to a destination (ICAO, 2019). Some 93 per cent of air traffic between Accra and Kinshasa is not direct and requires stopovers at either Lomé (41 per cent), Abidjan (26 per cent) or even eastern Africa hubs as far away as Nairobi (20 per cent) and Addis Ababa (19 per cent). With an estimated 1.3 billion passengers in 2018, low cost carriers are becoming an important segment of the aviation industry. But, at just 2.4 per cent of the global share, their impact remains limited in Africa, as there are only about a dozen small low-cost carriers on the continent.

Steps towards addressing air transport challenges at the continental level can be traced back to the 1987 Yamoussoukro Decision, whose main goal was to create a conducive environment for developing intra-Africa and international air services by eliminating air traffic rights and reducing tariffs (ECA, 1999; Schlumberger, 2010). In 1999, on the basis of the declaration, African ministers with civil aviation portfolios met with an agenda to liberalize African air space and fast-track the Yamoussoukro Decision (ECA, 1999). Following its adoption by the AU Heads of State and Government in 2000—under the auspices of the Abuja Treaty—the Yamoussoukro Decision became a legally binding framework geared towards eliminating bilateral air transport agreements through gradually granting first freedoms of air—the right to fly across territory without landing (ICAO, 2006; ECA, 2004). The full implementation of the Decision—in particular granting the fifth freedom of air, which will allow African carriers to pick up and drop off passengers across and between member states—is expected to reduce the cost of air travel, increase the number of direct flights across the continent and so boost intra-Africa tourism.

As part of speeding up implementing the Yamoussoukro Decision, the Single African Air Transport Market (SAATM), also an Agenda 2063 flagship project, was endorsed by the Heads of State and Government in 2015. The goal was to have a single air transport market for the continent by 2017 (AU, 2017). SAATM is expected to boost intra-Africa travel, since bilateral air transport agreements will be eliminated and the fifth freedom granted. Only 28 member states are signatories to SAATM, but the International Air Transport Association projects that if just 12 fully implement the SAATM, 55,000 new jobs will be created and $1.3 billion of additional GDP will be generated (IATA, 2014).

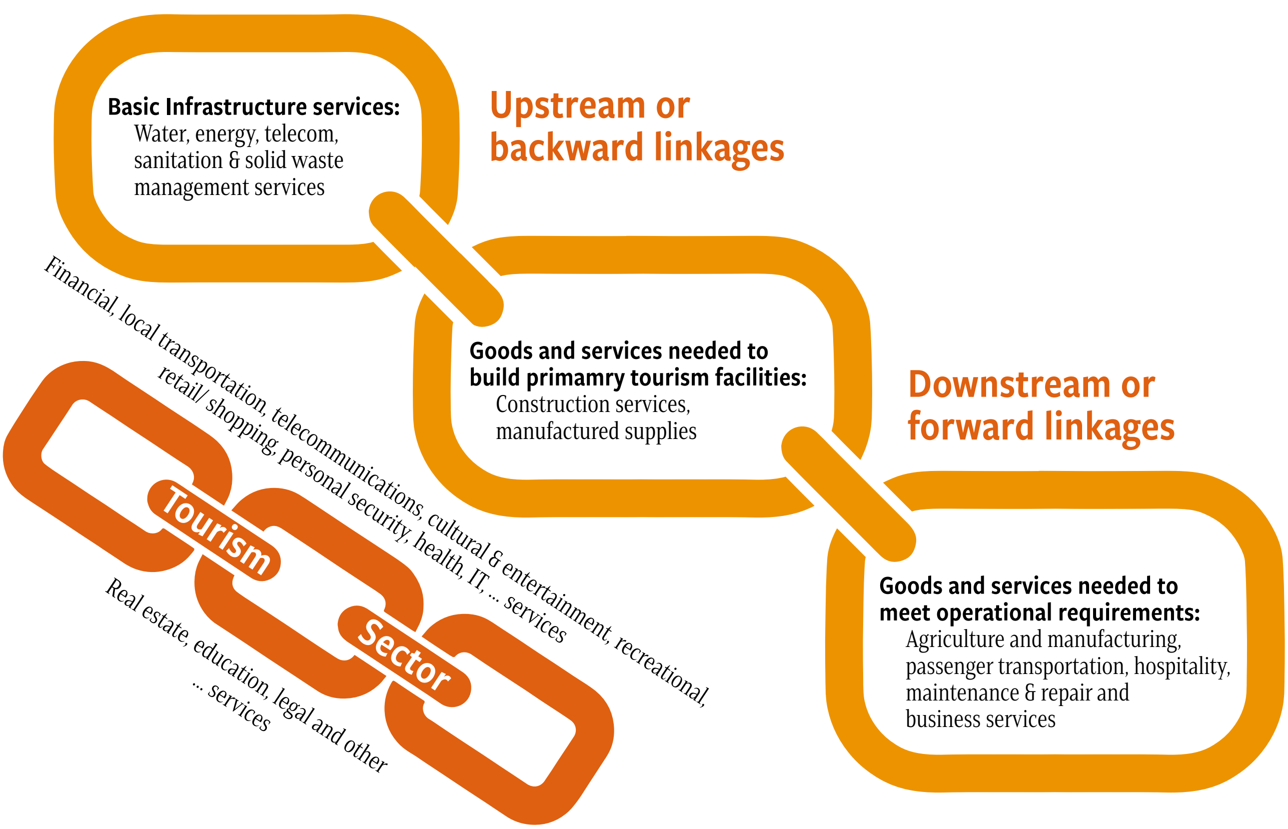
Tourism value chains in Africa

There is now an emphasis on strengthening the tourism industry's value chains across the continent (UNCTAD, 2018; Njoya and Nikitas, 2019). Effective participation in global value chains (GVCs), however, requires domestic and regional value chains (RVCs), both of which are weak and contribute close to zero value added (Ahmad and Primi, 2017; Dollar and Kidder, 2017). There are several reasons for this. Institutions are weak, there is a lack of property rights, innovation is low, there is a dearth of human capital, environments are unsupportive, and there are credit accessibility issues, as well as logistical inefficiencies coupled with poor infrastructure (Dollar and Kidder, 2017). The factors hindering RVCs include the rigidity of African borders, similarity in tradeable commodities, multiplicity in REC membership and informality and the underdeveloped nature of economies (Ahmad and Primi, 2017; Dollar and Kidder, 2017). Weak RVCs can be addressed by the full implementation of the AfCFTA, given that there is a correlation between the level of intra-regional trade and the depth of RVCs—the higher the level of trade, the deeper the RVCs (UNCTAD, 2019).

Tourism value chains can be best understood as the sum of all activities involved in the production of the tourism product and its final consumption by the tourist, combining both the supply (backward linkages) and demand (forward linkages) (FIGURE 7.9). As with the other sectors, the participation of African member states in the tourism GVCs is comparatively low. But the more heavily tourism-reliant economies, which also tend to be natural resource–poor—such as Cabo Verde, Gambia, Mauritius, Seychelles and São Tomé and Príncipe—tend to have higher linkages in the GVCs as a result of their heavy dependence on high value-added import inputs (Dollar and Kidder, 2017). This is attributable to their weak domestic capacities and almost non-existent RVCs, which are weak because the tourism sector dominated by foreign-owned enterprises—airlines, tour operators, travel agencies and hotel chains—and because of a heavy dependence on imports (UNCTAD, 2017).

The lack of RVCs, coupled with weak domestic capacities, results in considerable leakages of tourism revenue across the continent.

FIGURE 7.9 TOURISM VALUE CHAINS



Source: UNCTAD, 2007.

The EAC has the highest foreign-based expenditure (expenditures incurred outside the region) as a percentage share of total tourism revenues in the world, with Kenyan service providers capturing 45–50 per cent of the GVC (Daly and Gereffi, 2018; Murray and Wolf, 2017). A study on the sources of leakages in the tourism sector in Zanzibar revealed that only 16 per cent of resort requirements were locally sourced. Up to 70 per cent of agricultural inputs were imported in Botswana for use in the tourism sector, and weak agricultural linkages with the hotel sector have also been noted in Senegal (Andersen, 2013; Njoya and Nikitas, 2019; UNCTAD, 2018). For Gambian tourism value chains, 60 per cent of the value does not get to the country, since most value gets taken up by airlines and multinational corporations (MNCs) (UNWTO, 2013). This situation is not much better for the more developed African destinations, where there is still a heavy reliance on imports. Compared with Indonesia and Thailand—each with approximately 10 per cent of foreign value added in final demand by hotels and restaurants—South Africa's foreign value added share of 45 per cent signifies a heavy reliance on imports in the GVCs, which mainly come from OECD countries (UNCTAD, 2017).

Under the General Agreement on Trade in Services (GATS), the tourism and travel sectors received the most commitments by developing countries and by 93 per cent of the least developed countries (LDCs) (Honeck, 2012; UNWTO, 2013). This has encouraged the prevalence of large MNCs in Africa, which have exacerbated the leakage of tourism revenue. Given that all member states are developing countries and the majority are LDCs, the continent is open to the world, which has resulted in Africa seeing a significant growth in branded global chain hotels and in routes flown by large global airlines. This is a positive step towards attracting much-needed FDI and enhancing destination competitiveness. But weak domestic and regional capacities mean that minimal benefits will accrue because of the leakages of tourism revenue. RVCs and domestic capacities need to be strengthened to better participate in the GVCs and to take advantage of opportunities that exist for local goods (such as agricultural inputs) and services (developing local skills and knowledge to minimize a reliance on international expatriate labour). This requires strengthening sectoral linkages at the national and regional levels (to ensure consistent supply both in quality and quantity), embracing ICT to get closer to markets and fully committing to regional and continental initiatives such as AfCFTA, SAATM and the Free Movement Protocol.

A differentiated approach is required, given that member states are at different levels of tourism development across the continent. For emerging destinations, the goal would be to gain access and integration into RVCs and GVCs by establishing a conducive investment environment and enhancing the capacity of local suppliers through knowledge transfer partnerships with global enterprises. For more mature destinations with access to RVCs and GVCs, the emphasis should be on value capture to ensure that benefits accrue across the value chains. This could be achieved across the tourism value chain by using the following approaches (Ahmad and Primi, 2017):

- Process upgrading—enhancing production efficiency through using the same level of inputs for more production or using less inputs for the same or higher levels of production.
- Product upgrading—enhancing product quality to create more demand.
- Functional upgrading—enhancing capacity to move higher up the value chain where rewards are larger.
- Channel upgrading—entering into a higher value-added hierarchy of the value chain at national, regional or global levels.

Information and communications technology adoption and its impacts on intra-Africa tourism

ICT has taken an important part in driving tourism growth. A study on the correlation between ICT and tourism in Africa, conducted between 1996 and 2016, revealed that the increased use of ICT also resulted in an increase in tourist arrivals (Adeola and Evans, 2020). For instance, global distribution systems (GDS) have linked tourists through intermediaries—such as travel agents and tour operators—to services provided by suppliers—such as airlines, accommodation providers, car hire agencies and tourist activity providers. More recently there has been a proliferation of web-based intermediaries—working on the basis of transaction fees and commissions, though still reliant on GDS—offering services directly to the consumer. These intermediaries, also referred to as online travel agencies (OTAs), are used by 51 per cent of travellers globally. They include companies such as booking.com, Expedia, hotel.com and AirBnB (Jelski, 2019).

The proliferation of OTAs, growing social media subscriptions, the heavy investment in ICT infrastructure and the resultant deep internet penetration and smart phone adoption all present opportunities for intra-Africa tourism. The OTAs, though still largely MNCs, have provided an opportunity for small and medium-sized enterprises (SMEs) to take their products to the market. With over 300 million middle class Africans able to consume tourism products, the continent harbours an untapped market for OTA suppliers to access (AfDB, 2018). There has been a rapid growth in the use of OTAs and there is concern from traditional suppliers, for example, in the accommodation and transport sectors (taxis), that OTAs are disrupting their businesses. The opening of these fields to so many players has resulted in growing competition and brought about better price competitiveness and service delivery. But it has also brought about regulatory challenges (Dahir and Chutel, 2019). Although OTAs involve some costs, increased social media subscriptions have provided opportunities for African tourism suppliers to tap into the African market, which has seen a rapid rise in domestic and regional tourism (WTTC, 2020).

LESSONS FROM THE EUROPEAN UNION IN BEST PRACTICES TO FACILITATING INTRA-REGIONAL TOURISM DEVELOPMENT

The European Union (EU) best exemplifies how intra-regional tourism can be developed (UNWTO, 2018). The tourism industry accounts for over 10 per cent of the EU's GDP and 10 per cent of all enterprises, which generate 11 per cent of total employment (EU, 2020a). The industry is also a major employer of youth (37 per cent) and women (59 per cent) (EU, 2019).

The 1992 Treaty on European Union recognized the importance of the tourism sector and placed emphasis on the free movement of persons (including the right of abode), goods and service, all critical components for promoting regional tourism (EU, 1992). In furthering this, the 1995 *Green Paper on the Role of the Union in Tourism* defined the part that the European Union Commission (EUC) could play in developing the sector, including harmonizing policies across the bloc (EU, 1995). The Schengen Area—established in 1985 as a part of the EU comprising 26 of the 27 member states—does not have physical internal borders, and flights within the area are regarded as domestic flights. This has reduced the cost of air transport and has played an important role in boosting intra-regional travel (EC, n.d.).

The development of tourism within the EU is guided by a policy that calls for joint planning and development by member states and has a strong emphasis on implementing proposed actions (EU, 2010). EU tourism policy is informed by four priority activities (EU, 2010). These are:

- Stimulate competitiveness in the European tourism sector.
- Promote the development of sustainable, responsible and high-quality tourism.

- Consolidate the image and profile of Europe as a collection of sustainable and high-quality destinations.
- Maximize the potential of EU financial policies and instruments in developing tourism.

The European Union's response to tourism externalities during the Covid-19 pandemic

The Covid-19 pandemic has had a profound impact on EU tourism, with losses estimated at 70 per cent for tour operators and hotels and 90 per cent for the cruise sector (EU, 2020b). To mitigate Covid-19's impact on the tourism industry, the EUC, through the Joint European Roadmap (JER), has provided guidance and support to its member states, facilitating the gradual resumption of services and ensuring that the industry survives (EU, 2020c). The JER is an umbrella framework providing the EUC with a coordination mechanism to combat the impacts of the pandemic (EU, 2020d). SMEs have been the most affected by the pandemic. They are losing business, and a number are facing insolvency. As SMEs employ the bulk of the workforce, the commission has provided €100 billion in an emergency initiative to safeguard jobs and to mitigate unemployment risks. The commission has also put forward €1 billion through the European Investment Fund to unlock €8 billion in loan guarantees for SMEs.

The commission has also been proactive in planning the gradual resumption of tourism services. Guided by the European Centre for Disease Prevention and Control, the EUC has been active in drafting health protocols for the transport and hospitality sectors. The commission has also emphasized the domestic and intra-EU tourist markets as a strategy that will facilitate the speedy recovery of the industry (EU, 2020b).

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ANNEX 7.1

TABLE A7.1 SUMMARY OF MAIN VARIABLES USED IN ANALYSES

VARIABLE	N	MEAN	MIN.	MAX.	DATA SOURCE
Dependent variables					
Average annual travel service export revenue (to world), 2016–18 ($ billions)	47	0.90	0.002	8.57	Calculated from UNWTO (2019a)
Average annual visitors from Africa per 100 population, 2016–18 (African tourism penetration)	41	9.8	0.1	97.2	Calculated from UNWTO (2019a)
Average number of arrivals from Africa, 2016–18 (millions)	41	0.72	0.001	7.61	Calculated from UNWTO (2019a)
Independent variables					
Africa Regional Integration Index (ARII), 2019	54	0.33	0.15	0.63	AfDB, AU and ECA (2020)
ARII 2019: Subindex for Trade Integration	54	0.38	0.11	0.73	AfDB, AU and ECA (2020)
Africa Visa Openness Score (AVOI), 2019	54	0.46	0	1	AfDB (2019)
Travel & Tourism Competitiveness Index score (TTC) (ranging from 1 = worst to 7 = best), 2019	38	3.17	2.5	4	WEF (2019)
TTC Subindex for Enabling Environment	38	3.97	3	5.3	WEF (2019)
TTC Subindex for Travel and Tourism Policy and Enabling Conditions	38	4.02	3	4.6	WEF (2019)
TTC Subindex for Infrastructure	38	2.56	1.8	4.7	WEF (2019)
TTC Subindex for Natural and Cultural Resources	38	2.14	1.4	3.9	WEF (2019)
GDP ($ billions), 2015 (lagged to reduce causality)	52	44.76	0.32	49.46	World Bank Database
GDP per capita ($ thousands), 2015	52	2.46	0.29	14.75	World Bank Database
GDP per capita ($ thousands), 2018	52	2.68	0.27	16.43	World Bank Database
Population (millions)	54	24.79	0.098	206.14	UNDESA
Restricted currency: Controls on payments for invisible transactions and current transfers	54	1 (Mode)	0	1	Adapted from IMF (2019)

ENDNOTES

1 United Nations Economic Commission for Africa (ECA) calculation from United Nations World Tourism Organization (UNWTO) data.

2 According to the ARII report (AfDB, AU and ECA, 2020), the ARII's Free Movement of People dimension and the AVOI measure different things. While both evaluate the openness of countries' visa regimes, ARII also assesses the degree to which African countries have committed to the Protocol to the Treaty Establishing the African Economic Community Relating to Free Movement of Persons, Right of Residence and Right of Establishment. We include both indices in the analysis to parse the specific impact of existing visa regimes on tourism.

CHAPTER 8
Intra-African Trade in Business Services

The importance and role of the business service sector cannot be overemphasized. At the global level, the business service market was estimated at $5.7 trillion in 2018, having grown at an annual rate of 7.4 per cent since 2014. With global growth projected to be 13.6 per cent annually over the next decade (EU Skills Panorama, 2014), the sector is one of the top three—along with software and information technology (IT) services and real estate—to receive foreign direct investment (FDI) worldwide (fDi Intelligence, 2019).

In Africa, it is projected that the business service market will continue to grow at 13.1 per cent annually (Business Research Company, 2019). Rising demand for professionals and for law, accounting, engineering and business consultancy has boosted cross-border provisioning of business services by many business service firms. A recent study in the Common Market for Eastern and Southern Africa (COMESA) noted that 16 per cent of business service firms are already engaged in exporting their services (World Bank, 2016). Efficient business services provide opportunities for the private sector to grow and to raise domestic firms to international standards, thereby positively affecting the rest of the economy. Efficient business services are crucial to the future growth of African capital markets. And, in the process, African firms seek additional funding from outside the continent and comply with international regulations. Business services encourage African private firms to voluntarily integrate themselves into the global economy, thereby increasing compliance with accounting guidelines while adhering to international business law. As firms grow, they become increasingly cost-effective by outsourcing certain business processes, particularly those where professional qualifications and certifications are required.

Business services are categorized into six broad divisions. These are professional services, computer and related services, research and development services, real estate services, rental/leasing services without operators and "other services." Professional services are further broken down into three subdivisions: legal services; accounting, auditing and book-keeping services; and medical and dental services. "Other services" consist of advertising services, management and consultancy services, services incidental to agriculture, mining and manufacturing, and others.

This chapter reviews the state of the business service sector in Africa, and examines the regulatory frameworks constraining or facilitating trade in business services. It analyses how regulations can support mutual recognition of professional qualifications or of regulatory compliance for professional service providers.

The approach taken in this chapter is multifaceted. It uses data trending, correlation and regression to analyse the impact of business services trade restrictions.[1] The chapter first deals with the regulation of business services trade in Africa from the perspective of countries and regional economic communities (RECs). It examines the degree of restriction of business services trade in selected African countries, the effect on trade composition and the impact of regulatory, institutional and trade policy environments on business services trade as a whole and on individual subsectors of business services. Next the chapter analyses the facilitation of business services trade, examining the challenges in terms of restrictions, barriers and constraints, and how the challenges can be removed. The final section discusses best practices in business service policy frameworks, using firm and country examples.

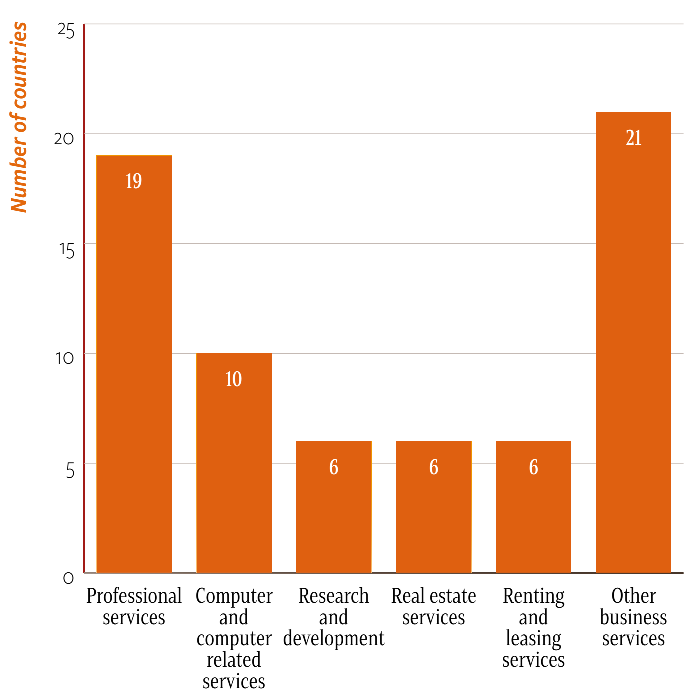
REGULATING THE BUSINESS SERVICES TRADE IN AFRICA

Country-level business services trade policies and regulations

Many countries in Africa have adopted policies and regulations to stimulate the business service sector with a view to promoting stability, protecting consumers, reducing negative externalities, creating competitive environments, guaranteeing quality service delivery and avoiding disruptions to supply chains. However, when such regulations are not properly designed and implemented, inefficiencies and distortions are inadvertently created (Calli, Ellis and te Velde, 2008). As business services are traded across the four modes of supply distinguished in the General Agreement on Trade in Services (GATS, see Chapter 2), the policy environment must cross domestic, multilateral, regional and international spheres. This introduces regulatory heterogeneities, not only across countries but also across modes of supply, and these all need to be harmonized.

Business services are an important aspect of international trade and investment targeted policies and regulations have a direct impact on the competitiveness of exports of goods and services. Many African countries undertook commitments in the business services sector of GATS (**FIGURE 8.1** and **FIGURE 8.2**). Nineteen undertook commitments in professional services, 10 in computer and related services, 6 each in research and development, real estate, renting and leasing; while 21 undertook commitments in other business services. Cabo Verde and Gambia had the highest spread, with commitments in 6 sectors each, followed by Botswana, Lesotho, Liberia, Seychelles and South Africa, each with commitments in 5 sectors. Most of the big countries in Africa—Egypt, Kenya, Nigeria and Tunisia—did not undertake commitments in business services. The exception was South Africa, which undertook commitments in all the business service subsectors.

FIGURE 8.1 **SECTORAL SPREAD OF BUSINESS SERVICE COMMITMENTS IN AFRICA**



Source: McKinnon, 2020.

Eight countries undertook commitments in legal services, and 10 in accounting, auditing/taxation services. Seven countries—Cabo Verde, Gambia, Lesotho, Liberia, Seychelles, Sierra Leone and South Africa—undertook commitments in both subsectors (**TABLE 8.1**).

The trade policy in modes 1, 2 and 3 is liberal in most of the countries that undertook specific commitments—except Lesotho and South Africa—as no limitations are placed on market access and national treatment for legal services for these modes (**TABLE 8.2**). There are similar commitments for accounting, auditing, bookkeeping and taxation services. All the countries, except Morocco and Rwanda, have unbound commitments in mode 4. There are conditions to market access and national treatment of mode 4, which are mostly contained in countries' horizontal commitments, covering limitation on the stay of mode 4 workers—specialists, executives, managers, business visitors, contractual service suppliers and intra-corporate transferees. They can enter and stay in the countries for between 90 days and one year, with these stays sometimes renewable annually for five years.

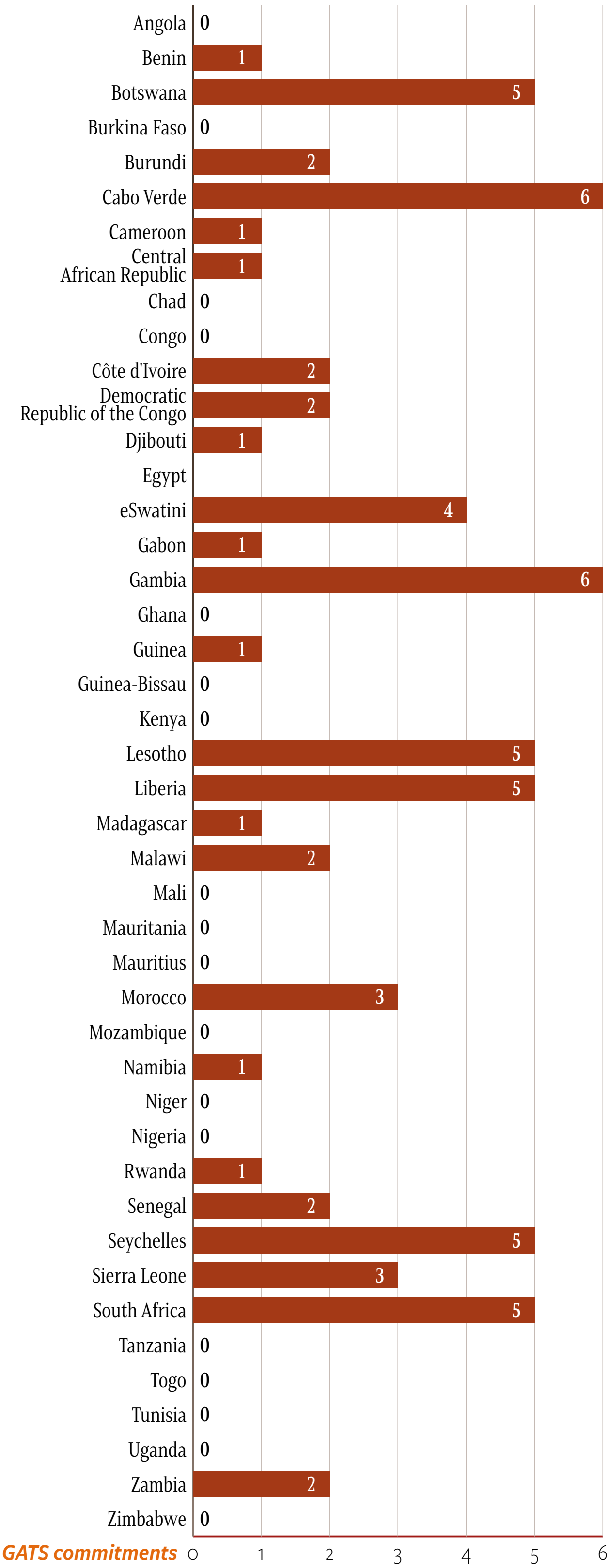
The explicit regulation of entry and length of stay of mode 4 workers is one of many regulations restricting business services trade on the continent. Other restrictive regulations are in five main areas. They are:

- Conditions on market entry.
- Conditions on operations.
- Measures affecting competition.
- Administrative procedures and regulatory transparency.
- Miscellaneous regulations.

These five broad criteria represent areas of trade regulation for business services jointly compiled by the World Bank and the WTO on the services regulatory framework. These conditions are shown for Egypt, Kenya, Nigeria, South Africa and Tunisia as they are the only African countries with Services Trade Restrictiveness Index (STRI) reports in the WB I-TIP services portal in 2016.[2]

An assessment of the trade regulations reveals that the above listed countries have different business services trade regulations, perhaps because of varied perceptions of how each sector contributes to their socioeconomic development. While some countries allow cross-border supply of certain services, such as accounting, others prohibit it.[3] Some countries prohibit the establishment of foreign accounting firms, others allow it. Some countries allow a different form of foreign establishment—for example, branch offices or representatives—while others do not. These differences are the result of countries' diverse policy trajectories and different visions for strategic sector development, especially as some sector policies were established at a time when services were considered non-tradable. This is why such regulations are found even in developed countries, and it is also the reason

FIGURE 8.2 AFRICAN COUNTRIES WITH GATS COMMITMENTS IN BUSINESS SERVICES



Source: McKinnon, 2020.

TABLE 8.1 AFRICAN COUNTRIES' GATS COMMITMENTS IN PROFESSIONAL (LEGAL AND ACCOUNTING AUDITING/TAXATION) SERVICES

MEMBER STATE	LEGAL SERVICES (CENTRAL PRODUCT CLASSIFICATION 861)	ACCOUNTING, AUDITING, BOOKKEEPING AND/OR TAXATION SERVICES (CENTRAL PRODUCT CLASSIFICATION 862, 863)
Botswana		
Burundi		
Cabo Verde		
Côte d'Ivoire		
Democratic Republic of the Congo		
Djibouti		
Eswatini		
Gambia		
Guinea		
Lesotho		
Liberia		
Malawi		
Morocco		
Rwanda		
Senegal		
Seychelles		
Sierra Leone		
South Africa		
Zambia		
Total	**8**	**10**

Source: McKinnon, 2020.

developing countries score better on restrictiveness indices than developed countries.

Business services trade policies and regulations at the regional economic community level

Trade and investment are influenced by a spectrum of regulatory, institutional and trade policy environments. The spread of national standards and regulations has not only resulted in duplicative, conflicting and cumbersome regulations, but has also created additional burdens for businesses and provided governments with the opportunity to impose protectionist measures to shape trade and investment flows. Each national authority, responsible for bilateral, regional and multilateral trade and investment negotiations, formulates and coordinates most African trade policies. So, African countries, through their various RECs, have sought to harmonize the differing national standards and regulations with international standards and regulations. But most have been unsuccessful.

Regulatory heterogeneity, limited capacity to train professionals and inflexible immigration rules have contributed to the under-development of the business service sector in Africa, despite country and regional policy efforts directed towards the sector. The restrictions are highly unfavourable to business services trade across African regional economies. For instance, the Southern African Development Community (SADC) member states applied regulations on market entry—licensing requirements, quantitative restrictions on the number of suppliers, and exclusive rights granted to locals—as well as regulations on the operations of firms, such as restrictions on prices and fees, advertising, form of business and inter-professional cooperation. These regulations are often more restrictive than those applied by other emerging economies or by the OECD and Development countries. In the SADC, the Declaration of the Heads of State or Government of Southern Africa states that member countries must harmonize

TABLE 8.2 DETAILED PROFESSIONAL SERVICE COMMITMENTS BY MODE

MEMBER STATE		LEGAL SERVICES (CENTRAL PRODUCT CLASSIFICATION 861)				ACCOUNTING, AUDITING BOOKKEEPING AND/OR TAXATION SERVICES (CENTRAL PRODUCT CLASSIFICATION 862, 863)			
		MODE 1	MODE 2	MODE 3	MODE 4	MODE 1	MODE 2	MODE 3	MODE 4
Cabo Verde	MA	N	N	N	U	N	N	N	U
	NT	N	N	N	U	N	N	N	U
Gambia	MA	N	N	U	U	N	N	U	U
	NT	N	N	N	U	N	N	N	U
Lesotho	MA	U	U	N	U	U	U	N	U
	NT	U	U	N	U	U	U	N	U
Liberia	MA	N	N	N	U	N	N	N	U
	NT	N	N	N	U	N	N	N	U
Malawi	MA	—	—	—	—	N	N	N	U
	NT	—	—	—	—	N	N	N	U
Morocco	MA	—	—	—	—	U	U	R	R
	NT	—	—	—	—	U	U	N	U
Rwanda	MA	N	N	N	N	—	—	—	—
	NT	N	N	N	N	—	—	—	—
Seychelles	MA	N	N	N	U	N	N	N	U
	NT	N	N	N	U	N	N	N	U
Sierra Leone	MA	N	N	R	U	N	N	R	U
	NT	N	N	N	U	N	N	N	U
South Africa	MA	U	U	N	U	U (N)	U(N)	N	U
	NT	U	U	N	U	U (N)	U(N)	R (N)	U
Zambia	MA	—	—	—	—	N	N	N	U
	NT	—	—	—	—	N	N	N	U

Source: WTO GATS documents.
N= No limitations, U=Unbound, R= restricted; (N)= No limitations in taxation services.
MA=Market access; NT= National treatment.

their economic policies and plans. To achieve this objective, countries must progressively eliminate obstacles to the free movement of capital and labour, goods and services, and people within the region. The SADC adopted a Labour Migration Action Plan (2020-25) to promote skills transfer and to match labour supply and demand for regional development and integration. The Action Plan follows from article 19 of the SADC Protocol on Employment and Labour, which seeks to protect and safeguard the rights and welfare of migrant workers—totalling an estimated 5.4 million in 2017—to give them better opportunities to contribute to their countries of origin and destination (SADC, 2021).

SADC also has guidelines on the portability of social security benefits so that workers moving within the SADC region maintain rights and benefits, including pension and occupational injury and diseases benefits, acquired in other member states. The region also has a SADC Qualifications Framework (SADC QF) for schooling, technical and vocational education and training and higher education, which sets minimum standards for quality assurance and ensures mutual recognition of qualifications across the region (SADC, 2020). The SADC QF is a comprehensive regional qualifications framework (RQF) that envisages that all new qualifications contain SADC QF descriptors so that learners and workers can move more easily within the SADC. Aside from these efforts, there are no indications of specific protocols applicable to accounting and legal services in the SADC.

SADC countries differ in their openness to trade. Mauritius, South Africa and Zambia exhibit the most restrictive policies on trade in professional services, while Malawi and Mozambique are more open. To some extent, trade in accounting services is less restricted than trade in legal services. Foreign-licensed professionals may not own or control accounting firms in Malawi, Mauritius, Mozambique and Zambia. All SADC countries restrict cross-border trade (mode 1 in GATS) in certain types of accounting services, such as audits, as well as in tax representation and tax advice (Khumalo, 2006). Entry regulations covering licensing requirements, quantitative restrictions on the number of suppliers of professional services, exclusive rights granted to professional accountancy service providers and regulations on the operations of firms—such as restrictions on prices and fees, advertising, form of business and inter-professional cooperation—are particularly heavy in SADC countries. In Zambia, accounting services are heavily regulated. Prices are also regulated, and the business structures of accounting firms face restrictions, as do multidisciplinary practices.

East African Community (EAC) member states have signed mutual recognition agreements in accounting and architectural services, while negotiations for similar agreements in other professional services are under way. Economic Community of West African States (ECOWAS) members agreed to liberalize trade in services by allowing free movement of persons and the right of establishment—up to 90 days of visa-free movement for ECOWAS nationals and residents. The EAC partner states harmonized national laws to conform to the Common Market Protocol in the areas of free movement of goods, persons, labour, capital and services and the right of establishment and of residence. The EAC made significant progress in promoting cross-border movement of skilled labour with the signing of the mutual recognition agreements (MRAs) for accountants, architects, engineers and veterinarians. Negotiations have concluded for MRAs for land surveyors and advocates. Progress has been made in harmonizing partner states' education curricula, structures and frameworks. The region faces MRA implementation challenges in harmonizing fees, establishing and operationalizing regional centres of excellence, and developing mobility programmes for academic staff and students in the EAC common higher education area (EAC, 2019).

Through its Inter-University Council for East Africa, the region has finalized benchmarks in information technology, medicine, education, agriculture, computer science and business-related subjects. Each benchmark is a framework for harmonizing university academic programmes and curricula in the region. Efforts have been limited to creating benchmarks and harmonization without developing specific protocols for accounting and legal services. Although the regional liberalization efforts have facilitated the movement of nationals within their own states, restrictions to movement of natural persons (mode 4 of GATS) are still pervasive within the EAC.

The West African Economic and Monetary Union (WAEMU) subregion of eight ECOWAS member states collaborated on creating institutional and regulatory frameworks to reduce barriers in accounting services. These include:

- Setting up a common accountancy framework: SYSCOA (West African Accounting System).[4]
- Harmonizing legal regimes of the National Council of Chartered Accountants, Accredited Accountants (ONECCA).[5]
- Establishing a National Accounting Board (NAB).[6]
- Setting a common training curriculum: DECOFI.[7]
- Allowing for free movement and the right of establishment.[8]
- Creating backup measures at the community level through the West African Accounting Council, the Permanent Council of the Accounting Profession, and the Technical Secretariat.
- Creating backup measures (Aid to Trade) at the national level through the Accredited Management Centres and the Single Window for Submitting Financial Statements.

The rest of ECOWAS has country-level accountancy regulations and policies, though member states' accounting bodies belong to the Association of Accountancy Bodies in West Africa (ABWA). ABWA, established in 1982, aimed to develop accounting in the region and envisioned collaboration with the ECOWAS Commission in harmonizing economic and financial policies, as well as the legal framework, to enhance cross-border businesses and enhance the mobility of labour.[9] It appears ABWA's plan in that regard has not materialised. Even so, ECOWAS appears to have no common commercial policy for accounting or legal services. ECOWAS does have a Protocol on the Right of Establishment in the ECOWAS region and Article 3.2.i of the revised ECOWAS Treaty on Standards. The latter aims to promote harmonization and can be viewed as a strong foundation for a regional work programme on free trade in accounting services and legal services and as a basis for a common commercial policy for this sector. The African Union is currently relying on its Protocol on Free Movement of People to complement the AfCFTA with its provision of visa-free travel, the right of residency and the right of business or professional establishment for citizens of signatory countries.

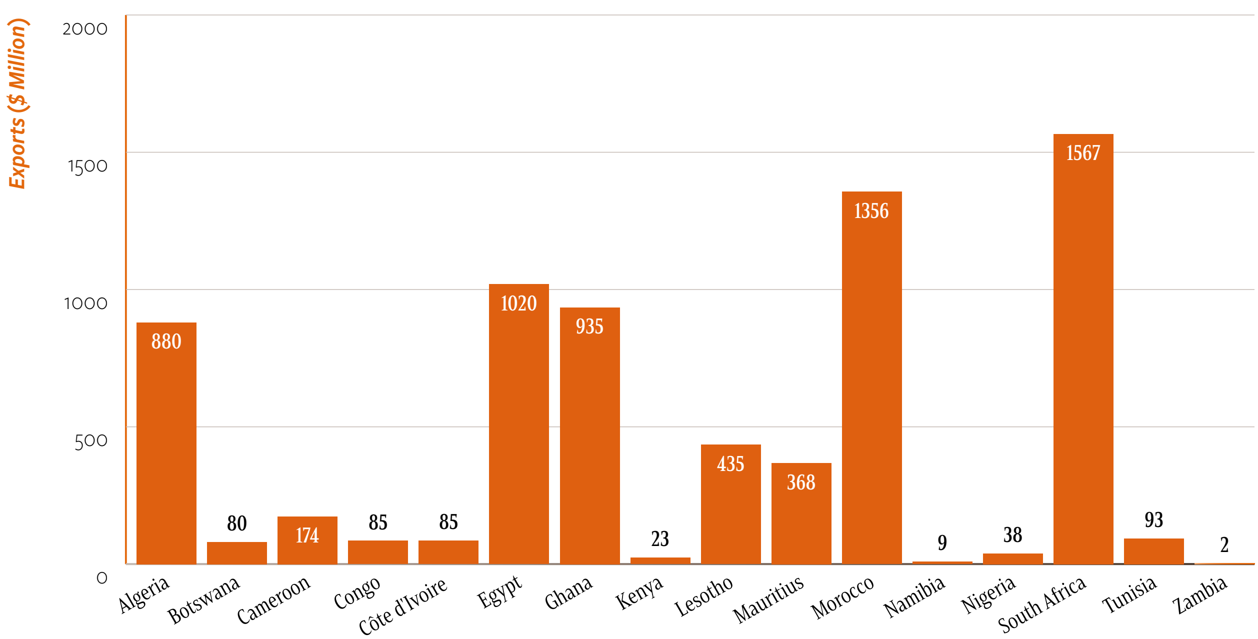
Aside from general statements in the treaty establishing the Arab Maghreb Union (AMU), that REC has given no indications of developing protocols in the areas of business services, accounting and legal services. Individual members, however, have trade policy frameworks for some aspects of business services.[10] For example, membership in the Association of Public Accountants is compulsory for accountants to practice in Morocco. To be admitted to the association, candidates must be Moroccan nationals or nationals of a country that has signed a reciprocal agreement with Morocco, and they must hold a national public accountancy qualification or a recognized equivalent.

In 2012 the World Bank and the COMESA Secretariat launched a "knowledge platform" for developing professional services (World Bank, 2016). The region has a Protocol on the Free Movement of Persons, Labour, Services and the Right of Establishment and Residence, which was adopted in 2001. Developed as part of COMESA's common market implementation, the protocol requires the removal of all restrictions on the free movement of persons, labour and services. It also provides for the right of establishment and right of residence. Implementation was planned in five stages, starting with the gradual removal of visa requirements. Implementation of the second stage, aimed at enhancing the movement of skilled labour, started in 2004. Kenya, Madagascar, Malawi, Mauritius, Rwanda, Seychelles, Eswatini, Uganda, Zambia and Zimbabwe are implementing the protocol, providing 90-day visa access and visa-on-arrival access to at least half of COMESA member states. Mauritius, Rwanda and Seychelles have waived visa requirements for all COMESA citizens. Since 2013, Zambia has waived visas and visa fees for all COMESA citizens travelling on official business. It is not clear what implementation will involve for the third stage on the movement of services, the fourth stage on the right of establishment and the final stage on the right of residence. If fully implemented, the business services trade sector will be positively affected.

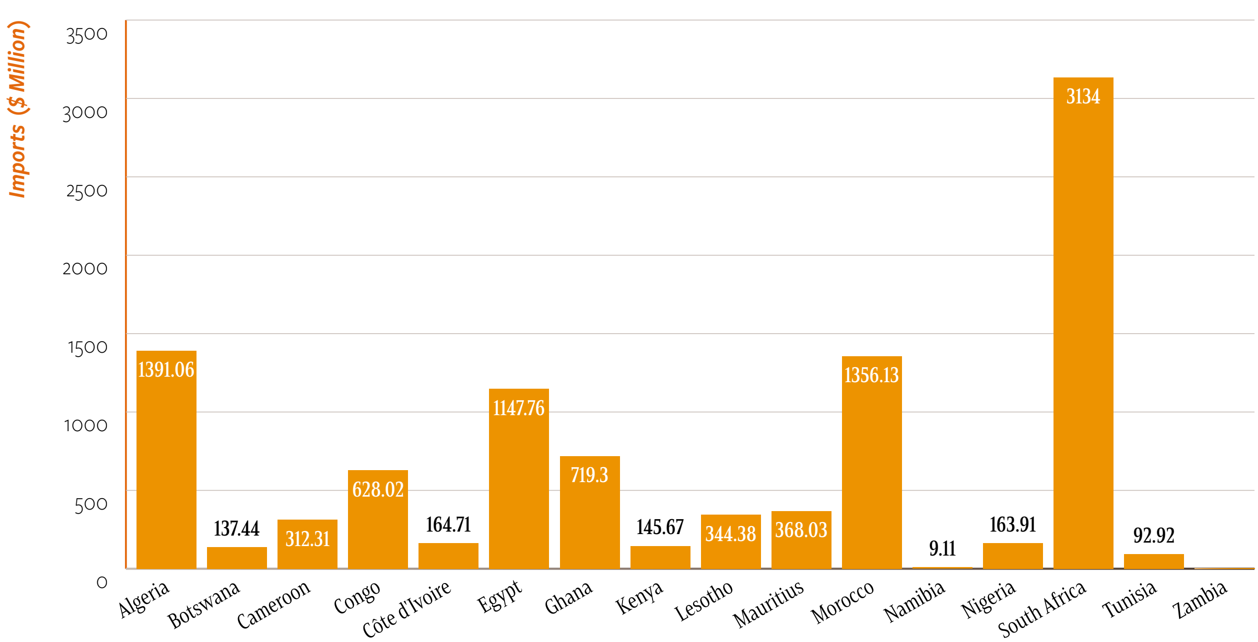
The Economic Community of Central African States (ECCAS) treaty provides for the free movement of persons and the right of establishment to boost business services trade among member states. The Intergovernmental Authority on Development (IGAD) REC has initiated policies that would harmonize and promote the free movement of people and services, as well as the right of establishment of residence. In spite of the several protocols on liberalizing trade in services, the ratification rate for the free movement of persons protocols remains at 60 per cent on average across African RECs (Lakatos, 2016). Building on the liberalization interventions and commitments of the various RECs, the AfCFTA would reduce and eventually eliminate restrictions on business services trade while facilitating trade negotiations under a common platform.

Business services trade is an essential input to other economic activities that lead to economic development, as shown by the positive correlation between business services trade in selected African countries and those countries' development (FIGURE 8.3). More interesting trends emerge in the correlations between disaggregated business service exports and imports for each subsector and country level of development. Some business services contribute more to development than others. For instance, research and development, legal and accounting and advertising trade appear less important, since these subsectors negatively

FIGURE 8.3 A BUSINESS SERVICES EXPORTS AND ECONOMIC DEVELOPMENT



B BUSINESS SERVICES IMPORTS AND ECONOMIC DEVELOPMENT



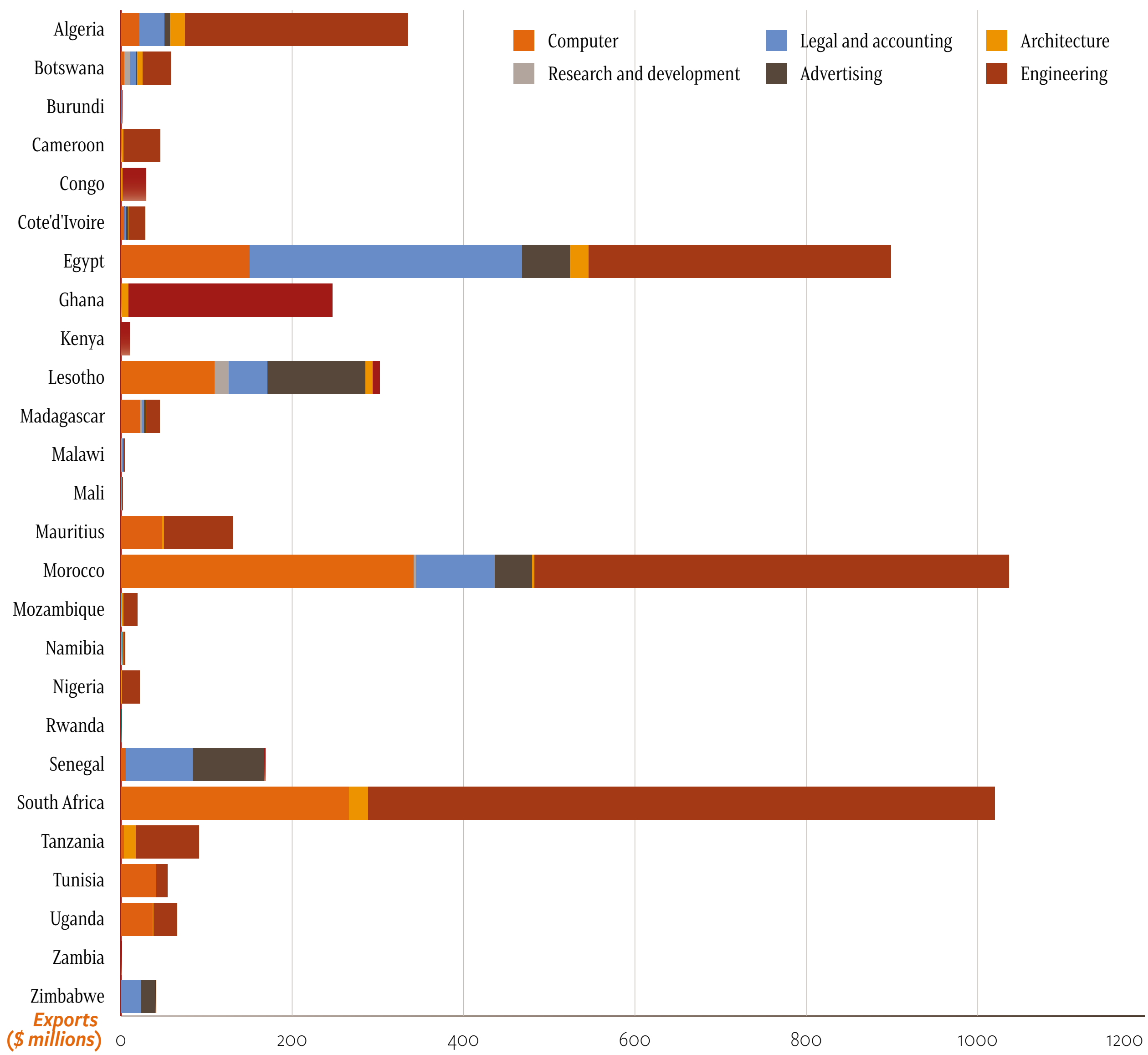
Source: International Trade Centre (ITC) trade map.

correlate with the level of development as a country's income rises. But computer services, architectural and engineering services trade are positively correlated with development.[11]

Regulation should support trade in business services. If many countries in Africa export business services regionally and internationally, then regulation should facilitate rather than restrict those services. The five largest exporters of business services are Algeria, Egypt, Ghana, Morocco and South Africa. With the exception of Ghana, Lesotho, Mauritius, Morocco and Tunisia (FIGURE 8.3A), most countries on the continent are net importers of business services. The five largest importers of business services in Africa are Algeria, Egypt, Nigeria, Morocco and South Africa (FIGURE 8.3B). The high level of imports of business services may be responsible for the prevalence of stringent restrictions.

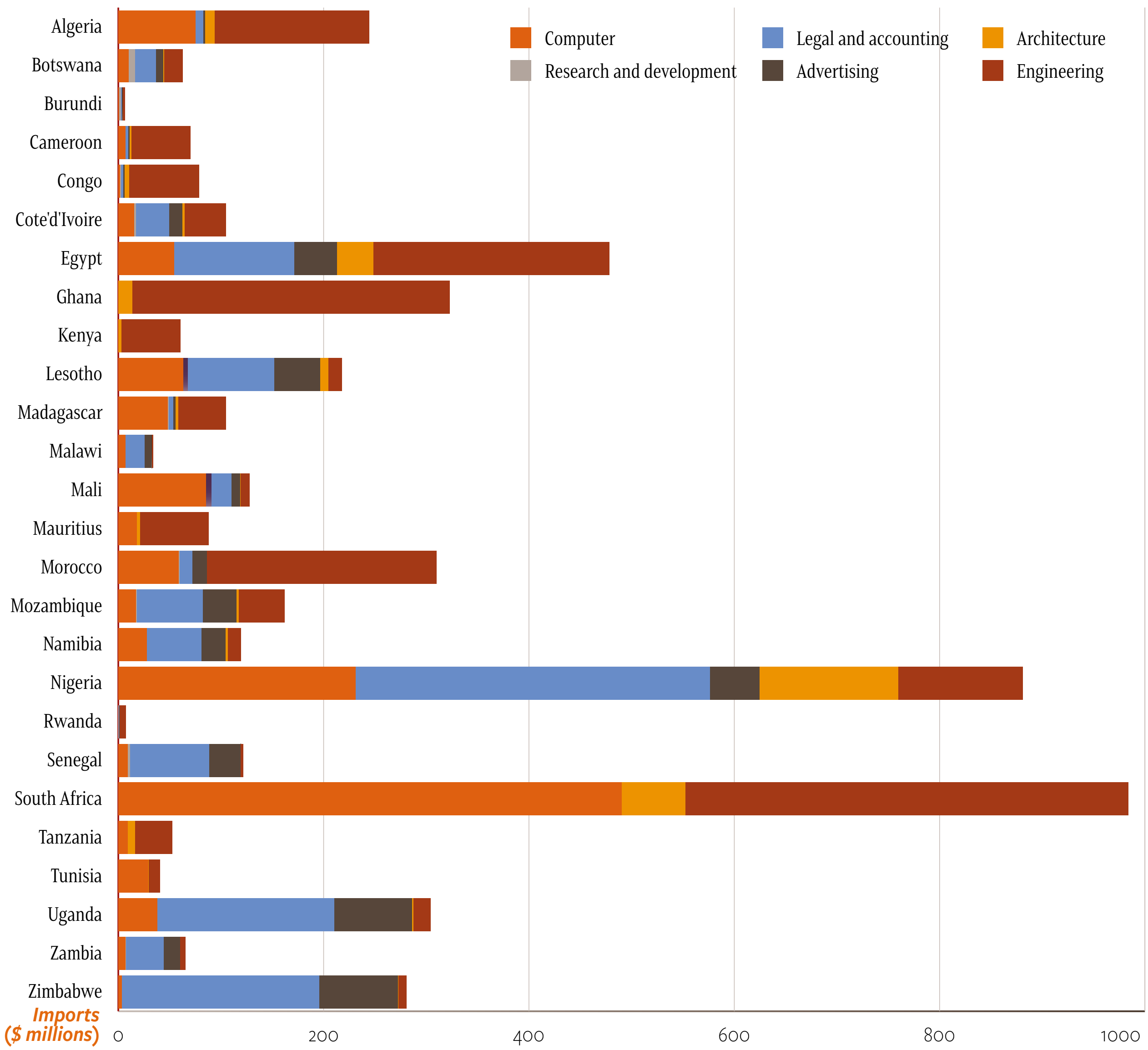
The categories of imported and exported services should be taken into account (FIGURE 8.4 and FIGURE 8.5). Computer and engineering services are important in absolute terms as part of total business service exports and imports in virtually all countries. Computer services are a significant part of business service exports in Egypt, Morocco and South Africa. Business service exports are above average values in countries such as Algeria, Egypt, Lesotho, Mauritius, Morocco and South Africa, while

FIGURE 8.4 STRUCTURE OF BUSINESS SERVICE EXPORTS FOR SELECTED COUNTRIES, 2005–19



Source: Trade in services by sector and by mode of supply (TIMOS) database.

FIGURE 8.5 STRUCTURE OF BUSINESS SERVICE IMPORTS FOR SELECTED COUNTRIES, 2005–19



Source: Trade in services by sector and by mode of supply (TIMOS) database.

Algeria, Congo, Egypt, Ghana, Morocco, Nigeria and South Africa have business service imports above their average values (FIGURE 8.6). Compared to the level of development as measured by per capita GDP, many countries in Africa have low business services imports and exports relative to their level of development.

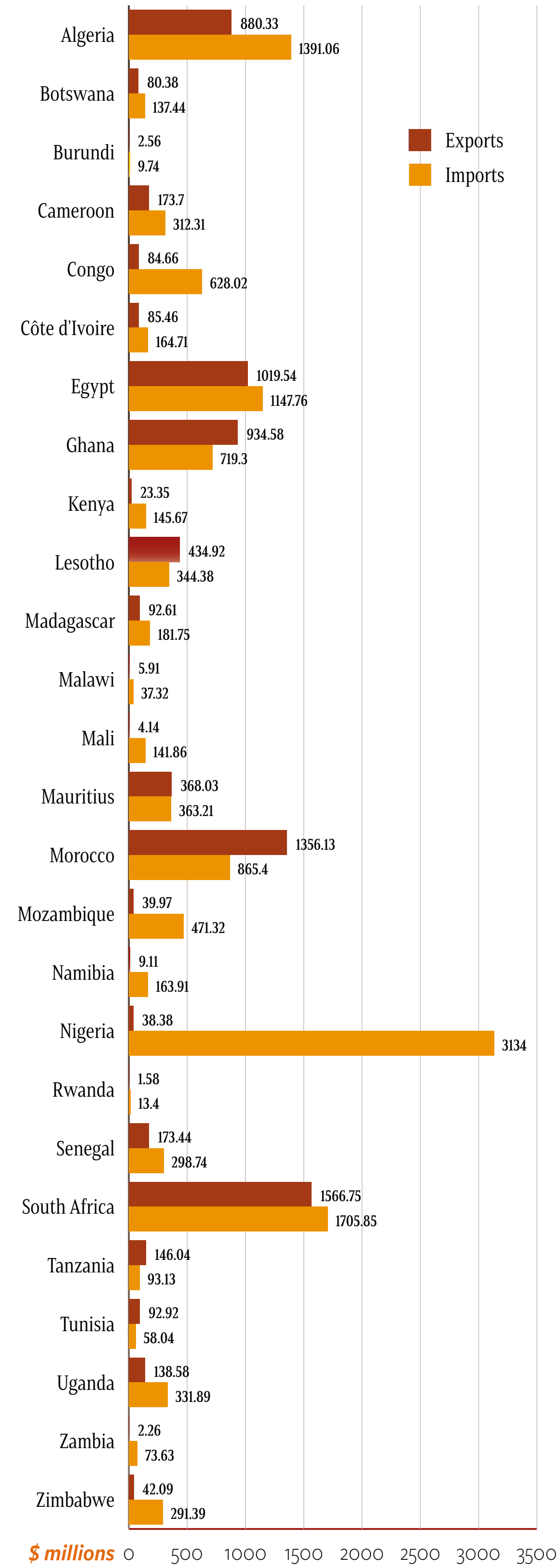
While Botswana, Lesotho, Madagascar, Morocco and Rwanda lead in the export of research and development, most African countries recorded much lower exports in this area—in some cases none at all. Legal and accounting, advertising and engineering services are important exports in business services for Algeria, Egypt and Lesotho. Computer service imports to Nigeria and South Africa are the largest computer service imports to Africa, while a large chunk of legal and accounting and advertising services are imported by Algeria, Botswana and Burundi. Architectural and engineering services also form a large part of the business service imports to Nigeria and South Africa. Service imports are generally larger than service exports—one reason countries impose stringent restrictions. While it is conventionally understood that taxes on imports are also taxes on exports, the extent to which this applies to services trade is not yet clear. But it is known that if modes of supply are related, restrictions in one mode will affect trade in other modes (Nordås, 2008).

FACILITATING INTRA-AFRICAN TRADE IN BUSINESS SERVICES

The impact of the business service sector on national and regional economies is substantial, as is the sector's contribution to facilitating trade. Total business, computer, legal and accounting, and architectural and engineering services have significant positive effects on the African continental economy (Bankole, 2020). The positive coefficients of architectural and engineering services trade show that the services tend to promote the economies of all the regional blocs in Africa. For Central Africa, computer, advertising, legal and accounting, architectural and engineering services trade tend to promote the regional economy. While computer and research and development trade hold back growth in East Africa, architectural services and engineering services trade promote it. Computer and architectural and engineering services trade enhance the growth of North Africa. Architectural and engineering services trade has positive and significant impacts on the growth of Southern Africa's economy, while for West Africa, all six components of business services trade have positive and significant impacts on that region's economy—they are all growth enablers for this regional economy.

In view of the regulations and the positive impact of business services trade, some pertinent issues are worth considering in AfCFTA's business services trade facilitation. The standstill, ratchet and progressive liberalization principles will shape the benefits of less restrictive business services trade.[12] Because increasing restrictions on business services will worsen total business services trade, finding ways to reduce the tendency of AfCFTA parties to maintain or increase restrictions is needed. Even so, public service sectors, such as health, education and water distribution must be exempted—as was done in the EU Trade in Services Agreement—and the above-mentioned principles applied to the committed sectors. For instance, standstill and ratchet clauses only apply to national treatment measures and not to market access commitments; while these clauses do not impinge on the right of governments to introduce regulatory measures or standards that treat both foreign and domestic service providers equally,

FIGURE 8.6 AFRICA'S EXPORTS AND IMPORTS OF BUSINESS SERVICES TRADE, 2005–19



Source: International Trade Centre (ITC) trade map.

such as in setting minimum wages and social, safety, quality or environmental standards. If any African country already has a high degree of openness in business services, it is more able to secure reciprocal treatment for its service providers in other African countries by ensuring qualitative business services offered in the AfCFTA negotiations.

Four areas can facilitate business services trade: digitalization, mutual recognition of qualifications, approaches for dealing with differing country regulations and strategies for deepening business services trade—especially in health.

Digitalizing intra-African business services

Digitalization affects different sectors and countries in different ways. According to anecdotal evidence, digitizing the economy leads to economic growth by increasing productivity (Hernandez et al., 2006). Increased digitalization and automation are expected to boost productivity, income and employment in Africa. In some African countries—for instance, Nigeria and Kenya—the emergence of new types of jobs and employment (such as in the telecommunication and IT development hubs), will call for new skills, requiring the replacement of traditional work patterns. The net effect of digitalization depends on a country's level of development and digital readiness and on what policies are adopted and implemented at national, regional and international levels. Digital adoption has significant positive effects on legal and accounting and advertising services (Bankole, 2020). And it increases advertising and legal, accounting services—including through cross-border supply and the movement of persons—along with the size and vibrancy of the economy, which in turn boosts overall business services trade, including computer, and architectural and engineering services trade.

The African Digitalization Maturity Report (Siemens and Deloitte, 2017) assessed country readiness to capitalize on digitalization using 26 macroeconomic digital maturity assessment (DMA) indicators, which are grouped into four pillars:

- Economic maturity: the size, growth and sophistication of the economy.
- Environment: the extent to which the business, legal and regulatory environment is conducive to digitalization.
- Infrastructure: the extent of information and communications technology (ICT) infrastructure in place for connectivity, as well the affordability and use thereof.
- Skills and digital literacy: the extent and quality of a country's human resources and current use of digital technology and platforms.

South Africa, where only 37 per cent of households have consistent access to the internet, is relatively close to the international benchmark for ICT affordability and the general business and regulatory environment, with scores close to 70 of 100 on both counts. In Nigeria, where almost 100 per cent of the population has mobile network coverage and 55 per cent has access to a 3G network, internet penetration is relatively low at 8.5 per cent of the population. Nigeria performs poorly when it comes to the complexity of its economy, with a score of less than 10 of 100, suggesting very low export revenue diversification. Up to 89 per cent of Kenya's population has access to a mobile network, 64 per cent has access to a 3G network and internet penetration is 16 per cent. The relatively low level of internet access for all three countries may be explained by limited service suppliers, lack of liberalization and government intervention or disruption of internet services.

Since digitalization can contribute to cross-border trade and business services are mostly digitally-enabled, policies should aim to increase access to mobile networks and the internet, especially to 3G, 4G and new generation networks. AfCFTA negotiations in telecommunications, computer and information services, professional and technical services should be mindful of the catalytic role digitalization plays in business operations. For instance, as digital technologies expand, accounting and health services change their focus away from analogue towards digitalized businesses (Southern Cross University, 2016). AfCFTA negotiators should aim for market expansion to reduce costs and explore economies of scale in these areas to boost intra-regional trade.

For healthcare systems, digital technologies have changed the knowledge base and the practice of prevention, diagnostics, treatment and rehabilitation. Artificial intelligence (AI), machine learning and big data analytics are some of the most discussed digital technologies in recent years. AI is delivering high value in such areas as medical diagnosis, neurology and radiology (Willie and Nkomo, 2019). In some African countries, digitalization has already been adopted in the healthcare sector. In South Africa, digital innovations in the public sector date back to 2014, with some initiatives employed at the provincial level and others deployed at the national level.

Mutual recognition of qualifications

In Africa, the mutual recognition of qualifications for professional services is the bane of GATS mode 4 supply. Different countries have different rules regarding the permissibility of foreign professionals working in their territory. In accounting, countries have different rules for everything from residency to recognition of qualifications. For example, in Egypt the rules do not allow foreign accountants to enter and work there. But Ethiopia, Morocco and Rwanda allow it without any limitation, granting automatic recognition to foreign licences in accounting and auditing. Most countries' rules fall in between these two extremes. Côte d'Ivoire, Mali and Senegal recognize foreign accounting degrees from France and Senegal but require three years of training and passing an examination and entry is subject to a labour market test (LMT). Mozambique also recognizes foreign degrees deemed equivalent to a local one but requires two years of training for accountants. Botswana, Ghana, Kenya, South Africa, Uganda, Tanzania (all International Federation of Accountants member countries) and Zambia recognize certificates from a list of countries, but also conduct LMTs or economic needs tests (ENTs) for foreign-based professionals. Namibia also requires this LMTs or ENTs.

For the legal profession, Egypt, Kenya and Nigeria do not automatically recognize foreign licences to practice. Kenya and Nigeria also do not recognize foreign education and training and work experience. In Nigeria, foreign nationals do not require local examination or pass any professional examination to provide consultancy services (advising on foreign laws), and they cannot practice as barristers or solicitors in Nigeria. Egypt requires ENTs or LMTs for contractual service suppliers and independent professionals.

The mutual recognition of qualifications is key to facilitating mode 4 trade in business services, particularly professional services. RECs should learn from the SADC Qualifications Framework (SADC QF) and adapt its principles to their member states in an initial phase, which can then be assumed on a continental level under the AfCFTA. Automatic recognition through qualifications harmonization—acknowledging foreign qualification as equivalent to local ones—would be easier for countries from different RECs to adopt. But the AFCFTA may require that countries negotiate mutual recognition agreements (MRAs), where they would commit to recognizing the assessments of regulatory or quality assurance bodies of partner countries. This would obviate the need for professionals taking re-qualifying examinations. The AfCFTA Protocol on Trade in Services (Article 10) and the Protocol on Movement of Persons already provide for MRAs and advocate establishing a continental qualification framework (QF) to encourage mode 4 movement and student mobility—as is the case with the SADC QF.

Case study models in accounting

Affiliations with the large accounting firms

Trade in accounting services is often carried out by accounting firms through affiliates, leveraging the specialized expertise of accounting professionals to serve the international needs of clients. A typical organizational structure consists of an alliance of accounting firms where each firm is treated as a member of the umbrella organization, while operating as a separate and independent legal entity. This model makes it possible for individual partner firms to benefit from transfers of knowledge and professional standards within the alliance, allowing a trade in accounting services across borders without violating the legal and regulatory requirements of the country where the firm is located. The global accounting market is dominated and influenced by four large accounting firms that operate in many developing countries. These accounting leaders, present in 140 to 150 different markets, derive about 65 per cent of their income from work outside their home countries (TABLE 8.3). They are estimated to have more than 1 million employees, with combined revenues of about $151 billion in 2019.[13] They retain a partnership model that relies on local members and their professionals to understand the language, rules and operating procedures of their respective markets. A number of Moroccan firms have affiliated with the Big Four. In exchange for royalties of about 10 per cent of output, the Moroccan firms can use the global firm's name and take advantage of its training, knowledge transfers, software applications and staff support (World Bank, 2007).

Each of the Big Four firms operates as a network rather than as a single firm. They are owned and managed independently via agreements with other member firms in a network that shares a common name, brand and standards. Each network has established an entity to coordinate its activities (Cattaneo et al., 2010).

Offshoring accounting services

Another common model in the trade in accounting services is offshore outsourcing (TABLE 8.4). This involves firms outsourcing services abroad as part of global strategic plans. The practice is becoming an increasingly attractive option for many companies to gain access to scarce skills, cut costs and remain competitive (Nicholson and Aman, 2008), especially as ICT advances increase global competition in accounting and other business services. In the service offshoring market, India is widely cited as a success (Cattaneo, et al., 2010).

Despite domestic regulatory and legal frameworks that restrict the accounting services trade, many upstream activities can be outsourced, particularly those that have low local knowledge content and require lower qualifications—such as payroll, billing, bookkeeping, account management, tax planning and returns, and the preparation of financial statements. An accounting firm can use resources outside a client's country whether or not the resources are outside a global network. For instance, some accountants in France have partnerships with Tunisian firms to second them in periods of high demand. In these instances, the client could be a company or another accounting firm (Cattaneo, et al., 2010).

In the context of AfCFTA, offshoring implies there will be a liberalized environment for cross-border accounting services, whereby countries will undertake commitments to allow cross-border

TABLE 8.3 THE BIG FOUR GLOBAL ACCOUNTING FIRMS, 2019

FIRM	REVENUES ($ BILLION)	EMPLOYEES	HEADQUARTERS
Deloitte	42.6	312,000	UK/US
PwC	42.45	267,000	UK/US
EY	36.4	284,000	UK/US
KPMG	29.75	219,000	Netherlands

Source: Compiled by ECA from the corporate websites.

TABLE 8.4 EXAMPLES OF OFFSHORE ACCOUNTING SERVICES

COMMODITIZED TRANSACTIONS	VALUE ADDED	HIGH VALUE ADDED
Invoice processing	Auditing	Financial planning
Expense processing	Financial statements	Financial analysis
Accounts receivable	Quarterly reports	Tax compliance

Source: O'Sullivan (2008) as cited in Cattaneo, et al. (2010).

accounting services with or without conditions. For instance, currently some countries—such as Côte d'Ivoire—allow mode 1 trade in accounting and auditing services, but a foreign firm based abroad can only provide advice, not certify or sign financial statements. Others—such as Botswana and Ghana—allow accounting and auditing services as long as the foreign firm is staffed with licensed professionals. In Botswana, it must be demonstrated that an equivalent domestic professional is unavailable to supply the service. In Nigeria, mode 1 trade in accounting and auditing services is allowed without condition, while in Tunisia, it is disallowed. So, the focus of AfCFTA negotiations should be on those countries that do not allow cross-border trade in accounting.

Case study country strategies in health services

Cuba, India and Jordan provide examples of good strategic positioning of the health sector for export and foreign exchange earnings. In Cuba, the drive to promote trade in medical and related services dates back to its export promotion strategy of the late 1980s. Cuba's exports in the health sector amounted to $30 million in 1998, rising from less than $20 million in 1994 (Wasserman and Cornejo, 1999). The Cuban strategy for promoting health service exports has focused on four areas: attracting foreign patients, providing medical education to foreign students, sending low cost highly-qualified health service workers abroad, and producing medical and pharmaceutical products and investment in health care infrastructure. India, for its part, receives medical tourists from Africa, Persian Gulf countries, South Asian countries and others. Jordan recorded 300,000 medical tourist with associated revenue of $1.5 billion in 2018. These three countries were able to produce their successes by the following strategies:

Consumption of health services abroad—mode 2

Cuba attracts foreign patients from the Caribbean, Europe, Latin America and Russia, providing high-quality health services at competitive prices, as well as providing training for students, specialists and paramedics from select countries under bilateral agreements (DGCIS, 2017). It has also targeted health service differentiation by focusing on diseases incurable in other countries, skin diseases and new procedures and drugs (for example, for vitiligo and pigmentary retinopathy).

Jordan is a leading centre of medical tourism, ranked first in the Arab region and the fifth in the world, with state-of-the-art specialized technologies and highly-educated and well-trained medical personnel. India's medical tourism revenue was estimated at $100 billion in 2015, expected to reach $280 billion by 2020 (Bhat, 2015). As in Cuba, health service in India comprises hospital and diagnostic services, diagnostic products, medical devices, medical technology, e-health services, clinical trial services and clinical research organizations.

Cuba also provides medical education to foreign students at specialized clinics in the country. The country gives scholarships—about 1,500 in 1995/96—to foreign medical students under bilateral agreements, and Cuba earns substantial foreign exchange from exports of medical education services (Wasserman and Cornejo, 1999). Jordan engages in foreign training of local physicians by linking home-based hospitals to renowned hospitals and medical centres in Europe and North America and establishing health sector-specific foreign direct investment incentives. Jordan foresees medical tourism as a key growth driver.

Movement of health personnel abroad—mode 4

Cuba boasts of low-cost, highly-qualified health service workers—including physicians, dentists, nurses, and middle-level health technicians—whom it sends abroad on short-term contracts supervised by the Cuban Economic Office. Using this approach, Cuba has provided more medical personnel to developing countries with shortages of health workers than all the G8 countries put together

(Huish and Kirk, 2007). Cuba's medical worker export peaked at 50,000 in 2015 but dropped to 28,000 in 2020 (The Economist, 2020). The country's health ministry is currently diversifying into advisory and consultancy services, medical equipment maintenance and medical information services as part of its strategy of exporting professionals in health and allied areas (DGCIS, 2017). India exports health service personnel—doctors, nurses, and technicians—to both developed and developing countries (Australia, Canada, the Middle East, the United Kingdom and the United States) on short-term contracts and training. Most personnel go to Middle East and Gulf countries because of bilateral agreements to provide private and government doctors on short-term exchange. There are about 60,000 doctors of Indian origin in the United Kingdom and 35,000 in the United States (Chanda, 2001; UNCTAD and WHO, 1998).

Production of medical and pharmaceutical products using excess capacity

Cuba provides employment to qualified health service providers by using excess capacity to produce medical and pharmaceutical products and to create investment in healthcare infrastructure and an alternative source of financing for the public health system. Cuba purposely invested in clinics, laboratories, biotechnology research, telemedicine technology and health information services, thus cultivating foreign direct investment into the country's health sector. This enabled telecommunications, which then facilitated telemedicine, linking hospital diagnostics, surgery, second opinion and epidemiology, and boosted rural healthcare. Medline is a telemedicine and information system established in 1992, which has manifested Cuba as an advanced country using modern technology for healthcare delivery (DGCIS, 2017).

The specific lesson to be learnt from the Cuban and Indian health service export experience is the need to develop capacity in all areas of health service production and supply. Undertaking specific commitments in this sector in the AfCFTA will help African countries develop quality healthcare sectors. The lessons from Cuba and India also imply that benefits need to be properly identified and commitments undertaken with respect to appropriate modes of supply. Both Cuba and India engage in substantial medical tourism (mode 2) that requires state-of-the-art equipment, as well as highly-trained medical experts.

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ANNEX 8.1

TABLE A8.1 WTO CLASSIFICATION FOR BUSINESS SERVICES

MAIN SUBSECTOR	TYPE OF SERVICES UNDER THE SUBSECTORS	CORRESPONDING CODE UNDER CPC (PROVISIONAL)
A Professional services	a Legal services	
	b Accounting and bookkeeping services	862
	c Taxation	863
	d Architectural services	8671
	e Engineering services	8672
	f Integrated engineering services	8673
	g Urban planning and landscape architectural services	8674
	h Medical and dental services	9312
	i Veterinary services	932
	j Services provided by nurses, midwifes, physiotherapists and paramedical professionals	93191
	k Others	
B Computer and computer-related services	a Consultancy services related to the installation of computer hardware	841
	b Software implementation services	842
	c Data processing services	843
	d Data base services	844
	e Other	845+849
C Research and development services	a R&D services on natural sciences	851
	b R&D services on social sciences and humanities	852
	c Interdisciplinary R&D services	853
D Real estate services	a Involving own or leased property	821
	b On a fee or contract basis	822
E Rental/leasing services without operators	a Relating to ships	83103
	b Relating to aircraft	83104
	c Relating to other transport equipment	83101+83102
	d Relating to other machinery and equipment	83106-83109
	e Other	832
F Other business services	f Advertising services	871
	g Market research and public opinion polling services	864
	h Management consulting services	865
	i Services related to management consulting	866
	j Technical testing and analysis services	8676
	k Services incidental to agriculture, hunting and forestry	881
	l Services incidental to fishing	882
	m Services incidental to mining	883+5115
	n Services incidental to manufacturing	884+885 (except for 88442)
	o Services incidental to energy distribution	887
	p Placement and supply services of personnel	872
	q Investigation and security	873
	r Related scientific and technical consulting services	8675

MAIN SUBSECTOR	TYPE OF SERVICES UNDER THE SUBSECTORS	CORRESPONDING CODE UNDER CPC (PROVISIONAL)
	s Maintenance and repair of equipment (not including maritime vessels, aircraft or other transport equipment)	633 8861-8866+
	t Building-cleaning services	874
	u Photographic services	875
	v Packaging services	876
	w Printing, publishing	88442
	x Convention services	87909*
	y Other	8790

Source: Extract from WTO document, MTN.GNS/W/120.

TABLE A8.2 BUSINESS SERVICES TRADE POLICY IN AFRICA BY GATS COMMITMENTS

MEMBER STATE	PROFESSIONAL SERVICES	COMPUTER AND COMPUTER RELATED SERVICES	RESEARCH AND DEVELOPMENT SERVICES	REAL ESTATE SERVICES	RENTING AND LEASING SERVICES	OTHER BUSINESS SERVICES	TOTAL
Angola							0
Benin							1
Botswana							5
Burkina Faso							0
Burundi							2
Cabo Verde							6
Cameroon							1
Central African Republic							1
Chad							0
Congo							0
Côte d'Ivoire							2
Democratic Republic of the Congo							2
Djibouti							1
Egypt							0
Eswatini							4
Gabon							1
Gambia							6
Ghana							0
Guinea							1
Guinea-Bissau							0
Kenya							0
Lesotho							5

MEMBER STATE	PROFESSIONAL SERVICES	COMPUTER AND COMPUTER RELATED SERVICES	RESEARCH AND DEVELOPMENT SERVICES	REAL ESTATE SERVICES	RENTING AND LEASING SERVICES	OTHER BUSINESS SERVICES	TOTAL
Liberia							5
Madagascar							1
Malawi							2
Mali							0
Mauritania							0
Mauritius							0
Morocco							3
Mozambique							0
Namibia							1
Niger							0
Nigeria							0
Rwanda							1
Senegal							2
Seychelles							5
Sierra Leone							3
South Africa							5
Tanzania							0
Togo							0
Tunisia							0
Uganda							0
Zambia							2
Zimbabwe							0
Total	19	10	6	6	6	21	

Source: McKinnon, 2020.

ENDNOTES

1 The full details of the methodology, involving technical econometric terminologies, including variables definitions, measurements and data sources, are available in the background paper by Bankole (2020).

2 Egypt and Tunisia–North Africa; Kenya–East Africa; Nigeria–West Africa; South Africa–Southern Africa.

3 See the appendix Tables 9.2 and 9.3 for Accounting and Legal Regulations.

4 Regulation No. 04/96 / CM / UEMOA of 20 December 1996 adopting SYSCOA of 20 December 1996 applied since 1 January 1998; Regulation No. 04/2001 / CM / UEMOA; Regulation No. 05/2003 / CM / UEMOA of 26 June 2013, which entered into force on 1 January 2014.

5 Regulation No. 02/97 / CM / UEMOA of 28/11/1997.

6 Order No. 03/97 / CM / UEMOA of 28 November 1997.

7 Regulation No. 12/2000 / CM / UEMOA.

8 Regulation No. 05/2006 / CM / UEMOA of 02 May 2006.

9 See for example: http://www.4-traders.com/news/ECOWAS-Economic-Community-of-West-African-States-West-African-Accounting-Bodies-Association-seek-t--25339848/.

10 Annex Table 9.3-9.7 reports country level regulations on accounting and legal services that translated into the STR indexes.

11 See subsector graphs in the Annex Figures 9.1 and 9.2.

12 A standstill clause in a trade agreement means that the parties have to list all the barriers as they are at the moment of taking commitments and afterwards cannot introduce any new barriers. A ratchet clause in a trade agreement means that if—after entry into force of an agreement—a party unilaterally removes a barrier in an area where it had made a commitment, it cannot reintroduce it anymore. See https://trade.ec.europa.eu/doclib/docs/2016/september/tradoc_154971.doc.pdf; p.10.

13 https://en.wikipedia.org/wiki/Big_Four_accounting_firms.

CHAPTER 9

Developing Services Value Chains and Boosting Services Trade Liberalization in the AfCFTA

Following the end of the Uruguay Round at the World Trade Organisation (WTO), and the consequent inception of the General Agreement on Trade in Services (GATS), services trade has become an important part of international trade regulation. Despite uncertainties about the potential for trade in services at the time, services have undergone tremendous growth over the past decade and have become important contributors to the economies of both developing and developed nations. In Africa, the service sector has exceeded essential industries as a share of gross domestic product (GDP), accounting for over 68 per cent in 2018 (Majumdar, 2019).

The service sector constitutes the fastest-growing segment of the global economy, responsible for two-thirds of global manufacturing, one-third of global employment, and one fourth of international trade. These statistics are not limited to direct contributions made by the service sector, but also indirect contributions achieved through the creation of value chains. For example, the "servicification" of manufacturing is a concept that is now a high priority for most countries—many goods now get a considerable degree of their value added from embodied services (Shepherd, 2019).

From communications to transport, finance and tourism, services have become the backbone of the global economy and perhaps the most dynamic aspect of international trade. For example, infrastructure—in particular transport by road, rail and port—provides the basis for deeper integration. The availability of effective transport infrastructure has encouraged the flow of people and, as a result, has promoted the growth of road and rail links. The economy benefits from the open mobility of citizens—and the liberalization of labour in particular—and this contributes to the liberalization of markets and capital, as well as to the transfer of ideas. Scholars have argued that the cumulative liberalization of these conditions could theoretically contribute to a gain of more than 5 per cent of global GDP (Ghemawat and Altman, 2011).

As a share of total direct exports, however, service exports remain low for many countries. In 2018, global service trade was valued at $5.8 trillion, a quarter of the value of total exports and 7 per cent of world GDP (UNCTAD, 2019). Even so, because of their dynamic nature, services have contributed greatly to economies as they have facilitated the growth of other industries through value addition. The United Nations Conference on Trade and Development reports that, while direct service exports remain relatively low, services represented 32 per cent of value added in total exports (Antunes, 2018). So, the value of services should not be measured through assessing total exports or even by GDP alone, but through value-added statistics.

Current developments in technology have facilitated the creation of effective value chains across the globe. In particular, technology has allowed the delivery of cross-border services, thus giving domestic markets and individuals new opportunities. Technological advances in services, such as mobile connectivity, transport and logistics, access to cloud infrastructure and data storage, digital financial and business services (e-commerce and e-payment) and so on, are transforming the nature of services. This has significantly improved the capacity of small businesses to compete but also to produce perishable goods by strengthening access to information and to the opportunity to deliver goods and services directly to consumers. Small businesses can become micro-multinational firms as technological innovations enable them to deliver to both domestic and foreign customers, as well as to deliver services to larger companies that are part of global value chains (GVCs).

The objective of this chapter is to discuss the importance of developing service value chains in support of the successful implementation of the AfCFTA. The chapter is divided into two parts. The first part maps out a way to develop regional value chains (RVCs) using service sectors and makes the case for liberalization through the schedules of specific commitments and regulatory frameworks. It discusses measuring and quantifying service value chains and reviews the service value chain efforts undertaken by regional economic communities (*RECs*). It then draws lessons from these for effective service sector liberalization within the AfCFTA. The second part of the chapter draws from the challenges evaluated in the first part and makes the case for capacity development across all shareholders.

GLOBAL VALUE CHAINS

Value chains in Africa

Interest in global value chains (GVCs) has risen tremendously in both the research and policy spheres over the past ten years. It is now acknowledged that liberalizing services is an essential element of the GVC equation (Ando and Kimura, 2005). GVC integration enables economies to concentrate their assets on activities where they have a competitive edge without needing to construct an entire supply chain. This is achieved by firms purchasing intermediary goods from various nations, adding value and then selling the product to domestic markets or re-exporting. In particular, the servicification of manufacturing has gained importance because many products now contain a large amount of value added arising from the service market, while other products package bundle services to make commodities more desirable to customers (Shepherd, 2019).

There is a strong positive correlation in all regions of the world, especially Africa, between per capita income and the prevalence of services in the economy. In Africa, the proportion of services in overall GDP is more than 50 per cent. So, trade in services, and more generally in intermediate exports, can be a stimulus to economic transition because it hastens the redistribution of resources to tasks and markets of higher output—a process that would be harder and slower to achieve if the entire supply chain had to develop locally.

GVCs have been defined as the geographic and specialized fragmentation of production networks in a structured and organized format by connecting locally and internationally manufactured products and services into value-added tasks (Ndoria, 2015). In GVCs, services are classified into three types—stand-alone, embodied and embedded services (**FIGURE 9.1**) (Bamber et al., 2017).

FIGURE 9.1 CLASSIFICATION OF SERVICES UNDER GLOBAL VALUE CHAINS

STAND-ALONE SERVICES are those that can be delivered separately.	For example, a bed and breakfast service that offers day excursion activities for its clients.
EMBODIED SERVICES are services rendered as intermediates in the manufacture of final products or services.	The most notable illustration is in transportation services. For example, a restaurant uses a delivery service such as Uber to distribute food to its consumers, where the value of the transportation service is embodied in the finished product when it meets the customer.
EMBEDDED SERVICES can only be purchased in association with the products produced and are not embodied in the sense that their value is not incorporated into the price of the end product.	For example, agricultural input suppliers regularly provide consumers with strategic guidance about how to effectively distribute seeds and fertilizers.

Source: Bamber et al. (2017).

TABLE 9.1 COMBINED TECHNIQUES FOR EVALUATING THE ROLE OF SERVICES IN VALUE CHAINS

TECHNIQUE	DEFINITION OF THE TECHNIQUE AND HOW IT IS USED
Qualitative approach	Based on firm-level interviews as the basis for case studies
Net value added by trade	Value added is defined as the value of outputs minus the value of inputs
Comparative advantage	Typically expressed in terms of products or industries and in terms of activities and tasks. Can help answer the question: How does the service's value compare with the rest of the world economy?
Input–output (I–O) analyses	Used to measure the net domestic value added created by trade. Provides a useful alternative to trade data. An important advantage of I–O tables is that they classify goods according to their use (as inputs into another sector's production or as final demand). The tables include information on inputs of and in service sectors, allowing for the analysis to include services trade
Harmonized input–output tables of different countries	Used to estimate the domestic value added and foreign value added created in manufacturing and service sectors when a product is exported from a country. These tables help in estimating the domestic value-added content in gross exports of a country. Domestic value-added exports will, therefore, differ from gross exports and can be estimated by subtracting foreign value added: that is, value added created in other countries that is imported and then enters the exports of the country. Global value-added exports can be calculated by summing the domestic value-added exports of all countries
Foreign value added (FVA)	FVA in gross exports of a country. Reflects the total value added created in other countries that enter the exports of a country

Source: Adapted from Banga (2013).

The creation of GVCs is taking place in services and not just in goods (TABLE 9.1). This fragmentation of cross-border production, and in particular the large-scale movement of intermediary products and services, implies that conventional trade statistics do not adequately explain the phenomenon. More accurately measuring the value produced in a service value chain allows a country to respond to key policy and statistical concerns such as (Yedan, 2019):

- How much value does the value chain add to the economy?
- Does the value chain create additional trade?
- Does the service have high or low domestic value-added content?
- How does the service's value compare with the rest of the world economy?
- What is the upstream impact of the value chain on other domestic industries?

With this in mind, applied international trade researchers have developed a variety of techniques to examine the nature and extent of GVCs in goods and services sectors alike. A mixture of techniques can be useful in evaluating the role of services in value chains, both in terms of value chains specializing in service delivery and those using services as intermediate inputs (TABLE 9.1).

Governance is a fundamental element of an efficient GVC. Governance means that actors, duties, positions and operations of the supply chain are structured in a way that maximizes profits. So, not only are the "what" a good or service should be produced and "how" it should be produced questions answered, but so are the "when," "how much" and even "at what price" answers determined (Morrison, Pietrobelli and Rabellotti, 2008).

An example of a governance mechanism is the African Peer Review Process (APRM). The APRM is a voluntary tool where African Union members willingly acquiesced to an evaluation using defined standards in governance. When considering value chains, the AfCFTA should draw from this impressive effort.

Technology and global value chains

According to the Digital Economy Report (UNCTAD, 2019), four major trends will affect services trade in the future: rising incomes, digital technologies, demographic changes and the impact of climate change. Data indicate that if developing countries can adopt digital technologies, their share in global services trade could increase by about 15 per cent (UNCTAD, 2019) and their companies will be able to take part in GVCs. So, digitalization and emerging technologies in the areas of automation, artificial intelligence, the internet of things (IoT) and distributed ledger technologies (for example, blockchain) are increasingly relevant to trade in services (Clauson et al., 2018). These technologies are important because they have the ability to refine current systems, build new market possibilities, and change supply chains and the geography of trade. If integrated well, innovations and digitalization can stimulate job creation and facilitate the delivery of goods and services across the continent (Hope, 2020).

The present moment provides an immense opportunity for Africa. Today's innovations demonstrate the size and pace at which technology is disrupting conventional socioeconomic sectors. For example, according to Felker, digital technology can aid in creating more resilient value chains (Felker, 2020). The Covid-19 pandemic has demonstrated that strongly interlinked GVCs have more possible failure points and less ability to withstand delays and failures than market leaders realized. To create more resilient and versatile value chains, Felker says that having the best mix of people, resources, technologies and solutions in place is vital when businesses revisit their supply chain strategies. Doing this will boost resilience, productivity and end-to-end visibility in the supply chain.

The AfCFTA Protocol on Trade in Services can support the deployment of information and communications technology (ICT) through state parties' schedules of specific commitments and regulatory frameworks. AfCFTA members will have to develop regulatory frameworks to facilitate cooperation and coordination across these sectors, but also formulate regulations that eradicate issues raised by the digital divide (Hope, 2020).

An example is computing services, where liberalization efforts should focus on database services, data processing and software implementation services, as these are the drivers of the digital economy. By opening these services to continental competition, cross-border distribution would not only facilitate trade in these services but also stimulate trade more broadly.

In the communications service industry, negotiators should liberalize their regional counterparts and liberalize markets for intra-African providers. This should be done by allowing cross-border provision of data processing, electronic services, database retrieval, online information and data processing facilities. It will remove some barriers faced by African service providers looking to expand across the continent. Opening the telecommunications sector to more competition from other African providers will offer more services, investment and competition in communications sectors such as email, internet, mobile data and unstructured supplementary service data (USSD).

Liberalization in postal and courier services can improve e-delivery options both within countries and across borders. Negotiating partners should ensure access to postal and courier networks in other African countries. Such access will contribute to cross-border e-commerce by making it easier for businesses to transition from local delivery to cross-border delivery using the same provider. Postal and courier service liberalization will be useful for making GVCs run smoothly across the region. And liberalization can be expected to increase competition, thus improving the variety and price of available services.

Except cash, all cross-border payment in the financial services industry requires electronic messaging. So, cross-border data flow is essential to functioning cross-border payment. This means having access to the internet and other ICT technology. So, policies targeting public-access solutions should seek to make the internet more affordable through free or subsidized public access wi-fi, access for educational institutions and local community centres and so on. Those steps will enhance the investment climate and also strengthen the capacities of different stakeholders to take part in GVCs.

African regional economic communities and global value chains in mining

RECs have undertaken initiatives to link their service sectors and to increase participation in GVCs. They have encountered challenges, but the challenges can be lessons for liberalization within the AfCFTA.

Most RECs—notably the East African Community (EAC), Economic Community of West African States (ECOWAS), Southern African Development Community (SADC) and West Africa Economic and Monetary Union (WAEMU)—have taken initial steps towards harmonizing laws, regulations and national policies and towards developing common standards to create a uniform business environment for investors (Jouanjean, Gourdon and Korinek, 2017). The mining sector offers examples of how value chains have been adopted by RECs to promote industrialization in their economies.

West Africa

West and Central Africa are home to the largest oil producers in Africa[1] and to considerable mining output, especially the extraction of bauxite and iron ore. The increasing need to make better use of capital has stimulated several reforms, though the size and nature of the reforms has varied from country to country.

Since 2008, ECOWAS has implemented unified mining legislation to create a more stable and transparent legal mining environment. The legislation includes:

- Adopting a Directive on the Harmonization of Guiding Principles and Policies in the Mining Sector, in 2009 (ECOWAS, 2009).
- Setting up a Mineral Development Policy, in 2011, to address issues such as optimizing the benefits of the value chain for West Africa through processing and value addition to minerals.
- Developing the forthcoming Common Mining Code to ensure consistency by member states in their national mining legislation.

Since 2000, WAEMU has also made significant efforts to harmonize mining policies. The mining code controls awarding and possessing mineral titles, adopts an environmental conservation scheme, establishes a tax structure specific to minerals and governs the laws on recruiting and procurement, among others (Jouanjean, Gourdon and Korinek, 2017).

The challenges RECs have encountered in making these reforms provide a learning opportunity for the AfCFTA. The challenges include (Sloan, 2020):

- Inadequate concentration on growing the supply chain and on creating wider ties to other economic zones. This is because mining and the mineral processing industry are too focused on maximizing revenue.
- Unclear, uncoordinated and inconsistent policies across the region.
- Uncoordinated approaches to developing the manufacturing potential and capacity of service providers.
- A need to pursue state–business relationships and collaborative partnerships, as well as to establish relationships between local private sector buyers and sellers.
- A need to harness local content while resolving issues facing local suppliers, such as lack of capacity and persistent entrenched interests. Creating a comprehensive policy across the continent will solve this issue.

Southern Africa

SADC adopted a Protocol on Mining in February 2000, followed by a Mining Strategic Plan in 2001, to harmonize mining policies, provide a framework for cooperation and coordination and increase investment and productivity in the sector (Jouanjean, Gourdon and Korinek, 2017). In 2006, SADC approved the Harmonization of Mining Policies, Standards, Legislative and Regulatory Framework in Southern Africa and, in 2007, adopted an implementation plan (Ramdoo, 2014).

Some of the challenges SADC encountered in the value chains are (Fessehaie, 2017):

- Lack of management and technical skills.
- Inadequate access to credit, technology and business development services.
- A weak domestic framework for quality assurance.
- Uncompetitive upstream markets.
- Expensive and inefficient infrastructure.
- Cumbersome regulatory and institutional conditions in some countries, for example in Mozambique and Tanzania.
- A regional innovation system centred around South Africa with a one-way flow of students, researchers and teachers to South Africa.

East Africa

East Africa is emerging as one of the most significant regions in the continent's minerals and metals industry. Large oil discoveries around Uganda's Lake Albert in 2006 and subsequent gas discoveries in Mozambique and Tanzania triggered substantial reforms in East African countries and consequently in the EAC. But, so far, initiatives seem to follow only national and not regional priorities (Jouanjean, Gourdon and Korinek, 2017).

The EAC places considerable focus on promoting extractive industries, mineral processing and value added. The EAC's priority is to establish a regulatory and institutional structure to encourage investment in mineral processing and extraction. But there is no regional framework for establishing and supporting investments in strategic regional industries. And several barriers and challenges to maximizing regional efforts need to be addressed.

Although showing some promising results, the 2014 and 2016 editions of EAC Common Market Score Card indicated that all EAC member states continued to breach their obligations. The scorecard, by reviewing over 500 core pieces of sectoral legislation and regulation, established that at least 63 measures were inconsistent with the EAC Common Market Protocol. The results demonstrate a tendency to pursue narrow nationalistic approaches, which undermine liberalization at the REC level.

The mining examples show that the problem facing countries and regions in Africa goes beyond merely joining value chains. Several efforts have been made to join GVCs, but challenges accompanying these efforts have made them ineffective. To solve them requires dedicated national and regional public policies for developing skilled human capital, cost-effective transport infrastructure, a conducive business environment, the proper protection of intellectual property and high-quality competitive logistics and telecommunications. To optimize benefits and mitigate risks associated with value chains requires strengthening synergies between trade and investment policies, particularly by focusing in industrial growth policies on initiatives to stimulate goods and services value chains. And RECs could play a leading role in opening infrastructural bottlenecks in financial, transport, communication, distribution and energy services. Bringing national and regional efforts together would undoubtedly enhance the attractiveness of the continent and sustain its economic prospects as ambitions shift to a new development model that integrates Africa into the global economy.

TABLE 9.2 SERVICE LIBERALIZATION EFFORTS IN AFRICAN REGIONAL ECONOMIC COMMUNITIES

REC	SERVICE LIBERALIZATION EFFORTS
The Community of Sahel–Saharan States (CEN–SAD)	• Adoption of measures to ensure the free movement of persons and services among member states
Common Market for Eastern and Southern Africa (COMESA)	• Negotiating of schedules of commitments in seven priority sectors: business, finance, tourism, transport, construction, communications and energy-related services • Cooperative development of transport and communications • Free movement of persons, labour and services, and right of establishment and residence • Cooperation in tourism • Cooperation in energy development • Cooperation in investment promotion and protection
East African Community (EAC)	• Free movement of persons, labour and services, and right of establishment and residence • Free movement of services through gradual liberalization • Schedules of specific commitments were agreed in seven priority sectors: business, finance, transport, tourism, distribution, education and communications • Mutual recognition agreements on domestic regulation in accounting, architectural, engineering and veterinary services, while negotiations for similar agreements in other professional services are under way • Cooperation in infrastructure and services
Economic Community of Central African States (ECCAS)	• A cooperation agreement in the tourism, transport, energy, communications, and education and training sectors • Although ECCAS lacks an agreement binding its members to achieve trade in services liberalization, the ECCAS Treaty provides for the free movement of persons and the right of establishment • The Economic and Monetary Community of Central Africa (CEMAC), a subgroup of ECCAS, has undertaken deeper liberalization in air transport and telecommunications services • Cooperation in transport, infrastructure and communications
Economic Community of West African States (ECOWAS)	• Free movement of persons and the right of establishment • Harmonization of regulations in transport and telecommunications • The subregional West African Economic and Monetary Union (WAEMU), comprising eight members of ECOWAS, has agreed to further liberalize trade in services in the context of a common market • Cooperation in transport and communication • Creation of ECOWAS Common Investment Market (ECIM) and ECOWAS Investment Code
Intergovernmental Authority on Development (IGAD)	• An IGAD objective, not yet formally agreed, is to harmonize policies concerning transport and communications and to promote the free movement of services and people and the establishment of residence
Southern Africa Development Community (SADC)	• SADC's member states signed a Protocol on Trade in Services, largely modelled on the General Agreement on Trade in Services (GATS), providing for progressive liberalization of trade in services • SADC's member states have negotiated liberalization commitments in six priority sectors: tourism, finance, transport, construction, communications and energy-related services • Negotiations on other sectors, as well as mutual recognition agreements, will be addressed in subsequent rounds, planned to start within three years of the conclusion of the current round • SADC members have signed protocols on health; education and training; facilitating the movement of persons; transport, communication, and meteorology; and information, sports and culture, and tourism development • The Southern Africa Customs Union (SACU), considered a SADC subregion in the context of the AfCFTA, does not have an agreement on trade in services

Source: REC websites.

Service liberalization in the regional economic communities and the African Continental Free Trade Area

Since services are essential in creating efficient GVCs, policies liberalizing services must complement efforts to join GVCs. African RECs have taken steps to facilitate liberalizing services in their regions (TABLE 9.2).

Despite commendable efforts, RECs have encountered challenges. Statistics show the EAC as the only REC that has achieved some of the elements of service liberalization (Hoekman, 2017). A great deal of hope is now placed on the AfCFTA service agenda to integrate the initiatives of the RECs and those of their member states (Hoekman, 2017). This can only be achieved if the AfCFTA recognizes and learns from the drawbacks that have hampered REC service liberalization. Some of the main drawbacks include weak regulatory mechanisms; non-ratification and non-implementation of protocols; services trade restrictions that still exist within some countries pursuing nationalistic policies;[2] and difficulties in pursuing progressive similarity, harmonization and standardization of education and training structures.

To solve the challenges, the AfCFTA should harmonize policies across the continent and coordinate between all levels of governance. Harmonization could establish a stable mechanism for enhancing competition by providing a level playing field for domestic and international service suppliers (Olayiwola, 2020).

African countries have tried to advance in coordinating trade in services at national, regional and international levels. But policy disconnects between the three levels hinder Africa in tapping into the benefits of expanded trade in services. Legislators and stakeholders at all three levels need to bridge this gap so that Africa can better exploit the benefits of greater trade in resources and market integration. Collaboration could involve empowering regional or subregional institutions, strengthening national regulators and promoting their coordination and information exchange, with inter-governmental and other regional institutions providing support.

To achieve cooperative cohesiveness in regulatory practices, multi-stakeholder consultations should be undertaken for transparency and shared learning, and successes should be benchmarked (UNCTAD Secretariat, 2020). African Union (AU) and REC member states have a range of resources at their disposal—such as working teams, multi-stakeholder dialogue mechanisms and inter-ministerial and legislative cooperation committees—to advise them and promote their policy processes. The use of these mechanisms can create cohesion across all agencies. The mechanisms should be shared with national bodies to facilitate domestic cooperation. Cooperation should include liaising with academia, civil society, domestic regulators, the private sector and think tank representatives. Exercises in cooperation need to start early and should be integrated into the entire process of policy implementation, monitoring and evaluation.

Third-party forums—such as the proposed AfCFTA Country Business Index, which aims to monitor and evaluate the performance of AfCFTA implementation but is also a policy advocacy and feedback loop—are crucial tools to ensure the efficiency of the AfCFTA. These forums can be complemented with information networks, such as the ones present in the RECs. Many of the RECs have provisions for forming joint committees to discuss and communicate on germane issues, as well as annual high-level joint meetings of senior officials and ministers (Hoekman and Mattoo, 2013). Forums under the AfCFTA, which range from the technical to the more political level of ministers of trade, can also provide information networks. In the case of trade in services, such mechanisms should be complemented with peer-to-peer reviews at the sectoral level and with forums and conferences for sharing best practices.

BOOSTING CAPACITY TO ENHANCE TRADE IN SERVICES

Boosting capacity across the region

Credible databases on services and improved government and private sector capacity to trade in services are necessary for the efficient implementation of the AfCFTA and the subsequent establishment of effective value chains. But African countries face capacity challenges in integrating into GVCs that require policy considerations.

Firm capacity

GVCs are inherently daunting since they are highly competitive, place a heavy demand on participating companies and rapidly cluster into a limited number of influential foreign suppliers. Regardless of their role in a value chain, companies need to fulfil minimum quality, expense and efficiency obligations to participate.

A firm's capacity can be defined as the highest production rate it can achieve under a specified set of operating conditions—whether the producer can meet market demand. Capacity requires utilizing infrastructure, resources and labour to produce a commodity. Effective capacity management enables a firm to establish a competitive edge that is vital to its survival. Capacity management aims to guarantee that an organization secures the resources to meet current and long-term industry criteria.

The causal link between operational capacity utilization and value chain efficiency was evaluated by Nyagoa et al. (2015), using tea processing firms in Kenya to verify their model. The major finding shows that the relationship between capacity utilization and the firm's value chain performance is positive and highly significant. The authors concluded that utilizing manufacturing capacity was a crucial indicator and measure of value chain performance. A further empirical study revealed that firms should invest more in effective capacity utilization through increased output, rather than design capacity, to strengthen output and value chain efficiency (Nyaoga, Wang and Magutu, 2015).

The availability of detailed data to resolve problems related to lack of capacity by local firms is a crucial element in understanding how African countries engage in GVCs. Lack of such data hindered the development of appropriate pathways for joining and upgrading along GVCs.. Sustainable participation involves an appreciation of a wide variety of different characteristics: what functions African countries conduct, what goods they produce, what their trade partners do, what by-product they have, and how certain factors—such as infrastructure, services, productive capacity and business environment—affect the GVC in each industry and country.

Two important challenges must be overcome to accurately measure how African countries participate in regional and global value chains:

- **Statistics on concrete and intangible practices in value chains are needed to clarify which growth pathways countries can and should follow.** In general, calculating the value-added contribution of services to trade in products is a challenging undertaking. But value-added trade statistics, such as those provided by national input–output tables, should serve as input to the OECD–WTO's Trade in Value-Added (TiVA) database and the World Bank's Export Value-Added Database (EVAD). National input–output tables and balance of payments-related statistics are also required to report intangible and informal practices, such as internal research and development (R&D) or marketing activities that the OECD and World Bank databases do not capture. This will ensure the development of a comprehensive database. Training on GVCs and their measurement is a part of state capacity-building management.

- **To understand how GVCs contribute to development goals, it is essential to recognize the actors who appropriate the value added through GVC engagement** (Escaith and Timmer, 2012). There are several ongoing efforts to overcome the problem of recognizing the actors seizing value, including connecting trade statistics to sector-level statistics in business registers and improving value-added trade datasets like the TiVA and EVAD. Although those databases reflect major advances in understanding emerging international trade trends, they are still in their infancy. Given the challenges addressed above, major changes will be required to properly cover trade in services and intangible activities or to produce data on the features of ownership in local value-creating sectors in African countries.

Productive capacity: Human capital, national innovation systems and standards compliance

Measuring a firm's capacity requires being able to acquire the personnel needed to efficiently manage the resource. Having a professional staff is critical to ensuring adherence to regulations and to guaranteeing that any commodity manufactured meets performance standards.

African countries face bottlenecks in filling the crucial skill-reliant roles required for upgrading to GVCs. This is because of limited or scarce educational services, especially at professional and university levels, and also at technical and vocational levels in some countries (Fernandez-Stark and Gereffi, 2016). Another issue is that training in some skills is often done by the government alone or by regional institutions that involve the government, especially in the agriculture and mining sectors. The government-run systems tend to be understaffed, are built on obsolete methodologies and use older technologies. So, leveraging investors would be more effective to train local workers to ensure the transfer of up-to-date information that matches the needs of leading companies.

The presence of national innovation systems does not solve the problem of capacity as these systems are often poor, and their relevance is confined to high-value goods and services production stages of the value chain. Even so, if policies are developed to strengthen them, they can contribute greatly. National innovation systems can benefit from regional cooperation by exchanging information on institutional building, sharing thematic information on services, and allowing temporary mobility of service-related experts and academics to communicate about upskilling services. Strengthening national innovation systems can be an important area for regulatory cooperation in the context of continental integration.

Standards compliance is also related to capacity development. While seemingly straightforward, compliance with standards constrains African countries for two key reasons:

- When African country actors seek to enter or upgrade into a new segment of the value chain, the demand for certification can be limiting because of poor economies of scale—but also because of a lack of private sector firms that offer training and certification. Standard setting and standard compliance in services can benefit from regional cooperation through the exchange of information for institution building in certification and accreditation, and by allowing the temporary mobility of service standards-setting experts and academics. This can also be an important area for regulatory cooperation in the context of continental integration.
- Perhaps more important, because of their small size, African firms often lack the personnel and financial resources to undergo certification processes and maintain certification. This limitation can be overcome through national support, through general and foreign direct investment and by loans from financial institutions.

Government and third party capacity

The challenge of integrating the private sector in service negotiations is compounded by regional trade promotion initiatives, which tend to focus on removing trade barriers without paying attention to building productive capacities and developing a private sector that will address service sector weaknesses. So, emphasis should be placed on developing regulatory and institutional frameworks in tandem with liberalization initiatives.

Liberalizing trade in services and regional cooperation will be achieved by enhancing institution building and developing the leadership of top policy makers and management in government, the private sector, civil society and traditional systems.

Traditional and civil society and the media should be encouraged to play a larger role in building leadership capacity on the continent. Platforms for peer-to-peer learning can be set up that periodically bring together opinion makers, leading experts and practitioners and young people to deconstruct complex challenges and find solutions. Regional and international organizations can also play a useful role in contributing to improving capacity. Networking by labour, business, religious, political, traditional, public sector and civil society leaders should be strengthened across the region. To achieve this, African countries should have dedicated budgets for developing trade negotiations and implementing capacity. With the support of development partners, budgeting for this purpose will be a strategic decision to enhance Africa's prospects for inclusive and sustainable development and good governance.

Building capacity is not limited to building an inclusive forum. It also includes designing deliberate and binding undertakings to boost the capacity of members (Erasmus and Hartzenberg, 2020). There are serious challenges in policy and programme design, coordination, and implementation capacities across the continent. The public sector is responsible for formulating and implementing public policies and programs. It delivers services, manages accountability and collects revenue. The performance of these functions by the public sector is still mostly weak. This is partly because of inadequate institutional designs and partly because of inadequate data, domain expertise, systems and processes and poor institutional memory on important technical issues. According to an African Capacity Building Foundation Report (2019), most capacity-building institutions need to boost their capacities in technology, infrastructure and human resource development.

Another key weakness of continental trade in services is the lack of a thriving and competitive private sector that can seize opportunities in the economy. Many issues currently face the African private sector, including informality, small-size companies, poor intercompany relations, low levels of competition with exports, and a low potential for creativity. These problems are exacerbated by regional integration policies for trade in services that are designed to reduce trade barriers without boosting growth in capacity or private sector development.

African countries need to step away from a linear and process-based approach[3] by placing a greater emphasis on growing capacity. The African private sector has a key role in integrating the services trade market because—although governments negotiate trade agreements—the private sector drives trading and knows the constraints companies face. The private sector increases the profitability enabled by regional trade in services initiatives and agreements. So, the private sector should more actively participate in the integration process, rather than function as a passive observer, to achieve the goals of integrating the trade in services market in Africa.

States can take several initiatives to involve the private sector. First, governments and the private sector should seek fresh and creative ways of drawing funding to infrastructure services investments. Kenya and South Africa, for example, have effectively utilized infrastructure bonds to fund road projects. This can also be achieved in other sectors. Second, government should develop sovereign wealth funds, as resource-rich African nations such as Botswana, Chad, Ghana, Libya and Nigeria have done. These can be used to finance provincial and continental development programmes, including those in the service sector. Regional development finance agencies, such as the African Development Bank, also have a significant role to play in funding infrastructure development to improve the organizational and economic climate for firms. Such agencies, however, should not limit funding to specific sectors as this will keep fostering the current infrastructural deficit problem.

Governments and the private sector should coordinate over trade in services, since a lack of coordination creates a formidable barrier to shared understanding and production. A reliable framework for successful state–business ties is a way to unleash the abilities of the private sector. The value of policy coherence and cooperation between service industries is crucial. This can be encouraged by establishing a multi-stakeholder approach—including academia, civil society, government and the private sector—to decision making that affects the private sector, addressing private sector constraints. The African Investment Forum—launched by the Africa50, AFREXIM Bank African Development Bank and Trade Development Bank—is another resource.

Another way for policy makers to expand capacity for private sector involvement in trade in services is to develop mechanisms to ensure technology transfer and to fund domestic forums to promote education, training and R&D. Growth in labour skills is needed as the use of information- and technology-intensive services increases. To do this, a robust education strategy, aligned with demand for jobs and offering expertise and a deep engagement among the private sector, academics and policy makers, is needed.

The information and communications technology (ICT) sector is a perfect example of an area where firms and government should work together. The Covid-19 pandemic demonstrated how ICT disruption and increasing consumer demand have affected government-owned telecommunications utilities and ICT infrastructure, including on catalysing moves towards both the consolidation and liberalization of telecommunications markets. Trade in services can be propelled by ICT and ICT-enabled services since it is not limited to movement of natural persons (WTO service supply mode 4), thereby opening new possibilities for stakeholders.

Impact of service liberalization on women

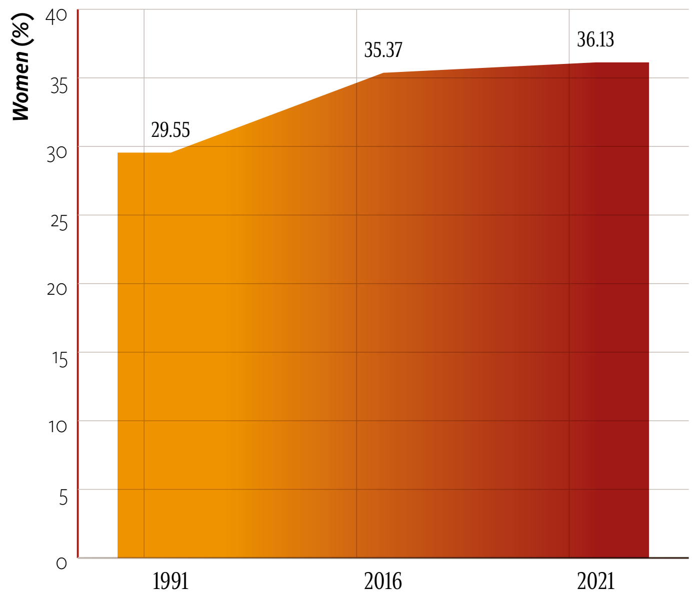
Trade reforms should be based on a thorough understanding of their impact, not only on a country, but also on specific segments of the population, including women and youth. Women, for example, face many obstacles to inclusion in commerce and trade. Hurdles may include legislative and cultural prejudices, obstacles to maternity, constraints on jobs, lack of access to capital and productive services, mismatching of expertise, and limited knowledge of industry and business networks (Coste and Dihel, 2013). Yet, achieving the economic empowerment of women is important because women account for 50 per cent of the global working-age population (Van der Nest, 2017).

Although trade in services can improve the economic performance of the domestic service sector and provide new export opportunities, gender inequalities are likely to manifest in economic relations, transactions and institutions. Regulation, particularly in the form of coordinated and complementary initiatives, can counteract these patterns and ensure more inclusivity. Policies can be created to facilitate women's participation in GVCs by enabling them to take part in different levels of production (for example, through training to be skilled workers). Improved, secure and more affordable access to digital platforms can also support them, along with stakeholder collaboration to eliminate barriers to girls' and women's participation in the digital environment.

There is strong evidence that liberalization of services in Asia increased the participation of women in exports of services such as back-office processing and call centres. Liberalization of services also increased women's mobility in such services as healthcare, education and professional services abroad. Women employed in the service sector abroad contribute significantly to the remittances received by developing countries because they are likely to save more than men do and to remit a larger proportion of their earnings to their home country (Puri, 2004).

As sub-Saharan Africa develops economically, the share of women employed in services steadily increases, leading to the creation of employment opportunities in call centres, nursing, tourism and other services (ILO, 2017). The share of women working in the service sector grew from 30 per cent in 1991 to 35 per cent in 2016 and is projected to grow to 36 per cent by 2021 (**FIGURE 9.2**).

FIGURE 9.2 WOMEN WORKING IN THE SERVICE SECTOR IN SUB-SAHARAN AFRICA



Source: International Labour Organization (ILO) database (2017).
Note: 2021 is an estimate.

To reduce the gender gap further, emphasis should be put on educating women to take part in higher-value-added activities and avoiding their concentration in lower-value-added activities such as informal employment. Concentrations of women in lower-value-added activities might indicate a problem of unemployment for women or a deeper problem of women being locked in low-empowered sectors. The gender gap could even increase if women are limited to those sectors.

The digitalization of the economy provides new possibilities for women. ICT is a great driver of new jobs and, even without affirmative action; the sector has reported greater participation of women. The sector has the mechanisms to enable women to access equal opportunities, and ICT-based jobs are gender-blind when it comes to remuneration (Kituyi, 2016). So, the positive effects of emerging technologies, combined with the disruptive potential of female entrepreneurship, could help to develop prosperity and alleviate poverty in digitalization and ICT.

Designing policies to boost capacity and support effective global value chains

Since GVC engagement has become largely synonymous with economic growth, many developed nations are pursuing policies to support local companies connected to these value chains. The policies draw lessons from international companies and streamlined border procedures to promote trade flows across Africa. Reduced import tariffs are being demanded, for example, for goods that will promote access to serve as world-class inputs (Cattaneo and Miroudot, 2013). For this growth to be sustainable, not all GVCs are useful. Participation in some can increase structural gaps and lock countries into low-value-added activities. Services offer several opportunities to upgrade through value chains but need coherent, active policies.

For African countries to integrate into GVCs, or even to develop effective regional value chains, they need to consolidate the three dominant approaches to the practical formation of GVCs:

- Focusing on liberalizing trade in goods and services and promoting foreign direct investment as a way to connect with multinational enterprises. This approach is sponsored by a variety of multilateral organizations.[4]
- Using the GVC framework to examine how vulnerable and disadvantaged actors in African countries —for example, women and minority groups—can secure entry into the value chains. This approach is promoted by aid agencies.
- Using a comprehensive global–local approach based on the core concepts of value chain theory—governance and upgrading (Morrison, Petrobelli and Rabellotti, 2008).

It must be emphasized that the above approaches are simple guidelines. Considerations differ according to goods, services, firms and country characteristics. A one-size-fits-all solution to GVC policies is not recommended. African countries must follow a policy structure that reflects the changing realities of global business and is up to date with how GVCs work. But the main trade policy objectives should remain focused on sustained, inclusive and sustainable economic development, requiring certain guiding policies to support GVCs:

- **A GVC-oriented policy.** It must consider the following:
  - The role of imports, since they are as important as exports.
  - The impact of border delays, since participation in geographically fragmented GVCs requires quick and inexpensive movement of people over borders.
  - Human capital developed to meet the needs of particular segments of the value chain.
  - National innovation systems formulated for participation in R&D.
  - Educational institutions made into core partners.
  - Comprehensive standards and certification procedures.
  - The private sector (both foreign and domestic) directly engaged.
- **Investment policy to facilitate GVC investment.** Policy makers should create a desirable investment climate and facilitate entrepreneurship. A wide variety of policy fields influence this climate, including:
  - Improved public governance.
  - Consistent legislation.
  - Improved tax and corporate governance structures. Rules do not have to be lowered below where they ensure national development objectives. But companies need an appropriate policy climate that covers employment laws, intellectual property, land access and trade facilitation, as well as legislation that resolves start-up and small and medium enterprise financial limitations.
- **Trade policy:** In general, trade policy influences the timeliness and costs associated with companies accessing supplies from abroad and exporting their own services. Lowering import tariffs and simplifying export procedures are key steps for enhancing the productivity of GVCs. Furthermore, unilateral tariff liberalization could be affected if standstill requirements on certain agreements capture applied rates rather than bound rates. Even regional continental liberalization could have a systemic effect if third-party most-favoured nation treatment exists on certain agreements that capture these preferential rates.

- **Local firm development and entrepreneurship policies:** GVCs offer opportunities for African businesses to participate in foreign trade. But these prospects are not easy to grasp, since African firms involved in GVCs can face business failure, often because of their size, the lack of adequate infrastructure and the unavailability of appropriate expertise. These concerns should place local firm growth and entrepreneurship strategies at the core of the GVC-based development plan. The policies that support local businesses should be distinguished from investment and national and regional trade policies. Building efficient capacity in local firms and encouraging their participation in GVCs should facilitate compliance with international regulations, contribute to the growth of marketing networks in key end-markets (for example, through diaspora networks) or encourage access to finance by eliminating resource barriers.[5] Such industrial policies need to be carefully designed to ensure that they are non-discriminatory, including on national treatment.
- **Workforce development policies:** Workforce development policies should target bottlenecks where scarcity inhibits involvement in specific GVC operations. African countries planning to transition to mid-value markets need to concentrate on technical education, while those seeking higher-value markets need to increase administrative and design expertise (Fernandez-Stark and Gereffi, 2016). Policy should focus on both hard and soft skills.
- **Infrastructure policy:** African countries encounter capital and capacity limitations in working to deliver high quality and robust infrastructure throughout the economy. Policymakers should guide investment to ensure that local and foreign companies participate in the development of infrastructure plans with a perspective on GVC integration, so that they are not exempt from rewards associated with GVC integration.
- **Industry institutionalization:** Involvement in GVCs requires a high degree of cooperation and partnership between players—government, private and non-profit—to ensure that priorities are shared, expertise gaps closed and institutional constraints resolved.

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ENDNOTES

1 That is, Cameroon, Chad, Congo, Equatorial Guinea, Gabon, Ghana and Nigeria.

2 Policies on service liberalization will solve this.

3 An approach that focuses unduly on the elimination of trade barriers without paying necessary attention to issues in supply side constraints, such as a weak private sector, poor labour productivity, lack of access to finance, inadequate infrastructure, low institutional capacity and low access to technology and innovation.

4 This approach has been criticized as a thinly veiled attempt to help foreign direct investment (FDI) take advantage of cheap resources and gain access to new markets without considering sustainability or the returns to local economic actors.

5 Financial inclusion illustrates how services input, in this case in financial services, are important to building supply capacity. This entails several dimensions:

- Reducing costs (for example, through digital financial services and efficient remittance transfer).
- Protecting consumers.
- Coordinating policies.
- Managing risk (for example, avoiding de-risking).

For more information, see UNCTAD, forthcoming, Access to Financial Services for Sustainable Development.

CHAPTER 10
Conclusion and Recommendations

This report has analysed the integration and liberalization of Africa's services trade in the context of the African Continental Free Trade Area (AfCFTA). Its progress report on developments in Africa's regional integration has examined the agreement establishing the AfCFTA, signed in March 2018; activities leading to macroeconomic convergence in five of the eight African Union (AU)–recognized regional economic communities (RECs); the role of infrastructure in promoting inclusive and sustainable development; the role of social services, especially health and education services, in that development; improved governance, peace and security as the bedrock of an environment conducive to integration; and the free movement of persons across countries in the region as vital to integrated services trade.

The RECs have made commendable progress in implementing their regional integration agendas. But further collective efforts are required of all key stakeholders in the integration project if the potential of the AfCFTA to increase employment opportunities, generate higher incomes, promote economic growth and lift millions of people out of poverty are to be realized.

The services sector is an important driver of growth in 30 of Africa's 54 countries. Its share in national outputs is growing, and it contributes to socioeconomic equity, especially by providing employment for vulnerable groups of women and youth.

Although the services sector in African countries has been growing faster than the world average, the continent remains a marginal player in value-added global services trade. While service exports from African countries are increasing, Africa's role in the export and import of services is marginal. Between African regions, the RECs have made modest, gradual and continuing progress in liberalizing services trade in line with the pan-African objective of promoting the free movement of goods, people, capital and services. Continent-wide, developments in services trade have supported the AU agenda of realizing the goals of the African Economic Community, Agenda 2063 and the AfCFTA. The Protocol on Trade in Services, in particular, reflects the vision for services trade and presents a strategic framework for further negotiations.

Going forward, the Protocol on Trade in Services offers a negotiating platform for increasing regulatory cooperation among African countries and RECs in a global context featuring value chains and complex production relationships. The negotiations for liberalizing services in the five priority areas—the subjects of Chapters 4–8—and beyond are critical for improving the regulatory, institutional and policy frameworks for services trade. The negotiations are also important for addressing barriers and restrictions to the potential and opportunities for services trade between African countries and regions.

The Covid-19 pandemic is bound to undermine service sector developments, along with overall economic growth. During the pandemic, the increasing use of digital trade and e-commerce shows the need to promote knowledge-intensive opportunities to enhance African countries' participation in regional and global value chains. This will require building the necessary strategic linkages for developing and expanding digital economic activity at national, regional and continental levels. Implementing the Trade in Services Protocol will mitigate the pandemic's impact and foster a services trade environment that can boost African countries' post-pandemic economic growth and recovery. The negotiations within the ambit of the protocol must take account of digitalization, with knowledge and innovation as the main vectors, and of mode 5 services—services such as design, engineering, and software that are embodied in goods trade.

Services trade in Africa should be vigorously promoted since services account for much of African countries' GDP and employment and provide a major impulse for structural transformation. Shifting from informality to formality in services trade and promoting greater gender and social equity across services sectors are particularly challenging tasks.

Good regulations are central to the optimal performance of services and the services trade. Among the grounds justifying regulations are ensuring that service markets work properly in conditions of asymmetric information and market failure. Technology policy is required for effective services-driven digitalization. Similarly, infrastructure policy is central to transport and other services.

Regulations are usually directed at specific issues. Some examples include regulations in the financial sector to ensure financial stability and protect customers' savings from excessive risk taking by financial institutions, regulations in the telecommunications sector to ensure that there are enough telecommunications providers and regulations in tourism to prevent environmental degradation due to excessive use of natural resources.

Regulations can, however, become burdensome and impede socioeconomic development. Those negative effects can be unintended consequences of an attempt to solve some other problem. Solutions to the unintended consequences may require a set of different, complementary policy instruments.

Since restrictions largely dampen the services trade among African countries, policies must be relaxed to foster services trade and economic growth. Liberalizing services requires adjusting trade regulation, reducing barriers and promoting non-discriminatory measures so that the countries on the continent benefit from intra-Africa services trade in the context of the AfCFTA. Liberalizing services regulation will also improve productivity in Africa by reducing trade costs and removing other barriers to trade in the financial, business, communications and transport service subsectors.

The continent should attract investments to the transport services through its trade policies. It also needs to leverage digitalization to speed the removal of services trade restrictions, expand services trade and improve development outcomes by expanding productivity. An effective information and communications trade (ICT) policy is essential to smooth and efficient services trade. Since most services trade activities are not physical, maximizing ICT benefits to boost services trade is critical.

African data on services and services trade are unavailable in the right quality and quality. Concerted efforts are required to ensure that African country activity is fully captured in global services trade and restrictiveness indexes.

Countries need tailor-made regulations incorporating their comparative advantages, development aspirations and goals, levels of development in various economic sectors and the nature and characteristics of different service subsectors. There is no-one-size-fits-all policy. The report's analyses of the five AU priority sectors emphasized the role of services in developing and joining regional and global value chains and highlighted the required capacity building efforts.

Regional integration facilitates financial services inclusion, market efficiency, improved regional liquidity, common frameworks and standards, and the optimal use of infrastructure. Financial integration and cross-border banking could increase efficiency and innovation in regional financial centres, yield portfolio diversification and reduce risk. But promoting financial deepening in the AfCFTA will depend on regulatory conditions, payment systems, information management and infrastructural development to remove vulnerability and uphold stability and resilience.

Most cross-border banking and financial services trade in Africa (Chapter 4) have internationalized but not globalized, and regionalized but not integrated (Beck et al., 2014). Services operate in isolation, have altogether failed to financially include the excluded and cannot achieve the liquidity and financial deepening needed for the financial development of the continent. Although these are concerns for the AfCFTA financial services trade, a financially diversified continent could promote the desired continent-wide integration if synchronized country- and region-specific conditions were in place.

Trade in financial services must be boosted by a wholesale review of domestic regulations to remove cross-border financial service constraints that increase trade costs and reduce participation by trade partners.

- For intra-African financial services trade to thrive, the region requires a regulatory framework oriented towards increasing financial system depth, streamlining regulations, and encouraging banks to pursue regional organic growth across African markets to raise efficiency and boost competition.
- Ensuring fair and sensible market access (entry laws) and national treatment should be priorities to allow more pan-African banks to be created and grow. This matches with the AfCFTA agreement, which underscores the need to establish clear, transparent, predictable and mutually advantageous rules to govern trade among state parties in goods and services, competition policy, investment and intellectual property by resolving the challenges of multiple and overlapping trade regimes to achieve coherent policies coherence, including those on relations with third parties.
- African countries and associated RECs should view trade in financial services as being as important as trade in goods. They should fast-track the implementation of their free trade areas to approach monetary union. Before they reach monetary union, they can tinker with domestic regulations to generate almost the same gains. The degree of regional and global integration has implications for macroeconomic and monetary policy. Likewise, regional factors affect equity returns since regional diversification may produce risk reduction. Successful integration requires political determination, economic rationale and meticulous planning and execution. Reforms of domestic exchanges should form closer cooperation through cross-border listing and information and technology sharing before creating a single African stock market, a complex undertaking. After the regional alliances, continental integration could be considered.
- Fintech is becoming more prevalent in domestic and global financial services delivery, but data trends suggest low usage in Africa. African countries need to better promote the use of electronic channels to ease banking operations. Since regulatory quality increases the impact of digitalization on financial services, African countries should not only invest in fintech but also explore ways to cooperate with other regions to regulate fintech in cross-border transactions to encourage widespread acceptability.
- Since financial service sector growth will boost African economic growth, African countries should reassess the process of licensing financial institutions as well as using banking services abroad, conduct economic needs tests in evaluating the process of establishment of foreign banks, and restricting foreign ownership. Reforms could benefit their economies and promote intra-African financial services trade for the overall success of the AfCFTA.

Liberalizing transport services (Chapter 5) will reduce the cost of transport, enhance connectivity, create jobs and boost the contribution of the sector to African countries' GDP. Liberalization has great value in context of AfCFTA, and policy makers can draw key lessons from air transport liberalization in Africa in the framework of the Yamoussoukro Decision 2000 leading to the Single African Air Transport Market (SAATM). Major challenges and opportunities in the transport sector relate to gender, youth and landlocked countries, as well as the Covid-19 pandemic.

Realizing the gains of the AfCFTA hinges on establishing an efficient and cost-effective transport service sector. Shipping goods and services at competitive prices will foster intra-African trade. In 2017, a third of the value of global trade in transport ($529 billion) represented the direct cost of shipping goods between economies, mainly by sea or by air. Transport services are critical inputs into producing goods and providing sales and after-sales services. Logistics services, among other transport services, are particularly essential for developing and optimizing the global value chains (GVCs) and regional value chains that have been expanding over the past 30 years.

The African Union Commission (AUC), RECs, AU member states and other relevant stakeholders should strengthen weak regulatory and institutional frameworks for transport and trade facilitation at the continental, regional and national levels. Tasks include addressing fundamental issues facing the sector, such as how far to encourage competitive markets in transport operations and infrastructure and what purpose and scale to assign to the regulatory and licensing controls implemented by regulatory agencies; strengthening member state capacities to enforce regional transport policies; participating in transport and transit facilitation programmes; expediting the implementation of corridor agreements and applying transit instruments.

AUC, RECs, AU member states and other stakeholders should harmonize the continental regulatory frameworks for the different modes of transport—road, rail, maritime and inland waterway—and establish effective monitoring bodies and executing agencies for continental regulations. They should also develop tools for assessing government and service provider performance in implementing continental regulations for those transport modes.

AUC and the AfCFTA secretariat should work with RECs and other stakeholders to incorporate all the transport modes in the AfCFTA by including their regulatory frameworks as annexes to the Protocol on Trade in Services. All AU member states should sign the Solemn Commitment to SAATM and fully implement its provisions.

The AUC, RECs, African Development Bank, African Union Development Agency–New Partnership for African Development, development partners and other stakeholders should facilitate the physical, economic and social integration of Africa in support of the AfCFTA in the following ways:

- Accelerate the implementation of regional infrastructure projects in Africa, particularly trans-African highways, Programme for Infrastructure Development in Africa and AU Agenda 2063 flagship projects.
- Mobilize public and private financing for regional infrastructure projects.
- Involve the private sector in investing in infrastructure projects and operating them.
- Address governance issues and create an enabling regulatory environment for infrastructure investment.
- Introduce regional or continental licensing to facilitate the movement of people, goods and vehicles in Africa.

African countries should ratify United Nations conventions on cross-border transport facilitation. To improve cooperation between governmental authorities, they should create consistent transit mechanisms and efficient border controls throughout the continent; support further trade and customs digitalization to streamline data exchange and enhance contactless customs clearance; and take a risk-based approach to minimizing restrictions in air, inland and maritime connectivity.

To unleash the potential of trade in communications services (Chapter 6), including the multiplier effects of communications for other trade sectors, the most important issue is developing or updating the regulatory frameworks for the inter-relationships between industry and government. Developing frameworks starts at the member state but includes harmonizing frameworks among member states and throughout regions as steps towards harmonized frameworks for a continent-wide free trade area.

Flanking measures for regulating communications services should include regulatory audits sufficiently detailed and thorough to provide a baseline for all member states. That would enable a gap analysis of how extensive legal and regulatory reforms would be needed for a harmonized good practice framework. The gap analysis might also consider the transitional periods, which would probably vary substantially, that member states might need before implementing sectoral commitments.

Another flanking measure for communications regulation would be training member state officials to understand the process and issues involved in the six-months before the "offers" are made by the country. The training ideally would involve not only high-level negotiators but also technical experts in the sector from the member states.

As an export-oriented sector, the tourism industry (Chapter 7) is an important source of foreign exchange earnings and a positive contributor to the balance of payments for several AU member states. Presenting immense investment opportunities for hotel global chains, the sector accounts for 6 per cent of total foreign investments in Africa, and the sector plays a key role in attracting investments to the continent.

As a labour-intensive industry, tourism generates 40 per cent more employment than agriculture for a similar investment and 50 per cent more than mining. Tourism has a multiplier factor for both employment and revenue 3.2 larger than that of the communications, financial services and education sectors. Direct and total employment due to tourism have both grown 4 per cent a year on average over the past two decades.

Future efforts should develop products suitable for the African tourist market. The continent possesses sufficiently diverse natural and cultural resources to support reorienting the existing homogeneous approaches. Other recommendations include:

- Formulating a continental tourism marketing strategy in line with the new approach to tourism product development and the recommendations of the African Strategic Tourism Framework,.
- Building human capital in the tourism industry. A major challenge facing the industry in Africa is the general lack of skills and knowledge, so addressing that dearth will be key to ensuring its competitiveness. A continental approach is recommended that would identify existing centres of excellence and, if necessary, establish new ones.
- Establishing tourism standards. Developing intra-Africa tourism will require standards to ensure the quality of the products across the continent. Guaranteeing value for money should be emphasized to enhance the continent's price competitiveness. Regional efforts by RECs such as EAC and SADC in establishing criteria to classify accommodation facilities could serve as benchmarks to be scaled up to the continental level.

- Fostering research to develop tourism. Unlike other sectors, such as agriculture, that have benefitted from appreciable investment in research, the tourism industry in Africa has received little. Hence the scarcity of innovation in tourism. Tourism data are also limited, making it difficult to project the investments that would be required for industry to realize its full potential. To address these issues, construction of a continental tourism statistical agency will be necessary.
- Establishing a continental tourism crisis management framework. The tourism industry has faced several crises: the global financial crisis, Ebola outbreak and the Covid-19 pandemic. To anticipate future crises, a crisis management framework should be formulated.
- Encouraging full implementation of continental tourism policies and protocols. Numerous continental instruments are directly and indirectly relevant to the tourism industry. If fully implemented, they could boost intra-Africa tourism.
- Establishing a continental coordinating mechanism. The lack of clear continental leadership during the Covid-19 pandemic serves as a clear reminder of the urgency of developing a continental coordination mechanism. Accordingly, the establishment of an African Tourism Organization should be prioritized.

The importance of the business service sector (Chapter 8) cannot be overemphasized. The global business service market was estimated at $5.7 trillion in 2018, having grown by 7.4 per cent a year since 2014. With growth projected to be 13.6 per cent a year over the next decade, the business service sector, including software and information technology services and real estate, is one of the top three sectors for foreign direct investment (FDI). The business service market in Africa is projected to grow by 13.1 per cent a year. Rising demand for expertise and service by professionals in law, accounting, engineering and business consultancy has boosted cross-border services in Africa, with about 16 per cent of business service firms already engaged in exports.

Regulatory differences across countries, a limited capacity to train professionals and inflexible immigration rules have left the business services sector in Africa underdeveloped despite country and regional efforts directed towards the sector. African countries have different business services trade policies due to country heterogeneity and varied policy trajectories and visions of strategic sector development. The country differences lead to differences among the RECs: some have no common protocols for business services, with member states preserving distinct trade policy frameworks. Recommended actions include African governments endeavouring to remove regulatory heterogeneity, increasing the capacity to train professionals and making immigration rules flexible to develop the business service sector at the country and regional levels. The AfCFTA trade in services negotiations should ensure harmonization, synchronization and cooperation in service regulatory frameworks, especially in the sectors the African Heads of State prioritize.

African governments should embark on rule harmonization to develop a coherent and consistent business services trade policy framework and so to actualize the dreams of African integration through services trade. A balance should be struck between liberalization and the delivery of public services and public goods, especially in areas of healthcare, water and sanitation. Lessons from the Covid-19 experience with respect to capacity and infrastructure show the need to encourage investments in these critical sectors, while also recognizing their public goods role, especially with respect to access.

A peer-learning framework should be developed in areas where some African countries already have significant business service exports, such as advertising, legal and accounting, and computer and engineering services. Services that are positively correlated with development, such as computer, architectural and engineering services especially warrant this approach. Others that appear less important to

African development, such as advertising, legal and accounting and research and development should be analysed to learn how they can be made important drivers of development.

Overall business services trade restrictions are decreasing in some countries, such as Egypt, Kenya and South Africa. Other countries, such as Nigeria and Tunisia, should learn that reducing restrictions contributes to development. This is especially so given the significant negative effect a high services trade restriction index has on overall business services trade and five of its subsectors—computer, marketing, advertising, engineering, architectural, and research and development services—as well as on trade through the cross-border supply and movement of natural persons' modes.

African country governments should improve trade in healthcare services among themselves through an export promotion strategy in such areas as attracting foreign patients, providing high-quality health services at competitive prices; sending healthcare personnel abroad on short-term remunerated work; providing quality medical education to foreign students at specialized clinics; cultivating direct foreign investment in the healthcare sector; and investing in health system infrastructure such as clinics, laboratories, biotechnology research, telemedicine technology and health information services. African governments should also provide social security, especially for the less privileged, and create gainful employment leading to the middle-class to ensure that people can afford minimal healthcare services and healthy living.

Best practice in the trade in such business services as advertising and media communication calls for establishing a quality media training and literacy framework to maximize the benefits of digital communication. African governments should enhance their oversight of internet service providers to remove barrier to internet access by ensuring the affordability of internet infrastructure or data subscriptions. The concept of net neutrality needs to be actualized to eliminate inequalities in digital communication.

The development of GVCs (Chapter 9) is so intertwined with the liberalization of trade in services that upgrading in one area cannot be effective without upgrading in the other. So, to support the implementation of the AfCFTA trade in services must be liberalized to facilitate the development of value chains across the continent. The chapter analyses REC value chain efforts such as harmonizing national policies, laws, and regulations and developing common standards to create a uniform business environment for investors, using as an example the mining sector, where there was some evidence of challenging value chain development. The discussion stresses the efficient implementation of the AfCFTA and the subsequent establishment of effective value chains to create credible databases on services and improve both government and private sector capacity in negotiating the liberalization of services, establishing regulatory structures for them and effectively regulating them.

The AfCFTA Protocol on Trade in Services can support the deployment of ICT through state parties' schedules of specific commitments and regulatory frameworks. AfCFTA members will have to develop regulatory frameworks both to facilitate cooperation and coordination across sectors and also to formulate regulations needed to close the digital gap. Guiding policies must be formulated to support GVCs, including for trade, investment, infrastructure, entrepreneurship, service liberalization, local firm development, workforce development, and industry institutionalization. If such policies are harmonized across AfCFTA state parties, the creation of successful and effective value chains is possible. So, to facilitate implementing the AfCFTA, African countries must invest resources in strengthening those capacities across all platforms locally, regionally and internationally.

Some policy recommendations include adopting of a mixture of techniques for evaluating the role of services in value chains, both those specializing in service delivery and those using services as intermediate inputs (a weakness in the conventional trade statistics). The techniques include qualitative approaches, net value added by trade, comparative advantage, input–output analyses and harmonized input-output tables of different countries.

The liberalization of trade in services is required to facilitate the development of value chains and boost the capacity of key stakeholders across the continent. AfCFTA should ensure the harmonization of policies across the region and coordination between all levels of governance to solve the challenges of services liberalization in RECs.

The processes of liberalisation and integration should be integrated with technologies to refine current systems, build new market possibilities and change supply chains and the geography of trade. Having the best mix of technologies, resources, people, and solutions is vital to create more resilient and versatile value chains when businesses revisit their strategies to boost end-to-end visibility, resilience and productivity in the supply chain.

AfCFTA state parties must develop regulatory frameworks to facilitate cooperation and coordination across service sectors and to formulate regulations to address issues raised by the digital divide.

African countries have made efforts to join GVCs, but several challenges have made the value chains ineffective. Solving these challenges depends on national and regional public policies dedicated to doing so. They include policies to develop skilled human capital; high quality, competitive logistics and telecommunications; cost-effective transport infrastructure; a conducive business environment; and proper protection of intellectual property and more. RECs could play a leading role in widening infrastructural bottlenecks in financial, transport, communication, distribution and energy services that restrict the capacity of these value chains.

Integration should aim to involve all relevant stakeholders at country, regional and international levels. The collaboration may include empowering regional or subregional institutions, strengthening the capacity of national regulators, promoting the coordination and exchange of information and receiving the support of inter-governmental and other regional institutions. The AU, AfCFTA and REC member states should use multi-stakeholder dialogue mechanisms, inter-ministerial and legislative cooperation committees and working teams to create cohesion across all critical agencies. Such agencies drive service performance and share responsibility with national bodies for cooperation and liaison with local institutions, such as domestic regulators, private sector representatives, civil society institutions and academia and think tank representatives. These exercises need to start early and should be integrated into the entire process of policy implementation, monitoring and evaluation.

Three approaches have dominated the practical formulation of GVCs. The first focuses on liberalizing trade in goods and services and promoting foreign direct investment (for example, as sponsored by various multilateral organizations) as a way to connect with multinational enterprises. The second approach uses the GVC framework to examine how vulnerable and disadvantaged actors such as women and minority groups in African countries (perhaps promoted by aid agencies) can secure entry into the value chains. Third is a comprehensive approach based on the core concepts of value chain theory—governance and upgrading—that draws on both global and local considerations, analyses the current role of developing countries (including African countries) in GVCs and identifies factors that affect their ability to compete in these chains beneficially.

These approaches are not inflexible, since such factors such as products and service, firm, and country characteristics differ, so a "one-size-fits-all" solution to GVC policies is not recommended. Even so, certain guiding policies noted above need to be formulated to support GVCs.

Enhancing the capacities of state and non-state actors, especially those participating in negotiations and the implementation of services trade agreements, is crucial. Leadership capacities need to be strengthened at the AUC, RECs and the AfCFTA secretariat, through immersion in learning about change management and strategic vision development.

African countries also need to invest in enhancing civil service competencies, specifically strengthening capabilities, processes, and systems in policy organs for planning, economic finance, trade negotiations and implementation and so on. They should create dedicated budgets for capacity development in the services trade sectors to secure long term gains in Africa's trade and development. They should establish ways to build social capital and strengthening services trade networks for transformative leadership that embraces political leaders, top public sector managers, civil society organizations, trade unions, professional standards organizations, business associations, academic and research institutions and think tanks. And they should develop initiatives to enhance the skills of women and youth through inclusive capacity-building exercises.

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