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The African Continental Free Trade Area and Trade in Services:

Opportunities and Strategies for Southern Africa

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Front cover image:

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Final boundary between the Republic of Sudan and the Republic of South Sudan has not yet been determined.

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Acronyms

ABTC	APEI Business Travel Card
AEGM	Ad-hoc Expert Group Meeting
AfCFTA	African Continental Free Trade Area
APEI	Accelerated Program for Economic Integration
AUC	African Union Commission
BPM6	Balance of Payments and International Investment Position Manual–Sixth Edition
CAGR	Compound annual growth rate
COMESA	Common Market for Eastern and Southern Africa
EAC	East African Community
ECOWAS	Economic Community of West African States
FDI	Foreign direct investment
IEC	International Economic Consulting Ltd
GATS	General Agreement on Trade in Services
GDP	Gross domestic product
GVC	Global value chain
ICT	Information and communications technology
MRA	Mutual recognition agreements
n.i.e.	Not included elsewhere
OECD	Organisation for Economic Co-operation and Development
R&D	Research and development
REC	Regional economic communities
SADC	Southern African Development Community
SME	Small and medium-sized enterprises
SRO-EA	Subregional Office for Eastern Africa
SRO-SA	Subregional Office for Southern Africa
TISMOS	Trade in Services Data by Mode of Supply
UNCTAD	United Nations Conference on Trade and Development
UNECA	United Nations Economic Commission for Africa
WTO	World Trade Organization

Note: All dollar figures are United States dollars.

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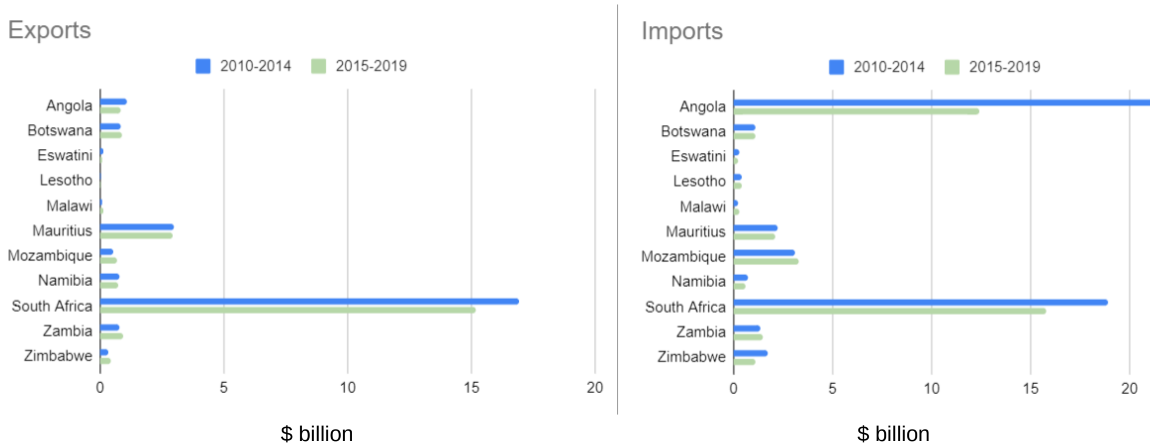
Executive summary

The services sector is the most dynamic and promising sector of nearly any economy. Services dominate the Southern African region, largely due to the influence of South Africa, whose services sector accounted for 67 per cent of Southern Africa's combined services economy. However, sectoral characteristics highlight the need for greater structural transformation, more value addition and job-creating growth.

Despite the growing worldwide trend, trade in services in Southern Africa has experienced a decline in recent years. Between the period 2015-2019, Southern Africa's services exports averaged $22.9 billion—a 6.7 per cent decline in comparison to the average experienced between 2010 and 2014—with imports of services trade having experienced a significant contraction, moving from $52.7 billion worth of services imported on average between 2010 and 2014, to $38.9 billion on average between 2015 and 2019.

Figure I **Southern Africa's exports and imports of services**



Source: Author's calculations based on United Nations Conference on Trade and Development (UNCTAD) statistics.

Overall, the trade patterns seem to replicate a trend that occurred across the African continent. As shown in table 1, the period 2010-2014 saw a general slowdown in exports, with the compound annual growth rate (CAGR) being under 4 per cent across Africa and its regions—with the exception of East Africa, whose services exports grew faster than the rest of the continent.

This situation is expected to change with the African Continental Free Trade Area (AfCFTA). Set to become operational on 1 January 2021, the AfCFTA will create a consolidated market of 1.2 billion people and a $3.4 trillion economy for goods and services, and aims to remove tariff and non-tariff barriers on substantially all trade in goods and services as well as liberalizing the movement of people and investments.

The AfCFTA offers an opportunity to transform the existing commodity-dependent and fragmented socioeconomic spectrum of African countries into a more unified market marked by higher levels of economic diversification and product sophistication. The AfCFTA is meant to allow the formation of larger economies of scale and enhance the region's specialization in agricultural, industrial goods and services.

Overall, the liberalization of trade in services is pursued through successive rounds of liberalization. Negotiations in the first round cover five priority sectors: business and professional services, telecommunications services, financial services, transport and tourism. Additionally, discussions are ongoing over the possibility to frontload health services and e-commerce.

Southern Africa's exports of **financial services** (including insurance and pensions services) in 2019 were dominated by South Africa, which accounts for 76 per cent—$1 billion—of the region's total exports, followed by Mauritius, which accounts for a further 10 per cent—$123 million. Overall, the region's performance in this sector has remained stagnant, with its total exports of financial services having reached a plateau at around $1.3 billion.

Trade in **business services** plays an important role in the region's services trade, with the region exporting a total of $2.4 billion of such services to the world in 2019. Between the periods 2010-2014 and 2015-2019, the region's exports of such services decreased by 8.2 per cent, from an average of $3.1 billion to $2.8 billion.

Travel and tourism is one of the oldest forms of services and has played a crucial role in the diversification of many developing economies. It constituted more than 50 per cent of the export share of total services for seven of the 11 Southern African countries and was as high as 90 per cent for Angola. Overall, the region as a whole has experienced a generalized increase in exports of this sector, with Lesotho and Zambia, for example, increasing their exports by 48 per cent and 29 per cent, respectively, between 2010-2014 and 2015-2019. Mauritius also experienced a considerable increase in exports (+20 per cent). South Africa continues to dominate the market, with over 66 per cent of the market share between 2015-2019.

Transport services is a key service to promote regional integration for Southern Africa. Nevertheless, the region as a whole has experienced a generalized decrease in exports of transportation services, with Eswatini and Lesotho, for example, reducing their exports by 85 per cent and 75 per cent, respectively between 2010-2014 and 2015-2019. South Africa also saw its exports reduced by 28 per cent during the aforementioned periods.

Finally, Southern Africa is a net importer of **communication services**, with the exception of Mauritius and Malawi, who recorded a positive trade surplus of over $20 million each in 2019. South Africa is the region's leader in the exportation of communication services ($613 million in 2019), followed by Mauritius ($140 million) and Malawi ($43.8 million).

Progress in the negotiations is slow. By August 2020, only ten contracting parties had submitted initial offers to the AUC for the liberalization of services sectors, five of which are Southern African countries: Comoros, Eswatini, Mauritius, South Africa and Zambia. Difficulties related to COVID-19 and the impossibility to hold in-person stakeholder consultations, limited knowledge on the functioning of trade in services negotiations, lack of awareness and understanding of the domestic legislation and security concerns around online negotiations appear to be the main elements hampering the negotiations, which makes it unlikely that the AfCFTA will have the relevant schedules ready by 1 January 2021.

The impact arising from the AfCFTA on trade in services is expected to be significant. The liberalization of the services sector in Southern Africa can lead to benefits that extend far beyond the service sectors themselves, affecting other economic activities in which services are part of the businesses' ecosystems. However, significant barriers must be tackled. Certain market entry regulations applied by the SADC Member States, such as licensing requirements, quantitative restrictions on the number of suppliers and exclusive rights granted to locals, are considered more trade-restrictive than those applied by other emerging economies and Organisation for Economic Co-operation and Development (OECD) countries. Such barriers to trade in services hamper the ability of the private sector to trade, both through cross-border trade and through foreign affiliates.

Promoting the role of the services sector across Southern Africa and fostering the sector's export diversification would require reviving domestic competition, encouraging foreign direct investment (FDI), open markets and pro-competitive reforms. Southern African countries are in a race to diversify and add value to their production chains and export baskets for both trade in goods and services. Implementing policies that restrict foreign access to upstream service markets reduce the productivity of downstream firms using these services. Moreover, less restrictive trade practices on paper are largely ineffective when indicators of the quality of institutions (the weak rule of law, bad regulatory quality) have low values. Specifically, opening up the markets and allowing competition would secure better access to world-class services at attractive prices, thereby helping manufacturing firms compete on price and quality.

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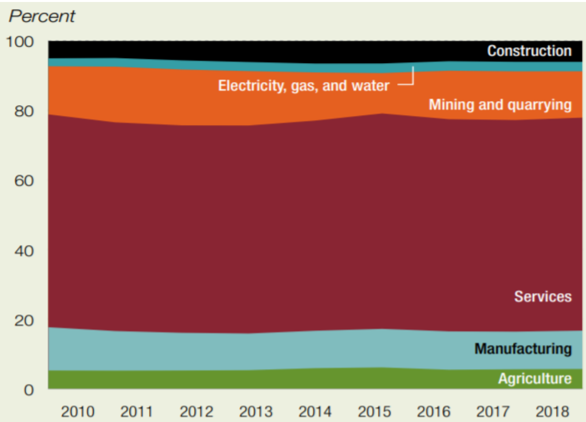
I. Introduction

The services sector is the most dynamic and promising sector of nearly any economy. While the share of both agriculture and industry in the gross domestic product (GDP) of sub-Saharan Africa has declined over the years—from 17.5 per cent in 2000 to 15.3 per cent in 2019 for agriculture, from 30.7 per cent to 26.8 per cent for industry and from 12.6 per cent to 11.3 per cent in manufacturing—the services sector's contribution to GDP has increased from 46.4 per cent to 50.9 per cent.[1] With a rapid growth witnessed in Africa's middle class, the importance of the services sector is expected to continue increasing, leading both to enhanced service sector exports and increasing wealth.[2]

Southern Africa's sectoral characteristics highlight the need for greater structural transformation, more value addition and job-creating growth. As shown above, services dominate the region's economy, largely due to the influence of South Africa, where the services sector accounted for 67 per cent of Southern Africa's combined services economy. Angola and Zambia are also important contributors to the region's services sector with 14 per cent and 4 per cent, respectively. South Africa's contribution had fallen, however, from 73 per cent in 2010 to 62 per cent in 2017 due to the rise of Angola's contribution, which improved from 11 per cent to 16 per cent. South Africa's declining contribution is mainly attributed to slow growth in key sectors coupled with insufficient competitiveness in goods and services markets, inefficient state-owned enterprises, skill shortages and policy uncertainties surrounding the new mining laws.[3]

Figure II **Southern Africa's sectoral distribution of GDP, 2010–2018**



Source: African Development Bank statistics

Services trade is also experiencing significant growth.

In 2019, amidst economic uncertainty and trade tensions, the volume of world trade in services increased by 1.9 per cent between 2018 and 2019. In contrast, the volume of world merchandise trade declined in that same period by 2.8 per cent.[4] Furthermore, the World Trade Organization (WTO) estimates that the share of services in world trade would increase by 50 per cent by 2040 to account for a third of world trade.[5]

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1 World Bank's World Development Indicators.

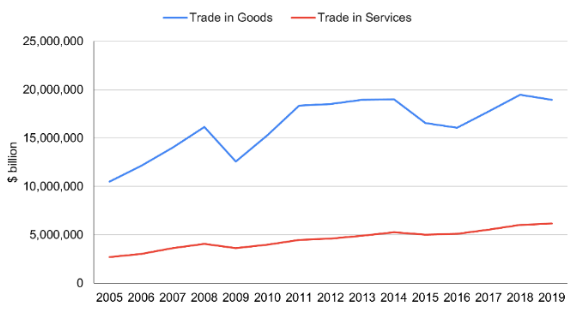
2 See Sáez, S., McKenna, M. and Hoffman, B. *Valuing Trade in Services in Africa*. World Economic Forum, Africa Competitiveness Report, p. 54 (2015).

3 African Development Bank Group. Southern Africa Economic Outlook 2019. *Macroeconomic Performance and Prospects. Regional Integration and Private Sector Development* (Cote d'Ivoire, 2019).

4 UNCTAD statistics.

5 WTO. World Trade Report 2019: The Future of Services Trade (2019).

Figure III **World's trade in goods and trade in services, 2005-2019**



Source: Author's calculations based on UNCTAD statistics.

This growth has been sustained partly by the expansion of digital technology, changing demographics and consumption patterns, rising incomes and globalization. Specifically, advances in information and communications technology (ICT) have made it possible to trade in previously non-tradable services that can now be delivered from a distance; services as essential as health care that once could only be delivered in person are now accessible through various e-health services across the Internet. Even complex operations such as surgery have been performed remotely. The educational system has also been revolutionized with the proliferation of e-learning platforms. The entertainment industry is also flourishing online.

The increasing servicification of the manufacturing sector will further contribute to the trade in services expansion. As highlighted by Miroudot (2019),[6] services can be embodied across different stages of the global value chain (GVC) and take multiple forms, either as direct inputs into the production stages, or as services embodied in the product they used to manufacture. In many GVCs, the highest value added lies in intangible services activities such as pre-production activities (research and development, design, commercialization) or as post-production activities driven by marketing knowledge such as marketing, advertising and brand management, specialized logistics and after-sale services.[7] Servicification can:

- Improve firms' productivity.
- Enhance differentiation and value addition.
- Overcome barriers to foreign market entry.
- Enable the establishment of networks, including headquarters or business partner services, such as data processing and R&D services.[8]

This servicification was also identified by Kelle (2013),[9] which highlighted that German manufacturing firms are also big exporters of services. This is mainly due to:

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6 Miroudot, S. *Services and Manufacturing in Global Value Chains: Is The Distinction Obsolete*? ADBI Working Papers, No. 927, March 2019 (Asian Development Bank Institute, 2019).

7 World Bank Group. *Factory Southern Africa? SACU in Global Value Chains* (Washington D.C., 2016).

8 Lodefalk, M. *Servicification of Firms and Trade Policy Implications.* World Trade Review, 16:1, pp. 59-83 (2017).

9 Kelle, M. *Crossing Industry Borders: German Manufacturers as Services Exporters*. The World Economy, 36:12, p. 1494-1515 (2013).

- Firms supporting both foreign manufacturing and distribution affiliates with domestic services.
- The important role that R&D services play to support the international knowledge flow and technology transfer.
- The nature of the goods produced by German firms is tied up to installation, maintenance and technical support services.

Lodefalk (2013)[10] shows, using Swedish firm level data for 2001-2007, that an increase in the usage of in-house services, such as R&D, transport and marketing, is linked to an increase in the export intensity of that particular firm. Such results indicate that by "using more services, manufacturing firms … may become more competitive internationally."

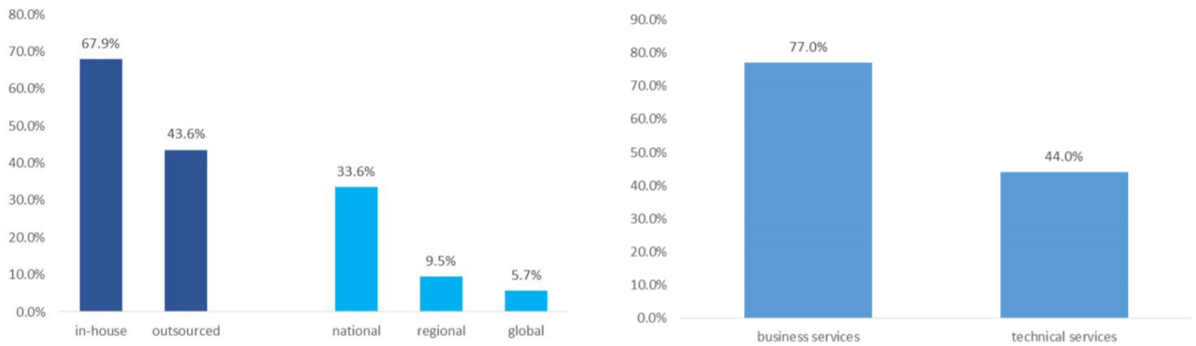
Box 1 **Servicification in Southern African Customs Union countries**

As highlighted by the World Bank (2016), around 70 per cent of big firms across Africa make some use of services such as design, transport, logistics, finance, marketing and advertising as part of their value chains. However, the majority of such firms rely mainly on in-house provision of those services, with just 43 per cent outsourcing these services.

A share of total services used (left) and lead firms indicating adequate availability of services across 14 African countries (right). (See figure IV.)

This is due to the fact that the smallest firms cannot afford to outsource services, but as they grow they increasingly outsource to ensure quality and specialization of services provision. However, once they reach a certain size, it can become once again cost-efficient to internalize services specialization and produce in-house.[11]

Figure IV **Sourcing of services across 14 African countries**



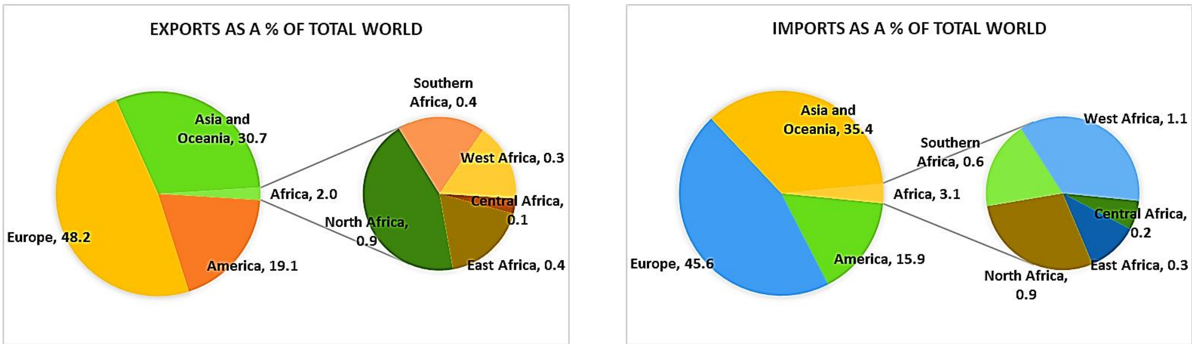
[10] Lodefalk, M. *The Role of Services for Manufacturing Firm Exports*. Review of World Economics, 150, pp. 59–82 (2014).

[11] World Bank Group. *Factory Southern Africa? SACU in Global Value Chains* (Washington D.C., 2016).

However, **services trade in the world to date remains concentrated among a few players**. The top 10 exporters of commercial services account for 54.2 per cent of global exports with the United States, United Kingdom and Germany being the leaders. The contribution of African countries to global services trade remains low at 2 per cent for exports and 3 per cent for imports. Egypt is the largest exporter of the continent with total trade in services exports accounting for $25 billion—22 per cent of the continent's total services exports.

In Southern Africa, services trade is dominated by South Africa with services exports accounting for $14.7 billion in 2019—66 per cent of the group's total services exports.

Figure V **Services trade as a percentage of the world, 2019**



Source: Author's calculations based on UNCTAD statistics.

Nevertheless, **Africa's share may change due to the entry into force of the AfCFTA**. The AfCFTA, with 54 contracting parties and set to become operational on 1 January 2021, will create a consolidated market of 1.2 billion people and a $3.4 trillion economy for goods and services and aims to remove tariff and non-tariff barriers on substantially all trade in goods and services, liberalizing the movement of people and investments. Under the free trade area, trade in services will be governed by the Protocol in Trade in Services whose aim is to create an "open, rules based, transparent, inclusive and integrated single services market".[12]

The creation of a single continental market for goods and services through the AfCFTA, with free movement of business people and investments, is one step further towards the African Union's objective to create the Continental Customs Union and the African Common Market envisaged by the AEC Treaty, turning the 54 African economies into a more coherent and larger market.

The AfCFTA offers an opportunity to transform the existing commodity-dependent and fragmented socioeconomic spectrum of African countries into a more unified market, marked by higher levels of economic diversification and product sophistication. The AfCFTA is meant to allow the formation of larger economies of scale and enhance the region's specialization in agricultural, industrial goods and services. The larger, more viable economic space is expected to "allow African markets to function better and promote competition, as well as resolve the challenge of multiple and overlapping regional economic communities (REC), helping thereby to boost inter-REC trade. Moreover, the sheer size of the single market would provide a more

12 African Union. Agreement Establishing the African Continental Free Trade Area, Preamble (Kigali, 2018).

conducive environment for industrial diversification and regional complementarities than what is viable under existing individual country approaches to development".[13]

Box 2 **Doubling the level of intra-regional trade**

One of the key objectives of the AfCFTA is to double the level of intra-regional trade. Estimations by Mevel and Karingi (2012),[14] later confirmed by Cheong, Jansen and Peters (2013)[15] show that, although the increase in trade arising from the implementation of the AfCFTA would be significant, it is insufficient in order to achieve the objective of doubling intra-African trade between 2012 and 2022. According to the authors' estimations, the establishment of a CFTA would increase Africa's exports to the world by 4 per cent—$25.3 billion.

The agricultural and food sectors, mainly wheat, cereals, sugar, meat, raw milk and dairy products, would benefit most from AfCFTA's implementation, whose exports would increase by 9. per cent—$5 billion.

Additionally, the AfCFTA would result in a 52.3 per cent—$34.6 billion increase in intra-African trade; thanks to exchanges within the continent growing in three main sectors, namely: agriculture and food, industry and services. Therefore, '*the establishment of a fully effective CFTA by 2017 would enhance intra-African trade by 51.7 per cent over a twelve-year period, the share of intra-African trade passing from 10.2 per cent in 2010 to 15.5 per cent in 2022*'.[16]

Only the adoption of further measures contributing to a deeper continental integration might enable the achievement of the aforementioned objective. In this sense, UNCTAD (2015) highlights that the adoption of enhanced trade facilitation measures would increase the share of intra-African trade to 22 per cent.[17]

The aforementioned measures to deepen continental integration are especially needed in Southern Africa. As highlighted by the Africa Regional Integration Index Report 2019, the SADC scores the lowest points for overall integration, despite South Africa being the most integrated country in the continent. Specifically, SADC's scores are pulled down by existing gaps in regional infrastructure.[18]

13 See Soininen, I. *The Continental Free Trade Area: What's Going On?* International Centre For Trade and Sustainable Development, Bridges Africa, Volume 3, Number 9 (2014).

14 Mevel, S., and Karingi, S. *Deepening Regional Integration in Africa: A Computable General Equilibrium Assessment of the Establishment of a Continental Free Trade Area Followed by a Continental Customs Union* (7th African Economic Conference, Kigali, 30 October–2 November 2012).

15 Cheong, Jansen and Peters. Towards a Continental Free Trade Area in Africa: A CGE modelling assessment with a focus on agriculture, in Cheong, D., Jansen, M. and Peters, R. (eds.) *Shared Harvests: Agriculture, Trade, and Employment* (ILO and UNCTAD, 2013).

16 Ibid. p.18.

17 UNCTAD. *The Continental Free Trade Area: Making it Work for Africa*. Policy Brief N. 44 (2015)

18 African Union, African Development Bank and UNECA. Africa Regional Integration Index Report 2019.

Overall, the liberalization of intra-African trade is the ultimate objective of the AfCFTA; for goods, this is realized through the progressive elimination of 97 per cent of tariff lines, the removal of non-tariff barriers and cooperation in regulatory frameworks. Services sectors will be liberalized through the extension of national treatment and removal of barriers for foreign participation in domestic markets. A goal is to adopt harmonized regulatory frameworks to simplify and level the playing field for trade in services.

All Southern African countries have signed the AfCFTA Agreement. Signatory countries become State Parties following the deposit of the instrument of ratification—incorporation of the AfCFTA into domestic law with the AUC. By September 2020, five Southern African countries had deposited instruments of ratification with the AUC—Eswatini, Mauritius, Namibia, South Africa and Zimbabwe. Angola has completed processes but is yet to deposit its instrument of ratification.[19]

The aim of this study is to support the Member States party to the Intergovernmental Committee of Senior Officials and Experts of Southern Africa by:

- Providing an update of the status of Trade in Services negotiations in the AfCFTA.
- Stimulating discussions on contentious issues that may represent bottlenecks to the negotiations.
- Providing an overview of the opportunities that the AfCFTA brings to the countries in Southern Africa to promote their services sectors as a competitive and efficient driver of sustainable and equitable economic growth and decent job creation.

The study is divided as follows:

Section II provides an overview of the service sectors and trade in services in Southern Africa.

Section III gives an update on the status of the AfCFTA Trade in Services Negotiations and highlights outstanding issues for the negotiations.

Section IV highlights the opportunities and strategies to develop a competitive and efficient services sector.

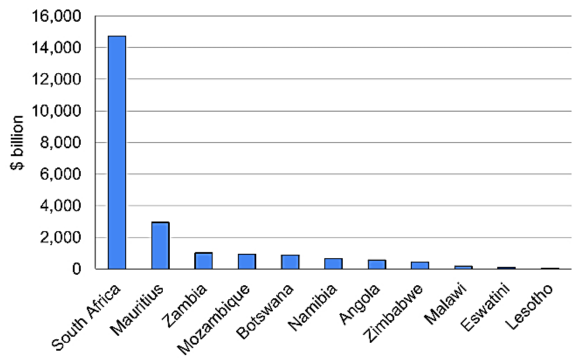
Section V concludes and provides a series of policy recommendations.

[19] Available at https://www.tralac.org/resources/infographic/13795-status-of-afcfta-ratification.html

II. Southern Africa's trade in services

Southern Africa is a region with a range of economic profiles.[20] The average GDP per capita over the past five years of its highest-performing economy, Mauritius, is 20 times that of its lowest, Malawi; annual growth rates range from 4 per cent for Mozambique to -0.9 per cent for Angola over the same period.[21] This contrast is also reflected in the level of services exports across the group. South Africa, for example, is one of the three most competitive services economies in the African continent with total services exports recording $14.7 billion in 2019, while Lesotho, a least developed country, recorded services exports of just $31 million.

Figure VI **Export of services in Southern Africa, 2019**



Source: UNCTAD statistics.
Note: data for Mauritius is 2018 and for Zambia is 2015.

The current COVID-19 pandemic has dampened prospects for growth in the region with the pandemic having severely affected trade, remittances, financial markets and consumer and business sentiment. Additionally, the epidemic has also negatively impacted the economic activity of countries across the world which will, in turn, severely reduce the flow of remittances to Southern Africa.

The services sector has been heavily impacted by the global pandemic; according to the World Bank this is mainly due to the number of mobility restrictions applied by governments around the world. Trade in services involving physical proximity between suppliers and consumers has been most hampered. Specifically, trade in services related to the General Agreement on Trade in Services (GATS) mode 2 and mode 4, supply in the context of the movement of consumers abroad and involving the temporary movement of natural persons, respectively, have been severely affected.[22] The OECD, in turn, estimates that services trade costs will increase by an average of 12 per cent across sectors and countries. It is estimated that the pandemic could lead to a 20 per cent to 30 per cent decline in tourism receipts in 2020 compared to 2019.[23]

20 Southern Africa refers to 11 countries: Angola, Botswana, Lesotho, Malawi, Mauritius, Mozambique, Namibia, South Africa, Eswatini, Zambia and Zimbabwe.

21 World Bank Group. World Development Indicators (accessed on 27 August 2020).

22 WTO. Trade in Services in the Context of COVID-19: Information Note (28 May 2020).

23 G20. COVID-19 Crisis: Implications for Trade and Investment–report to the Trade and Investment Working Group (2020).

Additionally, as highlighted by ECA and IEC (2020), COVID-19 has:

- Led to an intense drop in demand for services.
- Provoked a lack of operational cash flow.[24]

On the other hand, **the pandemic has led to a rise in trade in modern services**, especially in the education, telecommunications and entertainment sectors. Online services have expanded in many markets, with people resorting to online retail, virtual education and online entertainment.

Despite the growing worldwide trend, **trade in services in Southern Africa has experienced a decline in recent years**. For the period 2015-2019, Southern Africa’s services exports averaged $22.9 billion, a 6.7 per cent decline in comparison to the average experienced for the period 2010-2014. However, that negative trend is not common across all 11 countries in the region. Malawi (+46 per cent), Mozambique (+27 per cent) and Zimbabwe (+24 per cent) show the strongest growth of services trade in the region, although these countries do start off from a relative small base. On the other hand, Eswatini (-26 per cent), Angola (-23 per cent) and South Africa (-10 per cent) are the countries with the most acute contraction in services exports.

Box 3 **Challenges in measuring trade in services**

Overall, measuring trade in services is a challenge due to a general lack of services trade data with a geographical breakdown by partner country—therefore, intra-African trade in services data is unavailable. This forces practitioners to rely on general trade figures (imports/exports with the world) to make the necessary assessments.[25]

In addition, what constitutes the services sector is not straightforward given the intangibility and non-tradability of services. According to the Balance of Payments and International Investment Position Manual—Sixth Edition (BPM6), services “are the result of a production activity that changes the conditions of the consuming units, or facilitates the exchange of products or financial assets. Services are not generally separate items over which ownership rights can be established and cannot generally

[24] UNECA and IEC. *Reactions and Outlook to COVID-19 in Southern Africa* (IEC: Mauritius and UNECA: Addis Ababa, 2020).

[25] World Bank Group. *From Hair Stylists and Teachers to Accountants and Doctors: The Unexplored Potential of Trade in Services in Africa* (Washington D.C., 2016).

As highlighted, “poor availability of data and huge discrepancies between official statistics and firm-level data make rankings of openness and analyses of services trade and their role as intermediate inputs misleading. Informal trade in services flourishes across the continent, yet data on such flows remain totally absent. Comprehensive comparisons across sectors and regions are ambiguous or not possible. Furthermore, despite growing opportunities for African services firms to export to neighboring countries, limited data on trade in services by partner country and sparse information on regulatory policies and their application hamper the monitoring of progress in services liberalization and regional integration”.

be separated from their production".[26] To facilitate measurement, services are often divided into different categories.

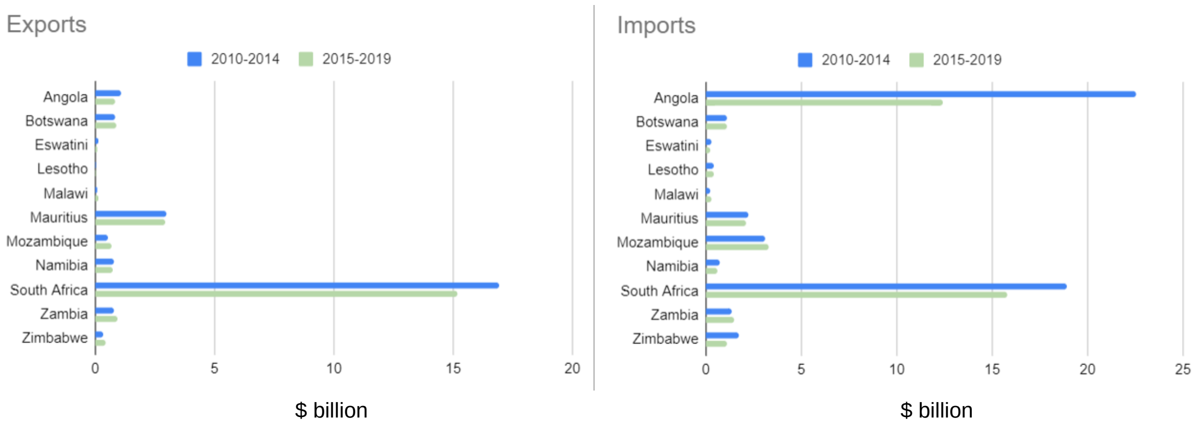
BPM6 divides services into 12 main categories: manufacturing services on physical inputs owned by others, maintenance and repair services not included elsewhere (n.i.e.), transport, travel, construction, insurance and pension services, financial services, charges for the use of intellectual property n.i.e., telecommunications, computer and information services, other business services, personal, cultural and recreational services and government goods and services n.i.e. For the purposes of this report, emphasis will be laid on those items that fall under the five priority sectors of the AfCFTA by referring to the definitions provided by the Services Sectoral Classification List of the World Trade Organization (WTO).[27]

Unfortunately, there is no direct way of finding data for the five priority services. For instance, to obtain the components of communications services as defined by the WTO, one has to look for postal services and courier services under Transport in the BPM6 classification.

Annex I identifies the different components of the BPM6 items that are used to measure each of the five priority sectors.

Imports of services trade have experienced a significant contraction, moving from $52.7 billion worth of services imported on average between 2010 and 2014, to $38.9 billion on average between 2015 and 2019. Angola and South Africa are the main contributors to such a fall, having reduced their services imports by 45 per cent and 17 per cent, respectively. Zimbabwe (-37 per cent) and Eswatini (-26 per cent) have also reduced imports of services. On the other hand, Malawi (+25 per cent) and Zambia (+11 per cent) have experienced an increase in services imports.

Figure VII **Southern Africa's exports and imports of services**



Source: Author's calculations based on UNCTAD statistics.

26 IMF. *Balance of Payments and International Investment Position Manual*, Sixth Edition (BPM6) (Washington, D.C., 2009).

27 WTO. MTN.GNS/W/120 (10 July 1991).

Interestingly, it appears that Angola's reduction in services imports is nearly mirrored by a reduction of the country's exports, which have fallen by 41 per cent between the periods under consideration, mainly driven by a reduction of the country's exports of petroleum (HS 270900).

Exports in the region vary according to the mode of supply. Other business services are dominated by mode 1, communication services by mode 1 and mode 3, financial services by mode 3, health services by mode 2, tourism by mode 2 and transport by mode 1. Between 2010 and 2017, the pattern has remained stable, with no major change in the modes of supply. Exports of business services experienced a concentration around mode 1, while the reduction of financial services trade occurs mainly from a contraction in mode 3 of supply.

Imports of services depict a different picture. Sixty-eight per cent of the total imports in the five priority sectors occur in mode 3, with a predominance of financial services, which account for 50 per cent of all imports and 75 per cent of all mode 3 imports. Between 2010 and 2017, the trend across modes of supply has remained stable. Imports of business services experienced a further concentration around mode 3, absorbing some trade that was done through mode 1. Communications are mainly imported through mode 3, meaning that most of the services are provided through foreign entities (see annex II for tables).

Figure VIII **Exports of trade in services in Southern Africa by mode of supply, 2010-2017**

Note: Y axis is a logarithmic scale.
Source: Author's calculations based on WTO Trade in Services Data by Mode of Supply (TISMOS).

Figure IX **Imports of trade in services in Southern Africa, by mode of supply, 2010-2017**

Note: Y axis is a logarithmic scale.
Source: Author's calculations based on WTO TISMOS.

Overall, the **trade patterns seem to replicate a trend that occurred across the African continent**. As shown in table 1, the period 2010-2014 saw a general slowdown in exports, with the CAGR being under 4 per cent across Africa and its regions—with the exception of East Africa, whose services exports grew faster than the rest of the continent. While services exports recovered in the period 2015-2019, that was not the case in Southern Africa, which continued to contract. A similar situation is experienced on the import side, with Africa, Asia and the average of developing economies experiencing a reduction of services imports in the period 2015-2019. The data suggest a high degree of volatility in services trade growth, which is remarkably pronounced for the African regions.

Table 1
Growth rate in services trade

Exports	Annual growth rate	
	2010-2014	2015-2019
Africa	2.7%	4.9%
Asia	8.7%	6.1%
Europe	7.0%	5.6%
Developing economies	8.4%	5.6%
ECA: Central Africa	3.9%	5.1%
ECA: East Africa	11.7%	5.5%
ECA: North Africa	0.0%	6.0%
ECA: Southern Africa	3.3%	-0.6%
ECA: West Africa	1.4%	8.8%

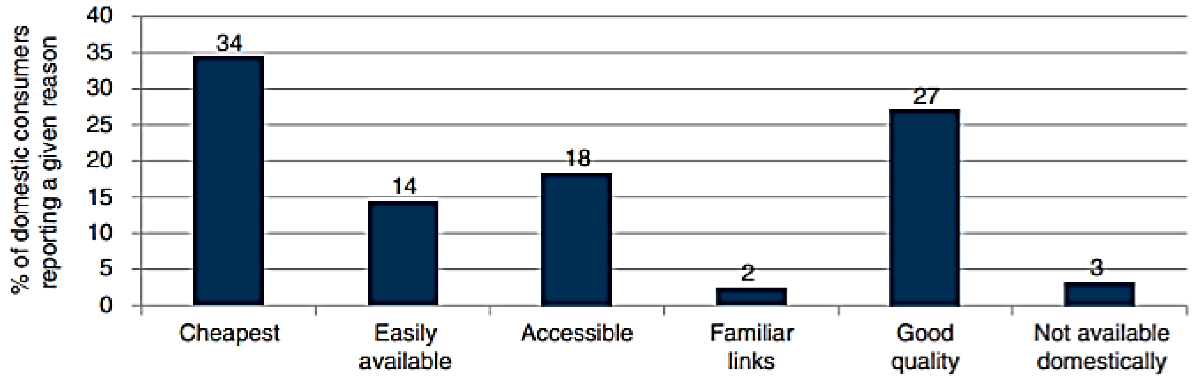
Imports	Annual growth rate	
	2010-2014	2015-2019
Africa	5.2%	2.9%
Asia	10.4%	3.7%
Europe	6.3%	5.8%
Developing economies	10.2%	3.2%
ECA: Central Africa	6.4%	-6.8%
ECA: East Africa	13.8%	0.7%
ECA: North Africa	2.9%	3.0%
ECA: Southern Africa	3.8%	-6.1%
ECA: West Africa	6.4%	14.1%

Source: Author's calculations based on UNCTAD statistics.
Note: Annual growth rate calculated as CAGR.

Services trade across the continent is driven by cost and quality differences, non-availability of services at home and proximity. As highlighted by Dihel and Goswami (2016),[28] the cost advantage is the main driver for the provision of intra-regional services by foreign hairdressers, housekeepers, gardeners, agricultural workers, healers and teachers. Tanzanian and Ugandan housekeepers move to Kenya (mode 4) because they would earn higher salaries than in their native countries. However, that is not always true for all sectors. In education and health services, the availability and quality of services, plus the non-availability of specialized services, appear to be the key factor shaping the trade flows.

[28] Dihel, N. and Goswami, A. G. in World Bank (eds.) *The Unexplored Potential of Trade in Services in Africa: From Hair Stylists and Teachers to Accountants and Doctors*, Introduction (World Bank Group, 2016).

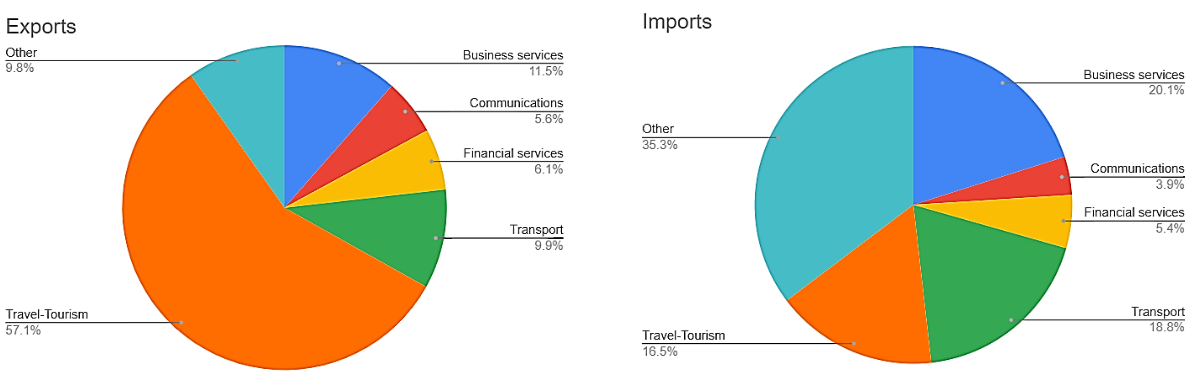
Figure X **Reasons consumers from the Democratic Republic of the Congo import services**



Source: Dihel and Goswami (2016)

Services trade in Southern Africa is primarily driven by the traditional travel and tourism sector, which constitutes almost 60 per cent of the total services exports of the region. Negotiations in the first round of the AfCFTA Trade in Services negotiations cover five priority sectors: business and professional services, telecommunications services, financial services, transport and tourism. Considered together, such services contributed to 90.3 per cent of Southern Africa's services export, and 64.7 per cent of its imports. The share of the more modern services sector in trade, such as communications and financial services, are low. Business services imports made up about a fifth of the region's services imports, followed closely by the transport sector. The status of each sector is further analysed in the sections below.

Figure XI **The five priority services in Southern Africa, 2019, percentage of total exports**



Source: Author's calculations based on UNCTAD statistics.

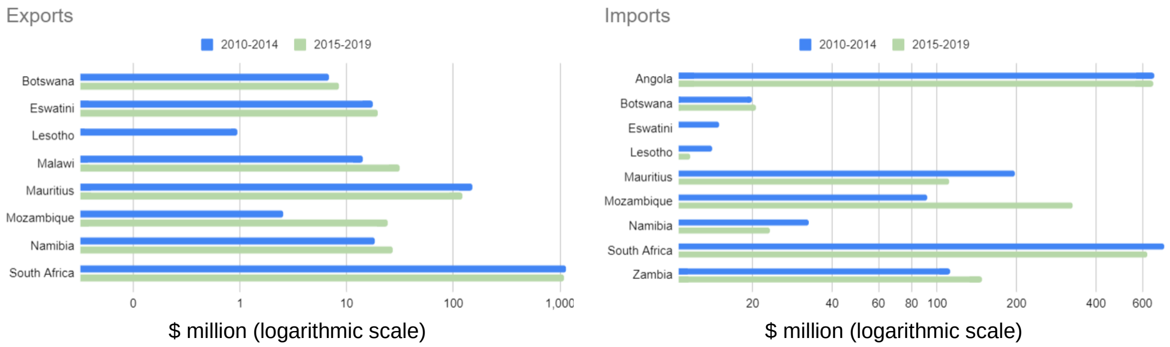
Specifically, the international trading system is highly dependent on the financial system, as evidenced by the spillover effects of the last financial crisis. Evidence for the positive impact of finance on growth is well established, especially through its effect on total factor productivity.[29]

Southern Africa's exports of financial services (including insurance and pensions services) in 2019 were dominated by South Africa, which accounts for 76 per cent—$1 billion—of the region's total exports, followed by Mauritius, which accounts for a further 10 per cent—

[29] See, amongst others, Beck, T., Demirgüç-Kunt, A. and Levine, L. A new database on Financial Development and Structure. World Bank Economic Review 14, 597–605 (2000).

$123 million. Overall, the region's performance in this sector has remained stagnant with its total exports of financial services having reached a plateau at around $1.3 billion. Comparing the periods 2010-2014 and 2015-2019, while Angola and South Africa dwarf the region's imports of financial services, Mozambique is a high-growth import market with imports of financial services increasing by eight-fold between the two periods under consideration, which might be due to the country's liberalization of the banking sector.

Figure XII **Southern Africa's exports and imports of financial services**



Source: Author's calculations based on UNCTAD statistics.
Note: Data for Angola, Zambia and Zimbabwe not available.

Box 4 **Mobile payments in South Africa**

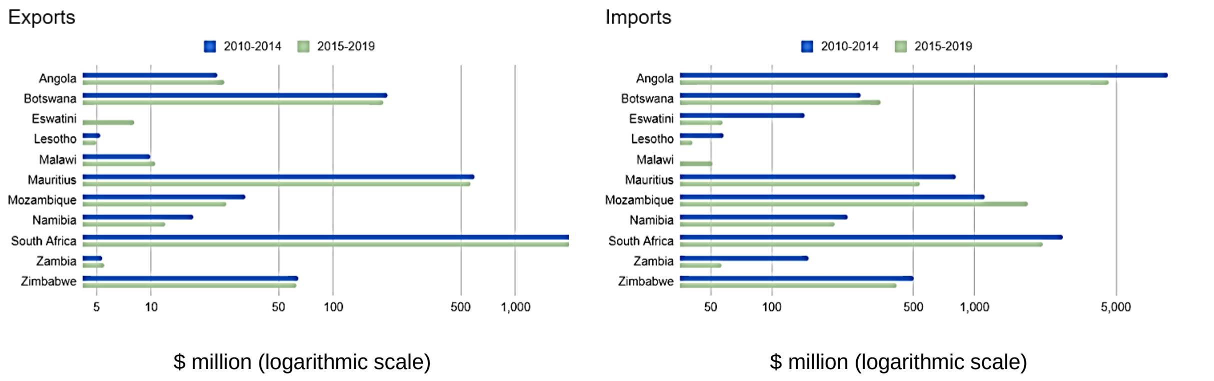
Developments in the mobile payment business demonstrate the potential for services trade. In South Africa, MobiCash and Boloro—a foreign cashless financial platform and a foreign mobile payment service provider—joined forces with the Big Save Group, a domestic wholesaler, to launch a joint mobile payments ecosystem in 2016. The objective was to roll out MobiCash and Boloro services across Big Save's thousands of 'scaza' shop members, promoting financial inclusion across unbanked businesses and citizens.[30]

Trade in business services plays an important role in the region's services trade, with the region exporting a total of $2.4 billion of such services to the world in 2019. Between the periods 2010-2014 and 2015-2019, the region's exports of such services decreased by 8.2 per cent, from an average of $3.1 billion to $2.8 billion. The decrease in exports has been relatively general, with only four countries with very low base values experiencing a positive growth between the two periods, namely Eswatini (+92.6 per cent), Angola (+8.8 per cent), Malawi (+5.8 per cent) and Zambia (+2.2 per cent). The other countries have experienced a decrease in exports, ranging from Namibia with a drop of 30 per cent to South Africa with a fall of -1.9 per cent. This situation is mirrored on the import side with a fall in imports. In 2010, the region imported a total of $12.1 billion worth of business services. In 2019, the amount

[30] WTO and OECD (eds.) *Aid for Trade at a Glance 2017: Promoting Trade, Inclusiveness and Connectivity for Sustainable Development*, Chapter 4: Services trade policies and their contribution to connectivity and development (Paris, 2017).

was nearly halved, at $6.3 billion. Only Botswana (+25.9 per cent), Malawi (+44.9 per cent) and Mozambique (+62.4 per cent) experienced an increase in imports. All other countries experienced a contraction ranging from 63 per cent for Zambia to 13 per cent for Namibia.

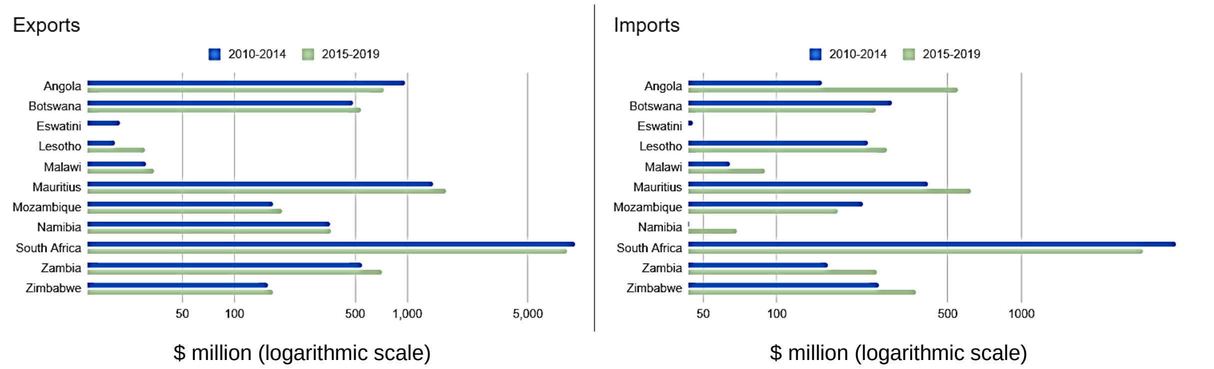
Figure XIII **Southern Africa's trade in other business services**



Source: Author's calculations based on UNCTAD statistics.

Travel and tourism is one of the oldest forms of services and has played a crucial role in the diversification of many developing economies. It constituted more than 50 per cent of the export share of total services for seven of the 11 Southern African countries and was as high as 90 per cent for Angola. Overall, the region as a whole has experienced a generalized increase in exports of this sector—with Lesotho and Zambia, for example, increasing their exports by 48 per cent and 29 per cent, respectively—between the periods 2010-2014 and 2015-2019. Mauritius also experienced a considerable increase in exports (+20 per cent). South Africa continues to dominate the market with over 66 per cent of the market share between 2015-2019. On the import side, Angola has increased its imports of travel and tourism by over 250 per cent, a trend that is general across most countries: Zambia (+58 per cent), Namibia (+56 per cent), Mauritius (+50 per cent) Zimbabwe (+42 per cent), Malawi (+38.5 per cent) and Lesotho (+20 per cent). South Africa, Mozambique, Eswatini and Botswana experienced negative growth rates between the two periods.

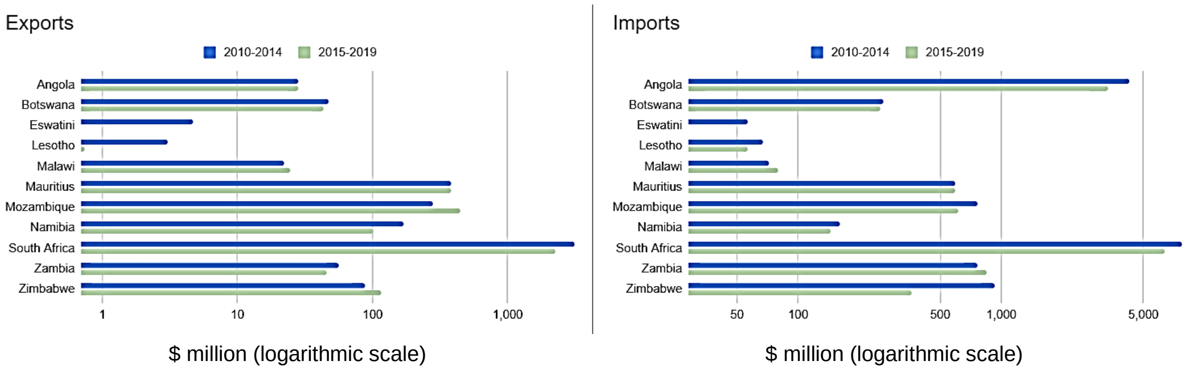
Figure XIV **Southern Africa's trade in travel and tourism services**



Source: Author's calculations based on UNCTAD statistics.

Transport services is a key service to promote regional integration for Southern Africa. Nevertheless, the region has experienced a generalized decrease in exports of transportation services with Eswatini and Lesotho, for example, reducing their exports by 85 per cent and 75 per cent, respectively, between the periods 2010-2014 and 2015-2019. South Africa also saw its exports reduced by 28 per cent during the aforementioned periods. Such a decrease could be partly explained by the emergence of frictions between China and the United States, which impacted the world's demand for transport services. As highlighted by UNCTAD's Secretary-General while speaking about maritime transport: "While the prospects for seaborne trade are positive, these are threatened by the outbreak of trade wars and increased inward-looking policies. Escalating protectionism and tit-for-tat tariff battles will potentially disrupt the global trading system which underpins demand for maritime transport."[31] On the other hand, Mozambique's exports increased by over 60 per cent, propelling the country to become the second largest exporter of the region. Zimbabwe (+32 per cent) and Malawi (+12.2 per cent) also experienced major increases in exports.

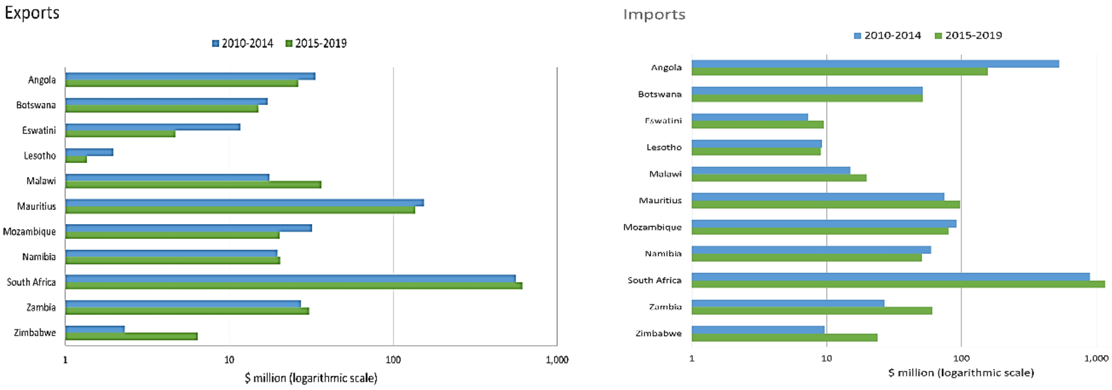
Figure XV **Southern Africa's trade in transport services**



Source: Author's calculations based on UNCTAD statistics.

Finally, Southern Africa is a net importer of communications services, with the exception of Mauritius and Malawi, who recorded a positive trade surplus of over $20 million each in 2019. South Africa is the region's leader in the exportation of communications services ($613 million in 2019), followed by Mauritius ($140 million) and Malawi ($43.8 million). On the import side, Angola experienced a major reduction in its imports (-70 per cent), while South Africa increased its imports by 30 per cent.

Figure XVI **Southern Africa's exports and imports of communications services**



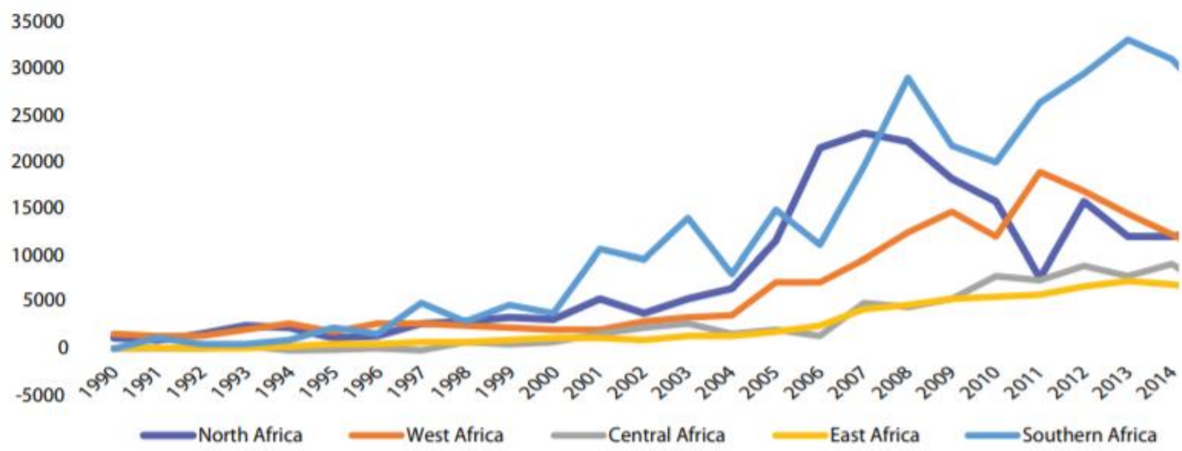
Source: Author's calculations based on UNCTAD statistics.

[31] UNCTAD. Maritime Trade in Africa, document UNCTAD/PRESS/IN/2018/006 (2018). Also https://unctad.org/news/trade-war-threatens-outlook-global-shipping-warns-new-report

Global foreign direct investment (FDI) flows have experienced a roller-coaster over the past years. While flows rose by 34 per cent to $1.8 trillion in 2015, contracted by 1.6 per cent in 2016 and reached $1.5 trillion in 2019, COVID-19 is expected to reduce FDI flows by 40 per cent, bringing flows below $1 trillion.[32]

Inward FDI, typically linked to mode 3 of delivery, can play a crucial role in building local productive capacities. Southern Africa is Africa's dominant subregion in terms of FDI inflows (see Figure *XVII*). Angola, with 53 per cent of the region's flows, South Africa (19 per cent), Zambia (4 per cent) and Mozambique (4 per cent), aggregate the majority of the flows. Specifically, it is worth highlighting that the region's performance during the period can be explained by Mozambique and South Africa's capacities to attract investment in manufacturing and services on the one hand and the minerals sector on the other.[33]

Figure XVII **Africa's FDI inflows, 1990-2014, $ million**



Source: UNCTAD (2016).

Intra-African investment is heavily linked to the services sector, especially in finance. Specifically, financial services accounted for around 50 per cent of intra-African greenfield investment projects in the period 2003-2014, suggesting openness in services and services trade could help Africa to attract the much-needed investment to finance its structural transformation and development.[34]

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32 UNCTAD. World Investment Report 2020: International Production Beyond the Pandemic (New York, 2020).

FDI is projected to decrease by a further 5 per cent to 10 per cent in 2021 and to initiate a recovery in 2022. A rebound in 2022, with FDI reverting to the pre-pandemic underlying trend, is possible but only at the upper bound of expectations.

33 UNECA. *Drivers for Boosting Intra-African Investment Flows Towards Africa's Transformation* (2020).

34 Ibid.

III. Status of the AfCFTA Trade in Services negotiations

The AfCFTA Protocol on Trade in Services—hereinafter referred to as the Protocol—sets out the ambitions and modalities for the liberalization of services within the continental market created by the AfCFTA. This Protocol is modelled on the GATS. Accordingly, liberalization will follow the 12-sector classification and four modes of supply of such agreement.[35] The Protocol entered into force on 30 May 2019, along with the other parts of the consolidated text.

Box 5 **Modes of delivering services**

Trade agreements define four modes of delivering services be derived from the definition included in the GATS. Most bilateral and regional trade agreements, including the AfCFTA, adhere to these modes explained below.

Mode 1 Cross-border supply: services supplied from the territory of one country into the territory of another country. Neither a consumer nor a producer has to move territory as the service itself crosses the border. Examples cover services provided by phone, fax or electronic means, such as medical diagnosis, legal advice, financial services, etc.

Mode 2 Consumption abroad: services supplied in the territory of one country to the service consumer of another country. For example, persons who travel to another country to consume services locally (tourist visiting museums or theatres, visiting doctors, students attending universities, etc.) It includes cases where the services are related to the property of the consumer while abroad (e.g., ship repair abroad).

Mode 3 Commercial presence: services supplied by any type of business or professional establishment of a country through commercial presence in the territory of another country. It is often useful for the supplier company to establish closer contact at various stages of the delivery (production, distribution, marketing, sale and delivery, after-sales services); for example, by establishing an affiliate in a foreign country to serve the market locally. For instance, a foreign bank setting up operations in another country.

Mode 4 Presence of natural persons: services supplied by individuals of a country through temporary presence in the territory of another country; for example, a computer services company sending its employee to a customer in another country or a self-employed lawyer going abroad to deliver legal advice to foreign clients.

Source: WTO–GATS Training Module, Chapter 1.
https://www.wto.org/english/tratop_e/serv_e/cbt_course_e/c1s3p1_e.htm

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[35] See African Union, Negotiating Guidelines for Services Negotiations under the AFCFTA Protocol on Trade in Services (2018).

The Protocol seeks to “create a single liberalized market for trade in services” through the establishment of:

- A framework for the progressive liberalization of service sectors.
- A framework of common disciplines.

Through a series of negotiations, the Protocol will contain a set of detailed country-specific commitments in each service sector and for each mode of service delivery.[36]

Specifically, the goals of the Protocol are to:

- Promote sustainable development as expressed through the Sustainable Development Goals.
- Accelerate efforts on industrial development to promote the development of regional value chains.
- Enhance competitiveness of services through economies of scale, reduced business costs, enhanced continental market access and an improved allocation of resources, including the development of trade-related infrastructure.

Other objectives include the mobilization of domestic and foreign investment and achieving the progressive liberalization of trade in services across the African continent on the basis of equity, balance and mutual benefit by eliminating barriers to trade in services.

Additionally, understanding the developmental contexts of many of its signatory countries, AfCFTA negotiators crafted the Protocol to allow for Special and Differential Treatment for those sectors which promote critical sectors of growth as well as social and sustainable development.[37] In all circumstances, State Parties maintain the right to regulate services and suppliers operating in their territories. Similarly, the Protocol expressly states exceptions which State Parties may rely upon to limit levels of liberalization including the facilitation of human, animal or plant life health, taxation objectives, national security (Article 16) and the utilization of subsidies related to development programmes (Article 17).

Overall, the liberalization of trade in services is pursued through successive rounds of liberalization, which will yield sector-specific obligations and regulatory frameworks building upon what is achieved at the REC level. Negotiations in the first round cover five priority sectors: business and professional services, telecommunications services, financial services, transport and tourism. Additionally, discussions are ongoing over the possibility to front-load health services and e-commerce. South Africa made an additional suggestion to add distribution services as an additional service priority sector. Negotiations are ongoing in 2020—with a view to completion by December 2020—in order to comply with the decision of

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36 UNECA, African Union, African Development Bank and UNCTAD. *Assessing Regional Integration in Africa IX: Next Steps for the Continental Free Trade Area* (2019).

Additionally, and beyond these commitments, countries will also adopt common sectoral regulatory cooperation frameworks. Specifically, in cognizance of the Yamoussoukro Decision on Air Transport in Africa, the Protocol covers aircraft repair and maintenance services, the selling and marketing of air transport services and computer reservation services, but it excludes air traffic rights and associated services.

37 Protocol on Trade in Services of the Agreement Establishing the African Continental Free Trade Area, Article 7, Import Duties.

the African Union Heads of State and Government Assembly adopted in January 2020 to submit schedules of specific commitment by January 2021.

Liberalizing trade in services requires coordinating trade policies and domestic regulatory reforms. This process is complex as it is anchored on the capacity to access and analyse information on regulations and trade restrictions in each sector, a capacity that is often lacking in many countries. Overall, mode 3 appears to be the one where more liberalization is happening, together with mode 4.

By August 2020, only ten contracting parties had submitted initial offers to the AUC for the liberalization of services sectors, five of which are Southern African countries—Comoros, Eswatini, Mauritius, South Africa and Zambia.[38] According to the latest updates, Botswana and Lesotho are preparing their offers, but the process has been delayed by COVID-19. Malawi and Mozambique have not offered any update, with Malawi's involvement in the negotiations being limited and Mozambique facing issues to get the private sector involved in the consultations. All initial offers are expected to be received by 30 October 2020. (See box 6 for an overview of the steps involved in trade in services negotiations).[39]

Overall, the limited number of submissions appears to be related to:

- Difficulties to conduct national stakeholders consultations due to restrictions imposed by COVID-19.
- Lack of capacity to prepare the services offer. This challenge is being partly addressed by training provided by the AUC and the World Bank Group.
- Lack of understanding of the negotiator's domestic regulatory environment. The AUC, the German Agency for International Cooperation and the European Union are currently supporting the countries to undertake their regulatory audits.
- Limited knowledge of sector-specific technical concepts.
- Limited human capacity of the negotiations team, usually with a single chief negotiator leading negotiations at the African Union, regional, bilateral and multilateral level.
- Security concerns around online negotiations.
- Limited understanding on the functioning of the delivery of services (modes of supply).

[38] Zambia submitted offers for two of the five priority sectors.

[39] See African Union. 12th Meeting of the African Continental Free Trade Area Senior Trade Officials, 15, 24 and 25 September 2020. Zoom virtual meeting, document AU/TI/AfCFTA/STO/12/FINAL.

Box 6 **Preparing for negotiations**

Step	Action
1	Map a strategy for services in national development plans.
2	Conduct a service negotiation: acquiring a voice in debates on outstanding rule-making challenges in the service trade by pursuing offensive (as opposed to defensive) interests, devising strategies to deal with defensive concerns, analysing the negotiating requests of trade partners, formulating one's own requests and offers and participating in collective requests and offers.
3	Implement negotiated outcomes: addressing regulatory capacities and weaknesses and identifying implementation bottlenecks.
4	Supply newly opened markets with competitive services that comply with international standards: addressing the supply-side constraints on the ability to take advantage of the outcome of trade negotiations, including aid for trade in services.

Source: Marconini, M. and Sauve, P. Negotiating Trade in Services: A Practical Guide for Developing Countries, in Saez, S., eds. *Trade in Services Negotiations A Guide for Developing Countries* (The World Bank Group, 2010).

Beyond negotiations in the five priority sectors, Southern African countries should take into consideration that AfCFTA contracting parties are obligated to make commitments which exceed those made at the multilateral level (GATS+). This is to satisfy obligations under the GATS and build a continental market on truly preferential terms. Notwithstanding, this obligation does not extend to those commitments made in other FTAs. Therefore, contracting parties are not required to extend the liberalization granted through their RECs to other AfCFTA parties. This tolerance solves the situation of having multiple parallel negotiations and a possible lack of cohesion between the RECs and the AfCFTA as RECs Member States will likely aim to maintain and keep that preference towards other members of their RECs.

Similarly, and within SADC, efforts towards liberalization of services commenced with the SADC Protocol on Trade 1996 which enshrines the free movement of goods, services, labour and capital. In 2012, nearly two decades later, SADC Heads of State signed a Protocol on Services which is closely aligned with the AfCFTA Protocol on Trade in Services in that it:

- Excludes air traffic rights and associated services.
- Maintains the right to regulate.
- Contains similar exceptions for the limitation of liberalization.
- Follows the approach of successive rounds of liberalization.

In that context, six sectors have been prioritized for liberalization in SADC: finance and investment, movement of persons, energy, tourism, transport and ICT. There is a clear alignment with the AfCFTA priority sectors of finance, tourism, transport and ICT as a subsector of communications.

Thus, the key question would be how to pursue liberalization under the AfCFTA while maintaining progress achieved within Southern Africa, and particularly within SADC. Much of the progress at SADC and COMESA levels are helpful stepping stones for making progress in the AfCFTA. While countries do not have to extend the same preferences to other AfCFTA members, as they do in other African RECs as mentioned above, it seems that the ambition of the AfCFTA is to generate a larger impact than the sum of its individual parts (the RECs being the parts).

Box 7 **Trade in Services liberalization in Southern Africa: the SADC example**

SADC Member States have noted that the deeper integration, not only of trade in goods but also of their services markets, holds great economic potential. The Regional Indicative Strategic Development Plan is underpinned by the objective of eliminating obstacles to the free movement of capital, labour and goods and services in the SADC treaty. This strategy is also intended to improve the region's economic management and performance through regional cooperation towards the eradication of poverty. Additionally, the establishment of a common market is envisaged.[40]

Efforts towards the liberalization of services sectors within SADC have yielded tangible results as well as regional regulatory frameworks in different sectors. For example, in the financial services sector, a regional cross-border payments platform—the SADC Real Time Gross Settlement system—is operational and managed by the South Africa Reserve Bank. There is an associated regulatory framework as well as Model Laws on Payments Services which are being adopted by Member States on an incremental basis. Furthermore, there are regional reference frameworks for mutual recognition of educational qualifications.

Similarly, and forecasting that the negotiations on e-commerce will be shaped by the decisions and direction of the first round of negotiations, the 8th Technical Working Group in March 2020[41] decided to align the negotiations under communications services with principles and objectives of the African Union Digital Transformation Strategy for Africa (2020–2030). This strategy, adopted by Heads of State and Government in January 2020, contains a dedicated chapter on digital trade that sets out objectives to be achieved by all African Union Member States, including the creation of a continental digital market and resolution of logistical issues around payments and postal services. Also important to note is direction provided by the African Union Heads of State and Government, in preparation for the third phase of

[40] Available at https://www.sadc.int/themes/economic-development/trade-services/

[41] See Report of the 9th Technical Working Group on Services (2020).

negotiations which will focus on e-commerce. Member States are urged to review their bilateral agreements on e-commerce “to ensure that Africa is able to negotiate and implement an AfCFTA Protocol on e-Commerce where Africa has full authority on all aspects of e-commerce such as data and products being traded under e-commerce and to promote the emergence of African owned e-commerce platforms at national, regional and continental levels as part of our preparations for the negotiation of an AfCFTA Protocol on e-Commerce.”[42]

Implicit in trade is the movement of persons. Production and trade of goods is enabled by professional and business services, communications, distribution and transportation services. Services sectors, such as tourism, transport and education, are driven by the movement of people. In the SADC context, there is a Protocol on Free Movement of Persons which is not operational due to an inadequate number of ratifications (only four countries out of 15 have ratified the Protocol). In contrast, other RECs have achieved deeper levels of free movement; in the Economic Community of West African States (ECOWAS), nationals do not require visas to travel within the Community and Member States issue ECOWAS travel certificates and passports which allow movement within the region. ECOWAS passports issued by Member States serve as international travel documents to other countries. Similarly, East African Community (EAC) nationals do not require visas to travel within the region, and Kenya, Uganda and Rwanda allow EAC visitors entry on the basis of an identity card.[43] EAC has also agreed to implement a regional passport as an international travel document. In 2020, Rwanda announced it will commence issuance of the regional passport.

On a continental scale, looking at the Africa Regional Integration Index, SADC countries maintain a disparate approach in regards to free movement. Compared to other African countries, Mozambique, Malawi and Zimbabwe are ranked as high performers. Lesotho, Angola and Mauritius are average performers, while Botswana, Eswatini, Namibia, South Africa and Zambia are ranked as low performers.[44] There is now a trend towards enabling free movement of persons in Africa; while signature and ratification of the Protocol on Free Movement of Persons has been slow, there has been significant movement with unilateral/regional removal of travel restrictions. In the EAC, Kenya, Rwanda and Uganda offer visa on arrival for all African passport holders. In 2020, Rwanda removed visa fees for African passport holders. Rwanda, Kenya and Uganda also offer a common visa to passport holders from other countries. Similarly, Nigeria, Ghana, Senegal and Sierra Leone in ECOWAS offer visa on arrival for African passport holders.

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42 See African Union. Decision on the African Continental Free Trade Area (AfCFTA), document Assembly/AU/Dec.751(XXXIII) (Addis Ababa, 2020).

43 Available at: https://www.eac.int/frequently-asked-questions

44 African Union, African Development Bank and UNECA. Africa Regional Integration Index Report 2019.

IV. Opportunities and strategies for a competitive and efficient services sector

The benefits of services liberalization extend far beyond the service sectors themselves, affecting other economic activities in which services are supporting the competitiveness of industries. Tradable services impact other industries by raising their level of competitiveness and enabling them to adapt and enter new markets. As highlighted by Visagie and Turok (2019),[45] "strengthening high-order service functions could enhance the positioning of firms within global production networks and act as a stimulus to industrial development".

Nevertheless, and similar to trade in goods, firms involved in services trade face a series of supply-side constraints that limit their ability to take full advantage of the opportunities provided by the international markets. From a supply-side point of view, such barriers include:

- Market development constraints due to weak brand recognition and challenges in creating strong credibility with international suppliers.
- Limited access to financing for export.
- Limited prospects to serve foreign markets without an established presence.
- Lack of access to a reliable and affordable infrastructure on key input services; notably, finance, information technology and telecommunications.
- Limited access to networks and institutional facilities necessary for trade.[46]

Additionally, lack of trade information and knowledge of opportunities in third markets, as well as limits on public procurement contracts—just like trade in goods—is a major constraint for firms.

In addition to the aforementioned supply-side constraints, trade in services is impacted by a series of government-imposed barriers which are particularly burdensome for those firms in developing countries. Almost all countries in the world, in one way or another, have adopted and followed restrictive policies designed affecting access of foreign services and suppliers of services to their domestic markets. Africa, and Southern Africa in particular, is no exception to the rule. The main types of barriers to trade in services, as identified by UNCTAD (2015), are:

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45 Visagie, J. and Turok, I. *The Contribution of Services to Trade and Development in Southern Africa*. WIDER Working Paper 2019/37 (United Nations University, 2019).

46 Marconini, M. and Sauve, P. Negotiating Trade in Services: A Practical Guide for Developing Countries, Chapter 2, in Saez, S. (ed.) *Trade in Services Negotiations: A Guide for Developing Countries* (World Bank Group, 2010).

Also:

OECD. Opening Up Trade in Services: Opportunities and Gains for Developing Countries. Policy Brief, OECD Observer (Paris, 2003).

and

Chaitoo, R. Aid for Trade for Services in Small Economies: Some Considerations from the Caribbean, in Njinkeu, D. and Cameron, H. (eds.), *Aid for Trade and Development* (New York, Cambridge University Press, 2008).

- Quotas, local contents and prohibition of foreign access to service markets which are reserved for domestic suppliers such as nationality, residency or visa requirements.
- Price-based instruments, such as entry and exit taxes and/or visa fees for movement of natural persons, licensing fees, tariffs on goods related to provision of services, price controls.
- Discriminatory access to information channels and distribution networks; for example, in telecommunication, air transport and tourism.
- Subsidies granted such as in the case for construction, communications, transport, health or education, which have a trade distortive impact on exports from other countries.
- Lack of access to government procurement orders; for example, in construction services.
- Lack of transparency in government measures; for example, immigration legislation and procedures and practices of megafirms.
- Technical standards and licensing procedures; for example, in certain professional services the licensing and standard setting have been used to restrict entry in the industry, especially at the global level.[47]

As highlighted by Sauvé and Ward (2012),[48] such defensive measures reflect the fear from most African countries to liberalize trade in services:

- It may limit their policy space to promote infant service industries and the freedom to regulate services markets in the public interest.
- Due to concerns over the inadequacy of existing regulatory frameworks to tackle competition-related concerns airing form liberalization commitments.
- The sense that the conditions necessary to benefit from increased services trade are still to be in place.

Box 8 **Characteristics of trade in services**

Situational: Exporting services involves providing solutions to customer problems across borders. This requires firm level capacities to build effective customer relationships, recognize emerging opportunities and respond rapidly with new solutions.

Client-driven: Service exporters tend to have relationships with individual clients rather than with geographic markets.

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[47] UNCTAD. African Continental Free Trade Area: Some Issues in Liberalizing Trade in Services, document UNCTAD/WEB/DITC/2016/6 (2016)

[48] Sauvé, P. and Ward, N. *The Preferential Liberalization of Trade in Services: African Perspectives and Challenges*. NCCR–Trade Working Paper No. 2012/01 (2012).

Relationship-based: Clients often require a long-term relationship. Given that service exports are not tangible products and cannot be quality controlled on the spot, durable relationships require building mutual trust between service buyers and sellers.

Project-based: Services are usually part of a broader offering that goes beyond the service product being exported. For example, a piece of exported software is usually not a purpose in itself but rather a means for achieving the client's end purpose.

Innovation-dependent: Each service export project tends to require a nuanced service offering. This means services exporters are rarely able to find new export markets without innovating.

People-driven: Service exports projects require a team of talented and creative people.

Source: ITC. *Creating Coalitions of Services Industries*. International Trade Centre, (Geneva, 2014).

Dihel, Fernandes and Mattoo (2010)[49] highlight that certain market entry regulations applied by SADC Member States were more trade restrictive than those applied by other emerging economies and OECD countries. Those measures included licensing requirements, quantitative restrictions on the number of suppliers, 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.[50]

Figure *XVIII* showcases the level of overall restrictiveness of the services economy in Southern Africa. Mauritius, Mozambique and Zambia appear as the region's leaders, while Zimbabwe, Botswana and Namibia are relatively closed markets.

Box 9 **Barriers to trade across Africa**

Although trade in services presents African countries with growth opportunities, it also presents challenges. Domestic regulatory hurdles and trade barriers fragment service markets on the continent, making the cost of trading in services high.

For instance, education and health services in East Africa are hindered by restrictions on using telemedicine or e-learning, while medical tourism is restricted by the non-portability of insurance policies. Legal restrictions on hospitals entering the market in countries such as Tanzania and Uganda, and limits on repatriating earnings in Kenya and Uganda, constrain the establishment of foreign hospitals.

Finally, the high cost of visa and work permits in many countries stringently restrict the movement of health and education professionals to provide services abroad. At the other

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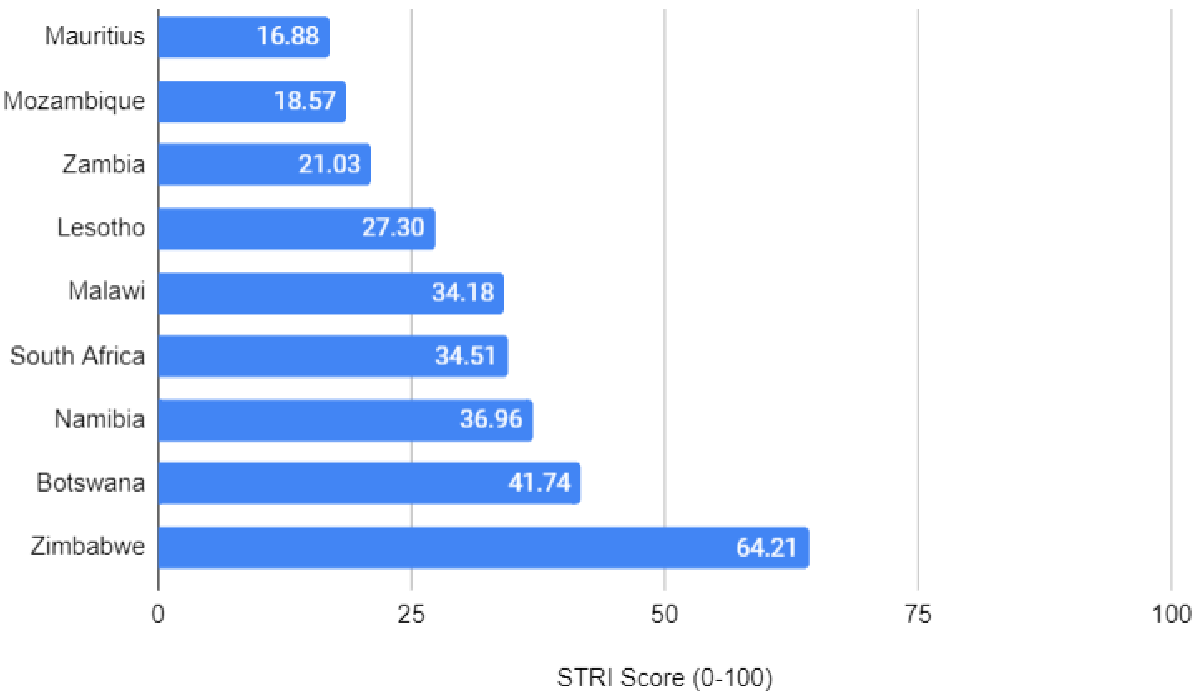
[49] See Dihel, N., Fernandes, A. M. and Mattoo, A. *Towards a Regional Integration of Professional Services in Southern Africa*, Africa Trade Policy Notes, Note #10 (World Bank, 2010)

[50] Lakatos, A. *Treatment of Trade in Services in Africa*. International Trade and Economic Series (IEC, 2016).

end of the spectrum, informal services ranging from hairdressing, construction and housekeeping to education, health and finance are widespread in Africa—those flows seem to flourish despite many barriers to the movement of service providers.

Source: World Bank (2016). The unexplored potential of trade in services in Africa: from hair stylists and teachers to accountants and doctors. World Bank Group, Washington, D.C.

Figure XVIII **Services Trade Restrictiveness Index for Southern Africa**



Source: World Bank. Note: scores for Botswana are for 2009.
For the rest, it is 2008. Scale from 0 to 100: 0 being absolutely open and 100 being completely closed.

Barriers to trade in services hamper the ability of the private sector to trade, both through cross-border trade and through foreign affiliates. Specifically, it has been estimated that the costs of barriers to trade in services across all modes of supply by far exceed the average tariff on traded goods.

Benz (2017)[51] estimates that ad valorem tariff equivalents to barriers to commercial banking services range between 118 per cent and 1,246 per cent, between 51 per cent and 299 per cent for telecommunication services and between 33 per cent and 159 per cent for construction services. Specifically, it has been estimated that the average level of restrictions in the telecommunications sector amounts to trade costs of up to 150 per cent on cross-border exports (mode 1) and 73 per cent on foreign affiliate sales (mode 3). Rouzet, Benz and Spinelli (2017)[52] show that high regulatory barriers to trade in services affect not only the level of imports, but

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51 Benz, S. Services trade costs: *Tariff Equivalents of Services Trade Restrictions Using Gravity Estimation*, OECD Trade Policy Papers, No. 200 (Paris, OECD, 2017).

52 Rouzet, D., Benz, S. and Spinelli, F. *Trading Firms and Trading Costs in Services: Firm-level Analysis*, OECD Trade Policy Papers, No. 210 (Paris, OECD, 2017).

also the number of firms being able to export to those countries with high barriers. Therefore, "services trade restrictions do not only add to *ad valorem* trade costs, but also to one-off exporting costs." Similarly, high levels of restrictiveness reduce trade undertaken through foreign affiliates in domestic markets (mode 3), reducing the ability of sales in the domestic economy, jeopardizing the availability of high-quality services crucial to enable local companies to integrate into GVC and facilitate inclusive growth.

From a sector perspective, restrictions to market access and national treatment exceptions represent the main barriers to cross-border trade in commercial banking, courier services and telecommunications sectors; domestic regulation does not constitute a significant tariff equivalent in these sectors. Consequently, only a liberalization which facilitates market access and national treatment can contribute to a reduction of trade barriers. In contrast, domestic regulation is responsible for the major part of services trade costs for computer services, construction services and maritime transport.[53]

Box 10 **Travel and the APEI Business Travel Card**

A clear example of restrictions to services trade is seen in the tourism industry. As tourism and business travel entails consuming at the point of production (mode 1), access to the tourist destination is crucial, making visa policies a critical factor. Governments might adopt visa policies for multiple reasons, such as to ensure national security, generate revenues, reciprocity with other countries and control tourism. However, visa policies that are too restrictive might act as a barrier to travel and tourism. Africans are familiar with such barriers.

On average, Africans need visas prior to travelling to 55 per cent of other African countries, can get visas on arrival in only 25 per cent of other countries and do not need a visa to travel to just 20 per cent of other countries on the continent. Africa's upper-middle income countries have more stringent visa policies than its peers from small, landlocked and island states, which are more open, promoting trade links with their neighbours.[54]

In this context, the Accelerated Program for Economic Integration (APEI) established the Business Travel Card (ABTC)—a business facilitation tool allowing greater mobility of eligible business persons and professionals between APEI countries—thus contributing to enhanced trade and investment within the APEI region. The ABTC scheme aims to address the entry and stay conditions of APEI countries' business persons and professionals in other APEI countries, allowing pre-cleared business persons and professionals multiple entries to the territory of another participating APEI country for the purpose of short-term stay to establish a business or conduct a business or investment.[55]

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[53] Ibid.

[54] African Development Bank and African Union. *Africa Visa Openness Report 2016*.

[55] Lakatos, A. *Framework for the Implementation of the APEI Travel Card for Professionals and Business Persons.* Report produced in the framework of the project titled, "Targeted support to the

Mutual recognition agreements (MRAs) can be a way to tackle some of the regulatory barriers that are not directly tackled by FTAs. Pelkmans (2012)[56] identifies three areas of potential benefit:

- Regulatory benefits, arising from the greater interaction of regulators across borders.
- Strategic benefits from the deepening and quality of the internal market.
- Potential economic welfare gains from the increase in competition that MRAs could encourage.

However, Hook (2016)[57] also recognizes that MRAs are not a panacea, with a considerable gap still remaining between the potential and actual benefits of MRAs. In any case, MRAs must be carefully designed and implemented if they are to have maximum benefit.

Additionally, **data for African countries show a strong correlation between growth in services value added and economic growth**. Similarly, the services sector accounts for higher shares of economic activities in more developed economies. Services offer an option for economic transformation for countries, such as small island states (Mauritius, for example) or landlocked states (such as Botswana, Eswatini or Lesotho), where services value added ranges between 51 per cent and 67 per cent of GDP.[58] Modern services, such as software development, call centres and outsourced business processes, represent high value added activities that can be important drivers of growth for innovative and technology-savvy countries,[59] which might also have a significant impact on small and medium-sized enterprises (SMEs) and women-owned enterprises across Southern Africa (see box 11).

Box 11 **The AfCFTA, SMEs and women-owned companies**

Across sub-Saharan Africa, SMEs create about 80 per cent of employment and are a fundamental instrument to the economic transformation of African economies. It is crucial for the continent as a whole, and for the Southern African region in particular, to identify, elevate and build the capacities—skills, finance and technology—of African SMEs, enabling them to scale up and contribute to the objective of boosting

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Regional Multidisciplinary Centre of Excellence (RMCE) for the Implementation of the Key Trade Components of its APEI Programmes", funded by the European Union through the TradeComII Programme (2019).

56 Pelkmans, J. *Mutual Recognition: Economic and Regulatory Logic in Goods and Services*. Bruges European Economic Research Papers 24/2012 (Belgium, College of Europe, 2012).

57 Hook, A. Mutual Recognition Agreements in Services Trade in Africa: Lessons from the East African Community, Chapter 6 in *From Hair Stylists and Teachers to Accountants and Doctors, The Unexplored Potential of Trade in Services in Africa*, World Bank (eds.) (Washington D.C., World Bank, 2016).

Additional information: Correia de Brito, A., Kauffmann, C. and Pelkmans, J. *The Contribution of Mutual Recognition to International Regulatory Co-operation*, OECD Regulatory Policy Working Papers, No. 2 (Paris, OECD, 2016).

58 Data source: World Development Indicators, World Bank.

59 UNECA. *Economic Report on Africa 2015: Industrializing Through Trade* (Addis Ababa, 2015).

intra-Africa trade in goods and services. As highlighted by Karingi,[60] in "implementing the AfCFTA, we must also make sure not to forget Micro, Small and Medium Enterprises … women traders, smallholder farmers and informal cross border traders, who represent the majority of Africa's trading community, and are crucial to driving poverty reduction efforts."

Additionally, the implementation of the AfCFTA ought to generate payoffs through stimulating the development of SMEs and women-owned companies. SMEs currently face considerable difficulties in accessing foreign markets. Enabling access to regional markets can, in turn, enable access to further international markets. The elimination of customs duties for trade in goods and reducing the frictions between African regulatory frameworks is expected to boost trade flows, generate higher incomes for women and provide them with improved working environments.[61]

However, the provision of modern services is directly linked to the availability of specialized skills and an enabling regulatory regime which are lacking in many countries in Southern Africa. Broadening markets, increasing capabilities and improving access to higher-order services might be achieved through further regional integration, as recognized by SADC's regional Industrialisation Strategy and Roadmap 2015–2063, which highlights the strategic role that travel and tourism, financial services, and ICT-related value chains can play for the region. As highlighted by Glaeser (2011) and Storper *et al.* (2015),[62] the development of regional clusters of firms could lead to an increase in effective market size, leading in turn to an increase in productivity, improve the availability of skills, develop the availability of specialized suppliers, promote the transfer of know-how and reduce the associated infrastructural cost.

Increasing the sophistication of services can lead to further economic growth. Mishra *et al.* (2011)[63] analyse the diversification of the export destinations across a set of countries, highlighting that service exports sophistication is positively related to growth. Specifically, increasing the level of sophistication of services exports has further impacts:

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60 Bagooro, S. *Transforming African Economies, Building SMEs Capacities: Fundamental to AfCFTA Success* (Tralac, 2018).

61 International Trade Centre. International Trade Forum: The African Continental Free Trade Area, Issue 3/4 (2019)

62 See Storper, M., Kemeny, T., Makarem, N. and Osman, T. *The Rise and Fall of Urban Economies: Lessons from San Francisco and Los Angeles*. (Stanford University Press, 2015)

and

Glaeser, E. *Triumph of the City: How Our Greatest Invention Makes Us Richer, Smarter, Greener, Healthier, and Happier* (Penguin, 2011).

63 Mishra, S., Lundstrom, S. and Anand, R. *Service Export Sophistication and Economic Growth*. Policy Research Working Paper 5606 (World Bank Group, 2011).

- Traditional services gain in productivity from technology, transportability and tradability.
- There is a host of new service activities that emerge due to unbundling and new technological innovation.

Additionally, the emergence of higher-level services can empower firms to move up value chains and unlock beneficiation. Examples include R&D services in upgrading agricultural production methods, finance and marketing services in moving farmers into agroprocessing or engineering services in developing new mining equipment and mineral processing operations for the mining sector.[64] As highlighted by Mishra *et al.* (2011),[65] "the models of globalization and growth should include specialization and sophistication of services as well. … services can be an additional channel for promoting high growth*"*.

While adopting digital solutions might further contribute to the region's trade, the growing digitalization trend enables all kind of firms, from small enterprises to multinational corporations, to reach digitally connected customers across the globe and facilitate outsourcing of non-core activities enabling easier scaling of production.[66] Digital inputs, such as software services or cloud computing solutions, enable enterprises to access IT services with small upfront investment to scale up (or down) IT functions in response to changes in demand. Digital retailers are also increasingly facilitating access to warehousing, logistics, e-payment, credit and insurance services by online means.[67]

Box 12 **Digital services in the European Union**

In the European Union, for example, nearly 60 per cent of enterprises providing accommodation services sell online, and more than half of these sell across borders (in this case defined as selling to other European Union countries and the rest of the world).

In manufacturing sectors, the number of enterprises with online sales tends to be lower (e.g. 25 per cent of enterprises in the motor vehicle sector sell online), perhaps reflecting the presence of other physical constraints to exporting. On average, about one third to one fifth of the digital sales of manufacturing firms are cross-border sales.

Source: López González, J. and Ferencz, J. *Digital Trade and Market Openness*, OECD Trade Policy Papers, No. 217 (Paris, OECD, 2018).

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64 Visagie, J. and Turok, I. *The Contribution of Services to Trade and Development in Southern Africa*. WIDER Working Paper 2019/37 (United Nations University, 2019).

65 Mishra, S., Lundstrom, S. and Anand, R. *Service Export Sophistication and Economic Growth*. Policy Research Working Paper 5606 (World Bank Group, 2011).

66 OECD. Trade in the Digital Era, OECD Going Digital Policy Note (Paris, 2019).

67 López González, J. and Ferencz, J. *Digital Trade and Market Openness*, OECD Trade Policy Papers, No. 217 (OECD, 2018).

The weight of informal services trade must not be ignored. The characteristics of informal trade across Africa are:

- Young female and male traders participate in informal services transactions.
- Both uneducated and more sophisticated traders provide services across the border.
- Both trade in goods and trade in services appear interlinked.
- Informal trade in services is a long-term business with frequent, longer stays abroad.[68]

Informality is particularly relevant in the retail sector, where Bhorat et al (2016)[69] indicate that 90 per cent of retail trade in African countries is informal. However, that is not common across all African countries, with countries like South Africa estimating that 60 per cent of retail trade occurs in formal settings such as shopping malls. As highlighted by the authors, "While these low formal retail penetration rates present a challenge for South African companies, they also represent a massive growth opportunity, given the nascent state of formal retail in economies of Africa with large and growing urban populations". Simplified trade regimes, which alleviate documentary evidence requirements for small levels of trade, as piloted successfully in East Africa, are a positive way of helping small informal traders to grow and encourage them to become formalized in time.

Promoting the role of the services sector across Southern Africa and fostering the sector's export diversification would require reviving domestic competition, encouraging FDI, open markets and pro-competitive reforms. Southern African countries are in a race to diversify and add value to their production chains and export baskets for both trade in goods and services. Implementing policies that restrict foreign access to upstream service markets reduce the productivity of downstream firms using these services, representing a barrier that is largely ineffective when indicators of the quality of institutions (the weak rule of law, bad regulatory quality) have low values. Specifically, opening up the markets and allowing competition would secure better access to world-class services at attractive prices, thereby helping manufacturing firms compete on price and quality.

As highlighted by Marconini and Sauve (2010),[70] achieving the aforementioned objectives would require "enhanced access to foreign markets and a progressive lifting of the impediments to trade, investment, and labor movement facing service suppliers, which is the essence of what trade negotiations can deliver."

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68 Dihel, N. and Grover, A. Informal Trade in Services in Sub-Saharan Africa—Unchartered Territory, in World Bank (eds.) *From Hair Stylists and Teachers to Accountants and Doctors, The Unexplored Potential of Trade in Services in Africa* (Washington D.C., 2016).

69 Bhorat, H., Steenkamp, F., Rooney, C., Kachingwe, N. and Lees, A. *Understanding and Characterizing the Services Sector in South Africa: An Overview*. WIDER Working Paper No. 2016/157 (United Nations University, 2016).

70 See Marconini, M. and Sauve, P. Negotiating Trade in Services: A Practical Guide for Developing Countries, Chapter 2, in Saez, S. (ed.) *Trade in Services Negotiations: A Guide for Developing Countries* (World Bank Group, 2010).

V. Conclusions

Trade in services has the potential to contribute to Southern Africa's economic growth. However, the region's sectoral characteristics call for greater structural transformation, more value addition and job-creating growth.

In this context, the AfCFTA represents a massive opportunity for service-oriented economies in Southern Africa, with the competitiveness of local firms being increasingly determined by access to low-cost and high-quality producer services, thus enlarging the availability, affordability and quality of services. These elements are critical for economic growth and poverty reduction in all African countries.

As highlighted by Lakatos (2016),[71] services trade is a critical factor to enable the connections necessary to increase African participation in GVCs. The liberalization of imports of foreign services and FDI in services exerts beneficial competitive pressure and increases efficiency in the provision of services in the domestic economy, not least by providing access to new technologies and spreading knowledge across local firms.

Services trade in Southern Africa is primarily driven by the traditional travel and tourism sector, which constitutes almost 60 per cent of the total services exports of the region. Negotiations in the first round of the AfCFTA Trade in Services negotiations cover five priority sectors, which together contributed to 90.3 per cent of Southern Africa's services export and 64.7 per cent of its imports. In terms of the mode for service delivery for the five priority sectors, other business services are dominated by mode 1, communication services by mode 1 and mode 3, financial services by mode 3, health services by mode 2, tourism by mode 2, and transport by mode 1. In terms of imports, 68 per cent of all imports in the five priority sectors occur in mode 3, with a predominance of financial services, which account for 50 per cent of all imports and 75 per cent of all mode 3 imports. Between 2010 and 2017, the trend across modes of supply has remained stable.

However, the process of negotiating the AfCFTA is proving to be more challenging than originally foreseen. With only 18 per cent of the AfCFTA contracting parties having submitted their services market access offers to the AUC as of September 2020, it appears unlikely that the AfCFTA will have the relevant schedules ready by 1 January 2021. Difficulties related to COVID-19 and the impossibility to hold in-person stakeholder consultations, limited knowledge on the functioning of trade in services negotiations, lack of awareness and understanding of the domestic legislation and security concerns around online negotiations appear to be the main elements hampering the negotiations.

In order to move forward, a series of intense negotiation sessions have been planned between October 2020 and December 2020, with the objective of meeting the 1 January 2021 deadline, although engagement is expected to be limited. Given the fact that the contracting parties are expected to provide further market access than that provided in the GATS, those countries experiencing difficulties in meeting the deadline should submit their GATS schedule to the AUC, which could then be used as the basis for the negotiations. Alternatively, those members

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[71] Lakatos, A. *Treatment of Trade in Services in Africa*. International Trade and Economic Series (IEC, 2016).

that are negotiating, or have negotiated, services commitments with third countries, such as in the framework of the Economic Partnership Agreements, could also consider tabling those schedules, providing at least the same level of openness to their African peers that is provided to non-African countries.

In parallel, the six Southern African countries that have not submitted their offers should also continue requesting support from the AUC and other international development partners to receive technical assistance to strengthen their negotiation teams.

Specifically, liberalizing the services sector in Southern Africa can have impacts that extend far beyond the service sectors themselves, affecting other economic activities in which services are part of the businesses ecosystem.

However, significant barriers must be tackled. From a supply side perspective, such barriers include:

- Market development constraints due to weak brand recognition and challenges in creating strong credibility with international suppliers.
- Limited access to financing for export.
- Limited prospects to serve foreign markets without an established presence.
- Lack of access to a reliable and affordable infrastructure on key input services, notably, finance, information technology and telecommunications.
- Limited access to networks and institutional facilities necessary for trade.

Additionally, trade in services is impacted by a series of government-imposed barriers which are particularly burdensome for those firms in developing countries. For example, ad valorem tariff equivalents to barriers to trade in services range between 118 per cent and 1,246 per cent for commercial banking services, between 51 per cent and 299 per cent for telecommunication services and between 33 per cent and 159 per cent for construction services.

Promoting the role of the services sector across Southern Africa and fostering the sector's export diversification would require reviving domestic competition, encouraging FDI, open markets and pro-competitive reforms. Southern African countries are in a race to diversify and add value to their production chains and export baskets for both trade in goods and services. Implementing policies that restrict foreign access to upstream service markets reduce the productivity of downstream firms using these services. Moreover, less restrictive trade practices on paper are largely ineffective when indicators of the quality of institutions (the weak rule of law, bad regulatory quality) have low values. Specifically, opening up the markets and allowing competition would secure better access to world-class services at attractive prices, thereby helping manufacturing firms compete on price and quality. In this context, regulatory intensity of services will require scrutiny at national level, balancing public policy objectives and services restrictiveness. The role of competition law can play should not be overlooked, particularly in securing market access/contestability to foreign operators and ensuring competition in the market, therefore driving innovation, quality, service delivery and interface with sectoral regulation.

Similarly, the conclusion of MRAs amongst Southern African countries might be a possibility to further strengthen intra-regional services trade, although it is worth keeping in mind their limitations and the time these take to get concluded.

In parallel, promoting digitally enabled services is a must to raise the competitiveness of the services industry, ensuring that the basic legislative, infrastructure and skills frameworks are in place to enable the private sector in Member States to compete worldwide.

Annex I

Five priority services sector based on World Trade Organization classification and equivalence in BPM6

AfCFTA priority sectors	WTO classification	Computation using BPM6
Business services	• Professional services • Computer and related services • R&D • Real estate services • Rental/Leasing services without o perators • Other business services	• Other business services (R&D) • Professional and management consulting services • Technical, trade-related • Other business services
Communications services	• Postal services • Courier services • Telecommunications services • Audio-visual services • Other communications services (paging, tele-conferencing, trunking, etc.)	• Telecommunications, computer, and information services + • Audiovisual and related services (under Personal, cultural, and recreational services) + • Postal and courier services (under Transport)
Financial services	• All insurance and related services • Banking and other financial services—wide coverage ranging from leasing, guarantee commitments, money broking, assets management, settlement and clearing services, transfer and private pension, advisory and other auxiliary services, etc.)	• Financial services + • Insurance and pension services

Annex I
Five priority services sector based on World Trade Organization classification and equivalence in BPM6

AfCFTA priority sectors	WTO classification	Computation using BPM6
Tourism and travel	• Hotels and restaurants (including catering) • Travel agencies and tour operator services • Tourist guide services • Others	• Travel (travel personal, travel business)
Transport	• Maritime transport services • Internal waterways transport services • Air transport services • Rail transport services • Road transport services • Space transport services • Pipeline transportation services • Services auxiliary to all modes of transport • Other transport services	• Sea transport + • Air transport + • Other modes of transport (other than sea and air)

Source: Author's own based on WTO and BPM6.

Annex II

Trade by modes of supply

Table 2

Exports by mode of supply in Southern Africa in 2010

Country	Business Services				Communication Services				Financial Services		Health Services				Tourism and travel		Transport		
	M1	M2	M3	M4	M1	M2	M3	M4	M1	M3	M1	M2	M3	M4	M2	M3	M1	M2	M3
Angola	9	1	9	3	35	0	67	0	0	0	3	0	0	1	536	1	8	35	1
Botswana	56	5	4	21	21	0	13	0	1	29	0	0	0	0	377	1	35	1	0
Eswatini	35	1	1	11	24	0	6	0	40	18	0	1	0	0	11	0	21	0	0
Lesotho	9	0	0	3	1	0	1	0	1	3	0	0	0	0	17	0	3	1	0
Malawi	4	0	0	1	5	0	2	0	1	4	0	0	0	0	11	0	27	6	0
Mauritius	396	18	19	143	95	0	78	8	85	156	2	0	0	1	903	1	262	115	2
Mozambique	6	0	0	2	38	0	0	0	4	0	0	0	0	0	108	0	42	42	0
Namibia	13	1	5	4	33	0	22	0	23	65	0	2	0	0	233	0	161	14	0
South Africa	1,105	1	229	350	472	11	1,910	89	1,091	2,842	1	7	0	0	5,300	10	2,861	238	116
Zambia	2	0	0	1	23	0	9	0	7	27	0	0	0	0	367	0	45	0	0
Zimbabwe	42	0	0	14	2	0	4	0	0	0	0	50	0	0	36	0	75	4	0
Grand Total	1,677	27	268	554	749	11	2,111	98	1,253	3,144	6	60	0	2	7,899	13	3,539	455	119

Table 3

Exports by mode of supply in Southern Africa in 2017

Country	Business Services				Communication Services				Financial Services		Health Services				Tourism and travel		Transport		
	M1	M2	M3	M4	M1	M2	M3	M4	M1	M3	M1	M2	M3	M4	M2	M3	M1	M2	M3
Angola	27	0	13	9	24	0	86	0	0	0	0	0	0	0	664	3	5	18	1
Botswana	74	1	10	24	19	0	32	1	15	67	0	0	0	0	527	2	45	7	0
Eswatini	4		0	1	7	0	3	0	56	14	0	0	0	0	4	0	1	0	0
Lesotho	3	0	0	1	2	0	1	0	0	2	0	0	0	0	17	0	0	1	0
Malawi	7	0	0	2	39	0	2	0	25	3	0	0	0	0	17	0	15	9	0
Mauritius	352	4	29	112	117	0	105	14	127	219	4	0	0	1	1,277	3	265	115	6
Mozambique	16	1	0	6	21	0	0	0	11	0	0	0	0	0	150	0	228	220	0
Namibia	5	0	4	1	38	0	23	0	27	67	0	7	0	0	247	0	113	3	1
South Africa	1,388	1	121	440	727	22	1,624	134	1,094	1,829	0	7	0	0	5,138	6	2,140	177	97
Zambia	4	0	0	1	37	0	17	0	85	29	2	0	0	1	492	0	49	0	0
Zimbabwe	31	0	1	10	14	0	11	0	0	0	0	2	0	0	98	0	166	0	0
Grand Total	1,911	8	179	607	1,045	23	1,905	150	1,440	2,230	7	16	0	2	8,631	14	3,026	549	104

Table 4

Imports by mode of supply in Southern Africa in 2010

Country	Business Services				Communication Services				Financial Services		Health Services				Tourism and travel		Transport		
	M1	M2	M3	M4	M1	M2	M3	M4	M1	M3	M1	M2	M3	M4	M2	M3	M1	M2	M3
Angola	3,413	76	355	965	411	0	611	16	1,087	940	7	0	1	2	0	16	3,041	47	65
Botswana	164	5	79	53	50	0	198	2	34	311	2	10	3	1	149	10	85	1	11
Eswatini	328	2	29	109	6	0	99	0	36	152	0	3	0	0	27	1	45	24	5
Lesotho	31	3	19	11	6	0	76	0	15	62	0	0	0	0	169	1	67	0	2
Malawi	22	0	26	7	7	0	173	0	8	82	1	1	0	0	28	2	78	8	4
Mauritius	386	18	148	124	65	1	403	5	148	785	7	0	3	2	238	15	404	151	27
Mozambique	176	4	35	50	68	0	123	0	52	82	0	0	0	0	0	3	348	30	13
Namibia	150	4	102	49	59		229	8	47	407	0	1	1	0	20	2	128	13	18
South Africa	1,435	3	1,674	463	615	1	4,007	116	658	30,004	1	30	20	0	3,238	837	4,840	2,333	1,374
Zambia	39	2	24	9	15	0	271	0	32	499	1	0	1	0	83	52	434	40	29
Zimbabwe	344	2	98	112	9	0	298	0	0	421	0	95	1	0	2	3	694	22	8
Grand Total	6,488	118	2,590	1,953	1,312	1	6,488	148	2,117	33,744	20	140	31	7	3,954	942	10,164	2,669	1,556

Annex II
Trade by modes of supply

Table 5

Imports by mode of supply in Southern Africa in 2017

Country	Business Services				Communication Services				Financial Services		Health Services				Tourism and travel		Transport		
	M1	M2	M3	M4	M1	M2	M3	M4	M1	M3	M1	M2	M3	M4	M2	M3	M1	M2	M3
Angola	2,947	55	559	908	98	0	1,244	9	766	1,069	12	0	6	4	977	61	2,700	409	123
Botswana	108	3	157	33	62	0	451	5	21	383	2	2	14	1	187	18	210	0	16
Eswatini	63	0	29	21	8	0	110	0	8	116	0	31	0	0	8	1	46	0	7
Lesotho	29	1	24	9	13	0	98	0	12	65	0	0	0	0	123	1	58	0	3
Malawi	38	0	22	12	23	0	215	4	26	83	2	2	1	1	36	2	88	5	5
Mauritius	325	10	267	98	110	3	582	18	117	969	6	0	19	2	484	27	402	143	55
Mozambique	693	14	50	212	87	0	134	12	654	161	0	10	0	0	150	3	516	10	15
Namibia	174	4	118	53	40	0	346	7	23	417	0	12	5	0	28	6	132	3	27
South Africa	1,018	2	1,531	329	1,031	3	4,923	195	628	24,131	1	18	77	0	1,884	88	4,290	2,067	1,335
Zambia	39	1	58	13	57	0	669	4	165	614	0	0	3	0	181	57	828	60	73
Zimbabwe	197	4	227	64	38	0	539	11	141	14,845	0	6	5	0	249	10	224	36	7
Grand Total	5,632	94	3,043	1,753	1,565	5	9,309	266	2,561	42,854	24	82	130	8	4,306	274	9,493	2,734	1,665