

BRIDGES NETWORK

BRIDGES AFRICA

Trade and Sustainable Development News and Analysis on Africa

VOLUME 1, ISSUE 4 - AUGUST-SEPTEMBER 2012



Special edition Unlocking Africa's potential through services trade and development

GLOBAL VALUE CHAINS

Africa needs to integrate global value chains

PRIVATE SECTOR

The role of service coalitions

REGIONAL INTEGRATION

What challenges do services reforms pose at regional level?



International Centre for Trade
and Sustainable Development

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Editorial



This issue is published jointly with International Lawyers and Economists Against Poverty (ILEAP), and brings together experts on trade in services to highlight a number of key challenges and opportunities facing the continent in deploying services trade to promote growth, sustainable development, and reduce poverty.

The services sector has become a key driver of growth and development, accounting for 71 percent of global GDP in 2010. This parallels trends in much of Sub-Saharan Africa, where services contributed between 30-70 percent of GDP during the same time (World Development Indicators 2011). According to the ILO (2011), global employment in the sector surpassed that of agriculture in 2001 and the gap between the two has grown ever since.

With growth rates averaging five percent annually over the past decade, and expected to reach seven percent by 2015, Africa has become the second fastest growing continent (second only to Asia). While oil, gas and mining are clear drivers, the services sector is also playing an essential role – including key infrastructure services such as transport, telecommunications, banking and insurance, alongside business services and distribution and retail. With even more infrastructure investments in the pipeline, the view that Africa's economic renaissance is just getting underway has become increasingly widespread.

Despite these positive trends, a range of challenges remain – notably the persistent poverty in many of the fastest growing African economies and the lack of access to employment and education, resulting in increased inequality (only Latin America is more inequitable). Rising food and oil costs, contributing to increased food and energy insecurity, also serve to exacerbate poverty alleviation efforts. Furthermore, the extractive intensity of Africa's growth carries significant environmental implications.

Leveraging the services sector not only assists in unlocking further growth potential, but it can also help to create jobs, improve the range and quality of services available, and increase the perceived returns to skills.

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The Bridges Africa team

SYSTEMIC ISSUE

Situating services liberalisation and integration for Africa's growth and development?

David Primack

Despite widespread recognition of the importance of services trade, there remains a disconnect between stated priorities and actions on the ground. Even more so with the current momentum of growth and development in Africa, this calls for a shift in approach, to re-orient efforts to ensure that services trade liberalisation and regional services integration are adequately situated as tools towards more fundamental development objectives.

Services are essential to the functioning of the modern economy and inextricable from any efforts to enhance growth, promote development and reduce poverty. They can affect growth and development in various ways: creating incomes and employment, contributing to consumer welfare, helping the investment climate and promoting economic diversification (in both goods and services). In 2010, services contributed between 30 and 70 percent of GDP in Sub-Saharan countries (World Development Indicators, 2011), however Africa's share in global (commercial) services trade was a mere two percent. As the continent continues its drive for prosperity, the sector will take on even greater significance, calling for a more holistic approach to leveraging services trade for development. This will require a shift in emphasis to better situate services trade liberalisation and regional services integration as tools towards more fundamental development objectives.

Second-class citizen?

Despite widespread consensus on the promise of services trade, there remains a disconnect between the oft-stated importance and the attention received on the ground. Public and private sector representatives can be quick to highlight the need for enhanced efforts to expand the services sector, but when it comes to setting priorities (e.g. policy, regulations, incentives, spending), services all too often end up on the cutting room floor (tourism, banking and ICT being perhaps the most consistent exceptions).

Despite widespread consensus on the promise of services trade, there remains a disconnect between the oft-stated importance and the attention received on the ground.

The challenge of a holistic approach

In many ways, the absence of a holistic approach to service sector development is unsurprising. Services touch virtually every facet of the economy, covering over 160 sub-sectors, each with its own economic and legal peculiarities. The responsibility for developing this myriad of sectors also lies with disparate government bodies. Sectoral approaches, pursued in SSA on transport, tourism, and ICT are surely essential parts of the successful equation, but pursuing these on the basis of a holistic perspective is key.

Such pursuits are compounded by a systematic shortage of available and high-quality data for rigorous analysis, alongside a dynamism often associated with rapid technological developments and iterative regulatory evolutions.

A shift in emphasis

The last decade has seen an intensive focus on services negotiations in SSA (under the WTO and to varying degrees the EPAs). More recently, services negotiations have picked up significant steam in the context of regional integration, such as the EAC Common

7.2%

Services growth rate in Sub-Saharan Africa (excluding South Africa) from 1998 to 2007.

Source: The World Bank

Market Protocol and on-going processes in COMESA, SADC, and UEMOA, as well as others envisaged in CEMAC and ECOWAS. Similar negotiations are also expected under the COMESA-EAC-SADC Tripartite FTA negotiations, as well as those for a Continental FTA (under the AU).

ILEAP's experience in Africa responding to requests for advisory support and capacity building on trade in services suggests however the need for a concrete shift in emphasis and approach. This view is driven by the fact that services trade liberalisation and regional services integration – while being essential processes with the potential to deliver significant benefits – have increasingly come to be seen as objectives to be pursued in their own right. Moreover, by generally adopting only GATS-based approaches, the outcomes produced have tended to hold little commercial relevance for operators on the ground.

By contrast, a more holistic, ground-up approach could more appropriately situate services trade liberalisation and regional services integration as tools intended to serve broader growth and development objectives, including that of service sector development. This calls for a re-framing of the debate on the manner in which liberalisation and integration can serve such broader objectives, in particular as a means to further unlocking the vast potential of services to contribute to growth and importantly, to more fairly distributing its rewards.

Engaging more stakeholders in a higher quality debate

An essential ingredient for securing the needed shift lies in engaging more and diverse stakeholders in an evidence-based debate. One key target is the public sector. An oft-cited phenomenon in services negotiations is the 'silo effect', whereby Ministries of Trade or Commerce are faulted for undertaking inadequate inter-departmental dialogue, notably with their sectoral and regulatory counterparts. Conversely, the same has been said of developing sectoral policies, where key trade dimensions may be unaccounted for.

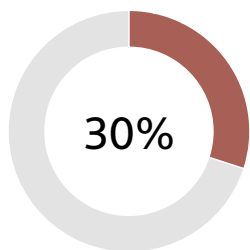
An essential ingredient for securing the needed shift lies in engaging more and diverse stakeholders in an evidence-based debate.

Arguably of greater importance is the need to promote a stronger voice for non-state actors, in particular for private sector services firms and consumers (ostensibly the two main beneficiaries), as well as civil society more broadly, academia, parliamentarians, and the media. This calls for more advocacy and better evidence, including data generation, regulatory analysis, and case studies to promote learning, as well as capacity building to enable stakeholders to engage critically. A concerted outreach effort within the public sphere (at an accessible level) is also essential for generating the ownership necessary to underpin challenging decision-making.

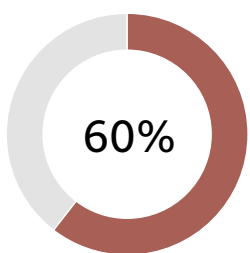
Process matters

The process by which services trade liberalisation and regional services integration occurs is important for securing the needed shift in emphasis. Under ideal circumstances, there is a natural evolution in articulating interests and objectives, starting with a national development plan. With stakeholder input, this can inform a general trade policy, which serves for the development of a services trade policy (differentiated from general sectoral policy) and services export strategy. This provides technical officials the basis for identifying offensive and defensive trade interests. Based on the relevant forum or negotiating partner in question, they can evaluate the merits of proceeding, including institutional/regulatory readiness, potential competitive-effects in the market, and assess the value in pursuing further market opening.

In reality however, political economy considerations often drive the trade agenda, with the possibility that SSA countries (amongst others) sign up to services agreements without an



Share of services in the GDP for African oil exporting countries.



Share of services in the GDP for African non oil exporting countries

Source: The World Bank

adequate appreciation of opportunities or risks. This is exacerbated by simultaneous and often over-lapping processes.

Recognising the above factors at play, steps can be considered for maximising the potential impact that services trade liberalisation and regional services integration can have for supporting service sector development.

Notably, a well-planned and facilitated preparatory process can deliver benefits in its own right; independent of what commitments might emerge. It can provide a space for essential national/regional discussions about economic and regulatory reforms, the design of strategies for overcoming services supply side constraints, and opportunities and challenges to remove barriers in external markets. It can also help to catalyse a service sector constituency, which may more constructively contribute to relevant policy, negotiation, and sector promotion debates. Lastly, it can help to raise awareness about the importance of services and their role in building the economy. The Caribbean preparations undertaken for EPA services negotiations can offer some useful lessons for SSA.

Translating words to action – developing service sector trade strategies

The development of the services sector does not happen by accident. For trade in services to effectively play its role in development, there is a need to better channel both technical and financial resources to overcoming services supply capacity gaps, improving regulatory frameworks, enhancing institutional capacities and reducing barriers to services trade. Spending on education (in a manner that matches skills with market needs) is imperative, as is promoting technological upgrading and ensuring readily accessible trade finance for micro and small African services firms.

The needed resources can come from various sources – not only donors, but also those of regional economic communities, national governments and the private sector directly. Aid-for-trade has a clear role that also needs strengthening.

Conclusion

With such potential afoot in SSA, there is a need to re-orient the role of services trade liberalisation and regional services integration as tools towards a broader development end. Doing so will draw on scarce technical and financial resources, however it is vital to pursue if services trade is going to be a driving force in unlocking Africa's longer-term growth and development potential.



David Primack
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Director, ILEAP.

GLOBAL VALUE CHAINS

Global value chains and services: Implications for African countries

Sherry Stephenson

As goods are less often produced in a single location, services play an increasingly important role in global trade. As a result, a "trade in tasks" is taking place at the intermediary stages of production offering an opportunity for African firms to insert themselves into global value chains, attract off-shored services, and secure the conditions vital for economic development.

The emergence of Global Value Chains (GVCs) has produced remarkable changes in the pattern of world trade over the past 25 years. Rather than trade in goods that are produced solely at one location and exported to the consumer in another location, production of goods and, increasingly, services involves a combination of intermediate inputs and services activities that are sourced globally to make up a finished product. World trade is being conducted through "trade in tasks." Increased trade in intermediate inputs is producing an expanded ratio of trade to world GDP (from 16 percent in 1990 to 27 percent in 2008). Intermediate inputs now represent more than half of the goods and services imported by OECD economies and almost three-fourths of the imports of large developing economies, such as China, India, and Brazil. GVCs increasingly blur the distinction between imports and exports and falsify the designation of a product or service as having been produced in one location only. The WTO has recently coined this new trading paradigm as "Made in the World."

At present, Africa is not a major player in the system of GVCs and faces several challenges in order to take greater advantage of this new dynamism. These include creating the conditions that will allow African firms to insert themselves in the GVC structures – namely, improving the logistics supporting trade flows, telecom infrastructure, workforce skill training, and a generally enabling business environment.

The changing structure of world trade

The changing structure of world trade through the operation of GVCs has implications for both trade policy and economic development. For trade policy, GVCs limit the relevance of bilateral trade balances, as they do not reflect value-added (that is, the value of exports minus imported inputs). In a parallel fashion, the importance of exports is overstated in the presence of GVCs because it is actually specialisation through product and services differentiation in intermediates that drives the productive process. Lastly, the cost of protectionism in a world of GVCs is higher than might be imagined. Putting tariffs or other restrictions on intermediates is the equivalent of eliminating a country's ability to participate in GVCs on a cost-competitive basis.

World trade dynamism and GVCs

At present, the world's most dynamic trading regions are those that have become linked in the network of GVCs. Unfortunately, Africa is not a significant part of the value chain network, putting the region at a disadvantage in terms of trade dynamism. Drivers of the development of GVCs are generally accepted to be: lower transportation costs; information and communication technologies; telecommunication infrastructure; technological innovations; education and skills of the workforce; competitive labor costs; political, social, and cultural environments; stable legislation and ability to enforce contracts; proximity to supply sources; and proximity to market. Encouraging African firms to insert themselves into GVCs requires policy makers to pay attention to these factors.

Services and GVCs

Services play two roles in the new trading environment of GVCs. Whilst they act as the "glue" at each point of the goods supply chain, they also constitute GVCs themselves. Embedded services, if they could be measured, may be found to account for as much as

US\$ 252 billion

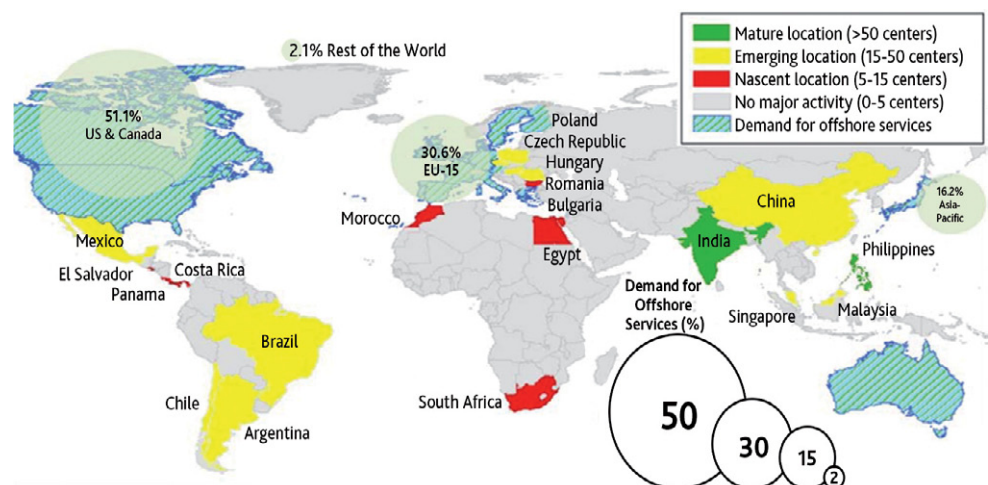
According to OECD estimates, the offshore services market accounted for US\$252 billion in 2010.

half of world trade. Services, which are currently contributing more to GDP growth in low-income countries than in high-income ones, may provide the most attractive and viable route for African firms to insert themselves into GVCs. Targeting specific "tasks" as part of services offshore activity would be a promising way for smaller African firms to integrate into world markets and might also be a way to "leapfrog" stages of development. At present only three African countries – Egypt, Morocco and South Africa – are considered promising locations for services offshore activity. However, this could change rapidly with greater government attention upon the service sector and an improvement in key facilitating factors including human capital, telecommunications infrastructure, and broadband build-out.

Egypt, Morocco and South Africa are considered promising locations for services offshore activity.

Centers for supply and demand for offshore services

Service activities that are the object of offshore demand, namely "other commercial services," have become more important than the traditional "travel" and "transport" components of world services trade, and are now the fastest growing segment of world trade overall. The biggest contributors to recent growth have mainly been business services such as telecommunications and IT services, R&D services, and financial services, among others.



Source: CGGC, Duke University based on data from Everest and Datamonitor

The three main components of the offshore services value chain are Information Technology Outsourcing (ITO), Business Process Outsourcing (BPO), and Knowledge Process Outsourcing (KPO). Many of the lower-value BPO services can potentially be 'captured' by African firms, including activities such as network management, application integration, payroll, call centers, accounting, document management, logistics, supply chain management, and human resource management. Some of the higher value-added activities within the ITO component, namely services to support IT infrastructure and software as well as IT consulting and software research and development, should also be within range of certain firms. The objective of African firms, once inserted into a GVC, is to upgrade its activity, as firms attempt to 'climb' the value chain for offshore services, much in the same way as they do for global manufacturing value chains. Some African countries have been making strides in capturing activities that are part of the ITO/BPO offshore services value chains. These include Tunisia, Ghana, Senegal, Kenya, and Mauritius, where some of these activities are now being provided as part of the operation of larger firms in other locations. These five countries share some common characteristics, namely a large component of qualified workers, a growing penetration of internet use and broadband availability, stable political regimes, and an attractive business environment. These countries have also encouraged demand-supply side linkages.

Opportunities for Sub-Saharan African countries

Within the flux of this intensely competitive global landscape there are unique opportunities to be seized by SSA countries that possess the capacities and resources to integrate global apparel value chains. For instance, the development of garment manufacturing is relevant to job creation and poverty alleviation in low-income SSA countries. It is the fragment of the chain most suited to domestic circumstances, capital requirements are affordable, backward linkages allow for vertical integration into upstream activities, knowledge and skill intensities are variable, and it creates a springboard for the upgrading of capabilities into higher value and more diversified industrial and service activities. To this end, a few notable dynamics occurring in the world market are worth highlighting:

- China will remain the dominant exporter for the foreseeable future but rising labour costs and an increased share of production channelled to meet domestic demand imply that Chinese suppliers will conceivably cede export (and import) opportunities.
- Growth markets like India, Russia, Turkey, Brazil, Indonesia, and China are developing strong consumer bases. Opportunities will arise in these economies as the demand for clothing rises at a faster rate than economic growth.
- The projected rise in income in SSA households over the next generation could provide an important incentive for added investment in local production.
- Some firms are also hedging their risks by diversifying part of their outsourcing activities to second-tier suppliers.

Given appropriate policy frameworks, SSA is endowed with three primary factors that, combined, could secure its long-term competitiveness and bolster its future status as an investment destination of choice in labour intensive garment manufacturing: 1) SSA has an abundant pool of semi-skilled (young) labour available at comparatively low wages. 2) Many African countries hold a comparative advantage in the production of quality cotton with favourable fibre characteristics. The opportunity lies in creating downstream linkages and in developing production networks that permit vertical integration of cotton-product value chains so that different stages of the transformation process are retained either locally or regionally. 3) SSA also has a huge untapped reservoir of renewable sources of energy that could power a fairly energy-intensive production cycle (especially in textiles). Environmentally sustainable manufacturing practices are the future in Africa as elsewhere.

Conclusion

The ability of African firms to insert themselves into GVCs is a vital condition for Africa's economic development. To facilitate this, African governments must devote more attention to the services sector, along with improving the conditions vital for attracting off-shore services to the continent.

Key enabling factors for BPO/ITO growth in Africa are within the reach of government policy. These include the creation of an attractive business environment with reduced transaction costs of doing business. The creation of transport corridors and the smoothing out of port bottlenecks come to mind as priorities, as well as improvements in customs procedures. Incentives for the operation of SMEs and programs for the creation of skilled workers for activities that are part of the BPO/ITO supply chain are also high on the list. Providing access to courses in English, in computing skills, in business management operations would facilitate the supply of trained personnel. And ensuring an efficient telecommunications infrastructure is essential, which means allowing for open telecom markets in order to attract foreign investors, together with the development of independent telecom regulators to enforce rules against anti-monopoly behavior.

Reference: The shifting geography of global value chains: Implications for developing countries and trade policy, WEF, July 2012.



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PRIVATE SECTOR

Leveraging the private sector to develop services in Africa – Lessons from the Caribbean

Michelle Hustler and David Primack

Service coalitions that are currently evolving in developing countries – such as Sub-Saharan Africa (SSA) and the Caribbean – offer an innovative channel for micro and small services firms to unlock the potential of the services sector and foster inclusive growth, sustainable development and poverty reduction.

Drawing on experiences in the Caribbean, Sub-Saharan Africa's efforts should be focused on building a strong and functional relationship with government(s), securing financial support for the first 3-5 years of operation, and ensuring an immediate attention on avenues for attaining financial self-sufficiency over the long-term. An effective communication and outreach strategy to get the right messages to the right stakeholders has also proved to be an essential factor of success.

What is a service coalition and how do they differ in developing countries?

A service coalition is an organisation of stakeholders related to the services sector who may have diverse interests, but nevertheless share a common objective: the development of the service industry. The aims of the stakeholders are seen to be more efficiently accomplished through a coalition.

The US Coalition of Service Industries (USCSI) was the first coalition, formed in 1982. Since then, new coalitions have been established in countries throughout the world, with the Global Services Coalition (GSC) now boasting 13 members worldwide (the Caribbean serves as a single regional member). Like USCSI, most developed country service coalitions focus on lobbying and raising the profile of the services sector. Their efforts traditionally revolve around the promotion of services liberalisation. However, a slightly different model has emerged in developing countries (starting with Malaysia circa 2001) which focus on developing the services sector in order to be able to better take advantage of available market access opportunities.

In this respect, service coalitions in developing countries, including those emerging in SSA, have the potential to offer a range of more robust interventions. In doing so, they can serve to augment and complement public sector institutional roles, thereby helping to provide essential support services for catalysing dynamic entrepreneurial activity.

Challenges facing domestic services firms in developing countries

Despite the vast potential of the services sector, the challenges faced by developing-country firms to harness them are numerous, and exacerbated by the endemic scarcity of available and/or quality services data. Some of the characteristics and challenges facing domestic African services firms include:

- Fragmentation – firms are often fragmented and small with little or no representation across sectors.
- Lack of understanding – the areas in which they operate (and services more generally) are not well understood, even by policymakers, politicians, and the public at large.
- Little influence – many services firms, especially micro and small firms, often have little political influence.
- Weak policy/regulatory environment – emanating in part from the lack of understanding, the policy and regulatory environments are often quite weak, especially when it comes to providing targeted incentives to help develop the sector domestically.
- Low access to affordable finance – the limited capital base of these firms and their inability to access affordable finance is perhaps the single-most important constraint

on firm/sector growth (resulting from the intangibility of services and exorbitant interest rates).

- Low recognition – these firms also tend to suffer from low brand recognition and credibility.
- Poor market information – these firms often suffer from an inability to readily access critical information on overseas markets.



How can service coalitions help?

Service coalitions can take a more proactive role in helping to address many of the challenges above. This can be done by (i) offering a unified voice on services issues and helping to raise awareness. By serving as a focal point on services, coalitions can help to better articulate and disseminate private sector needs and commercial interests, as well as raise awareness amongst a cross-section of stakeholders (public and private, including the donor community); (ii) providing training to small and micro enterprises, including sector-specific associations; (iii) advocating for policy and regulatory reforms, trade negotiations, standards, and incentives; (iv) and assisting service providers to promote and increase trade and exports, including through the dissemination of information on export opportunities, market intelligence, trade missions and fairs, as well as collecting data and offering award/recognition programs.

Taking on such roles, coalitions can also serve as an important conduit for targeting development cooperation (or aid-for-trade) resources towards the services sector.

Experiences in the Caribbean offer important lessons for Africa

The initial implementation of service coalitions in the Caribbean proved more difficult than expected. While floated as a concept for more than a decade prior, by early 2010 only four coalitions could have been considered operational. One key obstacle was the lack of awareness pertaining to private sector needs vis-à-vis services policy, negotiations, and even trade promotion, and thus the associated challenge of articulating their own needs as well as generating public sector buy-in. Another challenge emerged due to assumptions about the relationships coalitions would have with their national Chambers of Commerce (which was not always feasible). Lastly, the lack of adequate and consistent funding for the coalitions resulted in delays and a number of false starts. These challenges (notably with funding) were largely mirrored at the regional level.

Significant progress has been achieved in the region. This includes the December 2010 inauguration of the Caribbean Network of Service Coalitions alongside the strengthening of existing coalitions in Barbados, Dominica, Saint Lucia, and Jamaica (notably via

additional financial and human resources), as well as the launch of the Antigua and Barbuda CSI, the Belize Coalition of Service Providers and the Grenada CSI. Helping to underpin this momentum has been varying combinations of support from national governments, alongside the Caribbean Export Development Agency, GIZ (Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH), and DFID's CARTFund (Caribbean Aid for Trade and Regional Integration Trust Fund).

With laudable achievements to-date, the Uganda-CSI continues to face challenges in shifting from ad-hoc activities and influence to a more systemic role as a fully functioning coalition.

Experiences of services coalitions in SSA

Experiences establishing service coalitions in SSA remain at a preliminary stage (despite also having been floated over a decade ago). East and Southern Africa is perhaps most advanced on this front, with Uganda serving as the most commonly known coalition in the region. With laudable achievements to-date, the Uganda-CSI continues to face challenges in shifting from ad-hoc activities and influence to a more systemic role as a fully functioning coalition. As in the initial Caribbean phase, progress has been hampered by the availability of financial resources, alongside the political challenges of situating itself in the existing landscape.

At a regional level, the East African Business Council (EABC) has taken the lead, collaboratively with ILEAP, to establish the East Africa CSI (EACSI). Building on efforts in 2009 and 2010, stakeholders outlined a road map for bringing the coalition to fruition. While the full scope of this effort has not yet garnered the financial support needed to move into implementation, results have been achieved in the context of securing support to develop a *Professional Services Platform* to be housed at EABC. As noted by stakeholders early in the process, the Platform constitutes an essential stepping stone to the formation of the EACSI.

Similar efforts are underway throughout the continent – including Burundi, Congo-Brazzaville, Cote d'Ivoire, Ghana, and South Africa. At a regional level, the COMESA Business Council is also advancing on its mandate to support the formation of coalitions throughout COMESA.

Seen in this light, service coalitions in SSA are emerging with the potential to serve as an essential business support organisation, helping to mitigate institutional deficiencies across a range of interventions that might otherwise be provided by the public sector in developed countries. They also have the potential to serve as innovative channels for delivering aid-for-trade resources. Doing so requires that stakeholders in SSA take heed of the success factors in the Caribbean, as well as development partners' recognising the different nature of coalitions on the continent, and associated support needs to facilitate their success.

This article is based on the ILEAP's publication: [Harnessing Services Trade for Development: A Background and Guide on Service Coalitions in Africa and the Caribbean](http://www.ileap-jeicip.org); available at www.ileap-jeicip.org



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NEGOTIATIONS

The LDC services waiver: Making it work

Hannes Schloemann

In December 2011, WTO Members agreed on a waiver for preferences which can now be granted unilaterally to LDC services and service providers. The mechanism, an LDC-only enabling clause for services, holds great potential for LDCs in Africa. However, all will depend on how it is operationalised. Creative ideas are available, but most important is the political will of WTO Members to actually use the available space and grant services preferences to LDCs.

The Least Developed Country (LDC) services waiver emerged as one of the few deliverables of the 8th WTO Ministerial in December 2011. After years of negotiation, a last-minute compromise was found which allowed Trade Ministers to harvest what could be presented as an ostensibly pro-development result. While weaknesses remain, the glass is arguably half full: Members are now authorised to grant preferences to services and service providers of LDCs – not only WTO Members, but all LDCs.

A new LDC-only enabling clause for services

The waiver effectively operates as a new "Enabling Clause" for trade in services, with benefits limited to LDCs. So far no services preferences at all were possible, apart from very narrow exceptions to the otherwise all-encompassing MFN principle in GATS article II. The waiver allows for classical market access preferences, and opens up the possibility for allowing others, subject to an application and approval procedure.

Market access privileges allowed, other preferences require authorisation

One long controversial issue was whether only standard "market access" measures of the types described in GATS Article XVI would be covered ("Small Window"), e.g. preferential quotas or an exemption from an economic needs test (ENT), or whether Members would also be allowed to grant privileges, e.g. in the form of preferential national treatment, regulatory arrangements, etc. ("Large Window"). While LDCs and their supporters argued strongly for the Large Window solution, which better targeted actual LDC needs, several Members insisted on keeping the waiver limited to Small Window (market access) measures, arguing that allowing other preferences would mean to risk unforeseeable disturbances. This was arguably unconvincing, as many Members have a long practice of granting exactly such non-market access preferences under their one-off GATS Article II MFN Exemptions.

The waiver as agreed offers a two-tiered solution: (Direct) market access preferences for LDCs are automatically allowed; other, non-market access preferences are not automatically covered. They can, however, be authorised by the Council for Trade in Services (CTS).

Market access preferences illustrated

Members may now without further ado grant LDC services/suppliers exclusive market access in otherwise closed sectors and modes of supply, or provide them with incrementally relaxed market access vis-à-vis other Members. They can, for example (i) allow LDC midwives to provide services (mode 4) under an LDC-only quota, while not admitting midwives from other countries; (ii) waive for LDCs the otherwise applicable ENT for restaurant or hotel licenses; (iii) allow LDC contractors to use up to 25 qualified LDC building professionals, while service suppliers from other countries can only bring in up to ten of their own staff; (iv) grant LDC service providers, for example tour operators, the right to maintain a local presence (mode 3) in the form of representative offices while providers from other countries must establish full branches or subsidiaries.

Regulatory and other preferences: only allowed if authorised

Other measures discriminating in favour of LDC services/suppliers can be approved by the CTS. This includes preferences granted through selective (LDC only) national treatment, preferential treatment on the level of domestic regulation, or even subsidies - for example: (i) recognition of qualifications based on practical experience for LDC professionals (vs. requiring formal qualifications); (ii) facilitated licensing procedures for LDC providers (e.g.

submitting papers in home language with a summary in the local language instead of full translations); (iii) concessional application fees for LDC applicants for trucking licenses; (iv) an "LDC Helpdesk" to assist in meeting qualification requirements, technical standards or managing licensing procedures; and (v) facilitated vehicle registration for LDC providers of cross-border road transport services.

Even the indicative list above shows that such preferences could make a significant difference to LDC providers. As in goods, where TBT and SPS measures reign supreme, it is often precisely these regulatory issues which pose the greatest obstacles to LDC services exports.

What is an LDC service provider? Rules of origin and the avoidance of free-riding

To avoid free-riding, e.g. by non-LDC providers creating shell companies in LDCs to benefit from waiver preferences, WTO Members had to agree on certain rules of origin.

The adopted formula represents a sensible compromise between the need to avoid unnecessary restrictions and the goal to ensure that value accrues primarily to LDC economies: where LDC investors act through an LDC-incorporated company no further questions are asked. Where non-LDC investors act through an LDC-incorporated company, however, they have to be ready to prove that their LDC company is more than a shell by demonstrating "substantive business operations". Importantly, however, these operations would not have to happen in the same LDC where the company is incorporated. It would be sufficient if they maintain such operations in any LDC – a solution reflecting LDC demands.

Operationalising the waiver: ideas for the way forward

Two types of obstacles may discourage use of the waiver: the lack of technical clarity of what preferences would be desirable and could be done; and the need to galvanise sufficient political will to implement them. The following offers some initial ideas on steps that may help to overcome these:

- **Concretising demands:** LDCs, individually and collectively, should pro-actively and systematically identify preferences which would meaningfully benefit their services exports, and translate these into concrete demands to WTO Members, both developed and developing.
- **Concretising (potential) offers:** All WTO Members should pro-actively consider possibilities for granting preferences to LDCs. Members should be encouraged, through available political channels, to conduct this analysis with an open mind. LDCs and their supporters can help by identifying and communicating feasible measures.
- **Securing preferences politically and/or legally:** LDCs and their supporters should seek firm commitments wherever possible to enhance predictability and reliability for their service providers, allowing them to take solid investment decisions for the future.

Importantly, nothing stops Members from undertaking legal commitments to grant specific LDC preferences, for example in the form of scheduled commitments within the WTO/GATS, as part of a DDA package or separately. They could also choose other *fora*. For example, why not agree to grant a certain set of LDC preferences under the upcoming plurilateral trade in services agreement (currently being negotiated amongst a group of OECD and other countries)? This alone could send important signals regarding the high priority placed on developing services sectors in LDCs.

If legal commitments are not achievable, political commitments may be. One possibility would be to hold a "Signalling Conference" similar to the one held in July 2008 in the context of the DDA. The effect of bringing Members together to "signal" in semi-detailed terms their plans under the waiver would be to create a certain degree of healthy political pressure.

The glass, thus, is half full – LDCs and their supporters can do a lot to make this waiver work, technically and politically. Nothing should stop them from doing so.



Hannes Schloemann

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NEGOTIATIONS

Trade in services liberalisation in SADC: Vehicle without a driver, or just getting into gear?

Markus Jelitto

A glimpse at services negotiations within the Southern African Development Community.

Member States of the Southern African Development Community (SADC) have been developing their trade in services integration agenda since 2000, but have produced little of tangible value to date. The launch of liberalisation negotiations in six priority sectors may change that, but it remains to be seen if the negotiating process can be effectively used to improve the conditions for trade in services in the region.

Whereas EAC and COMESA Members target the elimination of trade discrimination among their Members in their negotiations, SADC employs a more incremental approach of "progressive liberalisation," whereby a first round of negotiations focuses on improving upon 1995 GATS commitments in six priority sectors (communication, construction, energy-related, financial, tourism, and transport services). The process appears to be gaining moderate momentum. The Trade in Services Protocol will be put before the SADC Council at the upcoming Summit in August 2012, while liberalisation negotiations on the six priority sectors, launched in April 2012, could be completed within three years. The formal commencement of the negotiations is a step forward from the decade-long state of preparation, and will, for the first time, involve the preparation of requests and offers and should help create a sense of priority among Member States' negotiators.

As these necessary elements fall into place, however, a number of challenges persist:

The negotiating mandate contains an acute lack of ambition: the formal objective of the first round of negotiations – better than GATS commitments in the six priority sectors for each Member State – can readily be achieved without changes to existing laws and regulations, since most Member States (with the exception of Lesotho and South Africa) have few GATS commitments and have partially liberalised many sectors. Settling for an outcome that reflects the mandate's lack of ambition would not remove any of the region's trade-crippling barriers or create new opportunities for business.

The negotiating mandate contains an acute lack of ambition.

The potential champions of SADC services integration have been reluctant leaders of the process. South Africa, the prime candidate for such leadership, may simply be too big for the SADC process. Its services suppliers dominate key services sectors in the region, including banking, telecommunications, and distribution, and they have gained this foothold without preferential regional liberalisation. Another candidate, Mauritius, is shifting its strategic orientation increasingly towards Africa – which receives some 60 percent of its FDI outflows – but the country still trades predominantly outside of the region and its services industries serve predominantly European and Asian customers. Other Member States are struggling to identify more than token export capacity for many of the six priority sectors, which bears the risk that they will take a more defensive stance in the request-offer negotiations.

Another challenge rests in the fragmentation of services negotiations among stakeholders. Negotiations are conducted by trade ministries, but commitments offered will have to be

signed off by line ministries and sector regulators, the latter of whom do not benefit from liberalisation commitments and have often been reluctant to cooperate. Further, inter-ministerial consultation mechanisms at working level are not well established in all Member States, making joint ownership of the services liberalisation agenda even more problematic. Finally, a general acceptance in most SADC countries that services openness is indispensable to economic development fails to translate into policy making. Many regulators tend to see their sector in isolation, often choosing direct intervention to achieve policy objectives.

In addition to the challenges noted above, it is important to put expectations of the negotiations in context. Negotiated bindings will provide a degree of legal certainty for foreign services operators, and any new liberalisation is likely to enhance performance of domestic services markets. However, weak legal frameworks, competition-restricting domestic policies, and lack of access to finance are all factors that have created an unfavorable business environment in many SADC Member States, which require much more comprehensive approaches.

If SADC services negotiations are intended to have an impact on its Member States' economies, Member States must address the following elements:

- Status quo commitments across all sectors should be bound as the floor of liberalisation. Member States can convey such negotiating intentions conveniently through the request-offer process, by requesting Member States to bind applied regimes and following suit with offers that match this ambition.
- A focus should be to address the most egregious, economically unjustifiable barriers, such as monopolies, entry quotas, nationality requirements, and discretionary licensing in a horizontal manner. The economic evidence of the cost of such measures is overwhelming, but it is unlikely that the request-offer process alone will create the necessary dynamics in this regard.
- Negotiators should pay particular attention to areas in which regional integration promises genuine benefits. For example, regions with limited supply capacity, or preferential liberalisation in infrastructural services such as banking or telecommunications, would be counterintuitive. Where foreign investment in these sectors is desired, regulators are rightly focusing on the quality of the investment proposals, rather than the origin of the suppliers. In many areas, closer regional integration can bear fruit, cases in point being the removal of regional road transport restrictions and the movement of persons. Services negotiations can be used to re-animate dialogue within SADC on the movement of persons. Efforts to facilitate the freedom of movement within SADC have thus far not been successful, and a Protocol which seeks to allow SADC citizens to travel visa-free, seek residence, and work across Member States must at this point, for all practical purposes, be regarded as defunct. The SADC services negotiations offer a good opportunity for Member States to narrow their view and look at the gradual improvement of conditions for temporary work related movement. Most SADC Member States have highly restrictive WTO commitments on the movement of persons. The flexibility of the services scheduling approach is a distinct benefit in this case, as it allows gradual and country-specific relaxation of barriers on the temporary movement for natural persons crossing borders in the supply of services. Such an approach can be complementary with any initiative on the movement of business persons undertaken in the tripartite context.
- Greater synergies must be developed between the services liberalisation agenda and other sectoral agendas within SADC. Work on a wide range of sector issues, much complementary to the services agenda, takes place in various other SADC fora. Unfortunately, exchanges have been sporadic at best. The trade in services agenda can assist in removing barriers to openness, while work on convergence of sector regulation can provide the groundwork for deeper regional integration.



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POLICY CHALLENGES

How African countries can improve their services sector: The case of Lesotho and Uganda

Mina Mashayekhi, Martine Julsaint Kidane, and Luisa Rodriguez

Leveraging the development benefits of services and services trade through improved policy, regulatory, and institutional frameworks: findings from UNCTAD's services policy review.

Services play a crucial role in the economic growth and social development of developing countries. They do this by contributing to competitiveness, the social realm, and the generation of employment, income, and foreign exchange earnings.

Services are a key component of the production process especially when they act as 'inputs' into economic activities, such as transport, telecommunication, and financial services. Therefore, they can either facilitate or hinder trade and production in other economic sectors, depending on the efficiency with which they are made available to users.

In addition, services including activities like water provision, education, health, financial services, and telecommunications have important infrastructural and social functions. Thus, ensuring access to such services for poor and marginalised groups can contribute to the achievement of the Millennium Development Goals (MDGs).

In the last decades, the economies of developing countries have seen an increase in their share of global services trade, services employment, and foreign direct investment in services sectors. Nevertheless, there remains significant difference when one compares with developed countries' services exports, which can be partially explained by barriers to trade in services and supply side constraints. Indeed, infrastructural shortcomings, regulatory gaps, inadequate policies, and inefficient institutions all hamper the ability of developing countries to take full advantage of services trade.

In the recent context of economic and financial crisis, services exports proved to be more resilient than merchandise exports. Motivated by the desire to increase the resilience of their economies and tap into potential gains, developing countries have shown a renewed interest in crafting policies to develop the services sector. This is particularly true of highly dynamic sectors, which promote increased participation in services global value chains through the off-shoring of services.

This article highlights findings from recent Services Policy Reviews (SPRs) undertaken in Lesotho and Uganda with the support of UNCTAD. The sectors covered by the analysis include health, tourism, financial, accounting, insurance, legal, and construction services.

SPRs are systematic reviews of the policy, regulatory and institutional frameworks that characterise the services sectors. They aim to identify policy options, recommendations, and an action plan for reform. The SPR process: (i) contributes to a strategic approach to develop the services sector, (ii) enhances stakeholder consultation and engagement in policy development, and (iii) surveys achievements and examines what needs to be done. Thus, SPRs serve to reinforce national strategies by recommending a series of practical steps, through which strategic objectives can be pursued.

Lessons learned from Lesotho's and Uganda's SPRs

The studies show the importance of integrated policy making for ensuring the contribution of the services sector to the broader economy. It means increased coherence in policy making at different levels: socio-economic management and development policies; sector-specific policies; and trade policies, including trade negotiations strategies.

They also suggest that there is a need for improved coordination at the regional level to implement strategies aimed at pooling resources for developing skills and capacities, sharing infrastructure, and promoting higher service standards. The importance of having the capacity and tools to monitor policies against targets, particularly as challenges are encountered, is also emphasised.

Key challenges faced by policy-makers include: (i) weak human resources and the need to upgrade skills, (ii) insufficient support for SMEs, including access to financing, (iii) supply capacity that does not necessarily meet regional or international standards, and (iv) infrastructural gaps. For certain sectors, the issues of technological upgrade and the promotion of innovation are also of relevance.

Findings from Uganda's SPR

In order to improve the contribution of the analysed services to the economy, the Ugandan SPR indicated the need to upgrade capacity, skills, and existing legal frameworks.

In the insurance sector, capacity constraints were linked to insufficient human professional qualifications and skills. The need to develop or update regulation in this sector is dependent upon solvency requirements, implementation of existing acts, incentives to facilitate enforcement, procedures, and limits for compensation. Also, the need to correct inconsistencies between legal frameworks and government policies; develop innovative products for business (such as insurance for transit goods); and increase confidence in the industry were key findings.

The need to update regulatory frameworks was also raised in the examination of professional services. In the case of accounting, this related to the fact that the majority of people offering services were not regulated. In the case of legal services, action was deemed necessary to separate the disciplinary function from the regulatory and standard-setting institutions. With regards to engineering and construction services, an agreed approach was needed for tendering and procurement, and developing regulation on consumer protection.

In the insurance sector, capacity constraints were linked to insufficient human professional qualifications and skills.

In relation to capacity and skills upgrade, recommendations were made related to academic institutions facilitating trainees and sponsorships in different sectors. Skills upgrade was particularly relevant for the accounting sector, given recent reforms that implied changes in practices, and in the engineering sector, to enhance qualifications for consultancy, thereby promoting hiring of local consultants.

In the case of legal services, other aspects that required attention was the lack of a registry and computerised database of up-to-date information on advocates. In the case of construction services, limited access to credit and equipment, as well as weak business support institutions needed further focus. In addition, exploring opportunities for exports of construction services in the EAC and COMESA was deemed relevant.

Findings from Lesotho's SPR

Cross-sectoral recommendations aimed at improving the contribution of the services sector to the overall economy included the following: developing strategies to improve (i) key infrastructure related to the development of the sectors analysed, (ii) employment in these sectors, and (iii) the processing of work and residence permits; improving Lesotho's business climate; making greater use of decentralised bodies to advance strategies and implementation of ongoing initiatives; focus on securing access to other services

markets; passing a competition law; creating a competition authority; and enacting a comprehensive investment code.

In the case of Lesotho, major challenges related to financial services included access to these services in rural areas and access to credit by women in particular, which were only partially addressed by informal financial services. The main recommendations in this sector were directed towards updating the regulatory framework, and in a few areas developing legislation such as microfinance and consumer protection.

With regards to tourism, the study found the sector to be constrained by infrastructure gaps and limited progress in diversifying source markets.

In health services, key issues identified included a lack of access to services in rural villages and the scarcity of skills due to brain drain. Recommendations in this sector focussed on the need for improved data collection to guide policy choices in the sector and for training of the institutions responsible for the registration and monitoring of medical professionals.

With regards to tourism, the study found the sector to be constrained by infrastructure gaps and limited progress in diversifying source markets. Needs identified in this area related to differentiating Lesotho from key competitor destinations, developing new tourism products, and diversifying the country's tourism product base. Recommendations referred to the need to establish policy planning and legal frameworks to manage the sector, in order to ensure an enabling environment for future growth and strengthened linkages with other sectors.

Conclusions

UNCTAD's experience with assisting countries to conduct SPRs suggests that such an exercise which identifies, through multi-stakeholder consultation (with policy-makers, regulators, operators, consumers, etc.), the elements of a policy, regulatory and institutional reform agenda and a specific action plan is an important tool for countries wishing to improve the competitiveness of the services economy with a view to promoting development gains. The SPR is both a stock-taking and forward-looking exercise and represents a pro-active approach to policy-making and regulation which acknowledges the rapidly evolving nature of today's services sectors and markets that require regular review and adaptation of policies. Many governments, while they may already have consultative processes in place, would benefit from strengthening and formalising such procedures, including the planning of implementation of the recommendations and action plans. UNCTAD provides assistance to countries for the entire process aimed at promoting the adoption by countries of a comprehensive, integrated and coherent services strategy of growth, development and trade, accompanied - where necessary - by further sectoral development planning and macro-economic, social, investment, competition, and environmental policies.

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REGIONAL INTEGRATION

Trade in services and regional integration in SSA: Status and key challenges

Lynette Gitonga

SSA's regional services trade and integration faces similar challenges across the continent and to address this collaboration at a continental level might be useful.

Future growth, development, and integration in Sub-Saharan Africa (SSA) depend on a competitive and well-regulated services sector. Restricted access to competitive services, however, remains an impediment in most SSA countries, partially due to their poor state of economic infrastructure, small market size, and limited endowment of capital, skills, and technology. A properly sequenced and complementary program of enhanced openness and regulatory reform could alleviate these constraints. In addition, greater regional and global integration could, in principle, alleviate the constraints on the development of the services sector.

A snapshot of regional integration in SSA's trade in services presents limited overall progress in service sector integration beyond trade facilitation services related issues, including the movement of persons. In addition, the challenges and bottlenecks faced in the various Regional Economic Communities (RECs) are quite similar.

A snapshot of regional integration in SSA's trade in services presents limited overall progress in service sector integration [...]

West Africa and Central Africa

The West African region has two services integration schemes. The first, under the Economic Community of West African States (ECOWAS) 1975 - 1993 Trade Protocol, has brought about progress in the now free movement of persons without visas, the adoption of the ECOWAS passport, and the right of establishment. The ECOWAS region has also adopted supplementary acts, one harmonising telecommunication regulations and one on investment. The second service integration scheme, under the sub-regional West African Economic and Monetary Union (WAEMU/UEMOA), is a subset of ECOWAS containing a directive that harmonises regulations in telecommunications and transport services. UEMOA is a common market, and intra-UEMOA liberalisation of trade in services is currently underway. The region has also introduced new regulatory frameworks to reduce historical monopolies in the region.

The West African region faces a myriad of challenges and bottlenecks common to the rest of SSA. These obstacles – which hinder the free movement of people and economic operators – include multiplicity of two regional groupings with distinct objectives; weak political support; poor coordination among ministries; weak outreach to stakeholders and operators; poor funding by Member States; and non ratification and non implementation of protocols. The region is also characterised by historical linguistic, currency, and legislative frictions and hence consists of heterogeneous communities with historical ties.

In central Africa, the Economic Community of Central African States (ECCAS) under the ECCAS Treaty of 1983 is implementing a cooperation program in transport and communications. Annex 7 of the treaty contains disciplines on the movement of naturalised persons and the right of establishment. CEMAC, which is a sub-group of

ECCAS, has also made progress towards liberalisation of air transport, and the region is implementing a regional fibre-optic backbone project. Following the CEMAC 1994 - 2008 agreements, CEMAC members are involved in EPA negotiations, including discussions on trade in services, and the region is developing a services master plan to promote sector development both regionally and nationally.

Challenges in the central African region include slow, highly priced surface transportation due to cartelization and restrictive regulations, limited connectivity of air transport between CEMAC and ECCAS members, and backbone infrastructure in the relatively early stages of development. The use of new ICT technology is modest, due to high prices and low access rates, and still developing ICT infrastructure.

East and Southern Africa

The East African Community launched a common market in July 2010. The Common Market Protocol (CMP) provides for the free movement of goods, persons and labour, services, capital, and the rights of establishment and residence. The CMP annex V on Free Movement of Trade in Services is a services GATs based liberalisation schedule with seven initial sectors — business and professional services; communication services; distribution services; education services; financial services; tourism and travel-related; and transport services. Five additional sectors have also been identified for negotiation: construction and related services; environmental services; health-related and social services; recreation, culture and sporting services; and other services not included elsewhere. Additionally, the region has an EAC passport and is implementing the protocols on the movement of workers and persons. Work permit fees have recently been abolished between Rwanda and Kenya, and there are efforts to harmonise regulatory measures in some services sectors and institute an EAC tourist visa. Some sub sectors in the professional services category are also developing mutual recognition agreements to allow for the free movement of professional services and, further, the EAC now has a professional services platform.

Given the high level of political will, bottlenecks and challenges in the EAC are largely in the implementation stages of agreed liberalisation and integration agreements. At a national level, the relevant CMP legislation and implementing institutional frameworks are not yet in place. Like the other regions discussed, however, there are challenges in the areas of coordination, overlapping membership in COMESA and SADC, and limited resources for capacity building and training on common market integration processes. The region also has weak and uneven regulatory frameworks governing services sectors and ambition is asymmetrical amongst partner states.

The Common Market for Eastern and Southern Africa (COMESA) agreement (1994) provides for the Free Movement of Persons, Labour, Services, and the Right of Establishment. Early regional cooperation came in transport and financial services to facilitate the movement of goods, and the COMESA Framework for liberalising trade in services was developed and adopted by the Council in June 2009. It consists of (i) regulations on Trade in services anchored on the GATs, (ii) annex on the temporary movement of persons, and (iii) services negotiating guidelines. Ten member states have validated schedules in the four priority sectors, including communication, finance, transport and energy and the COMESA Secretariat has initiated a complimentary process to consider the specificities of these sectors in collaboration with other COMESA programs.

The challenges and bottlenecks in the COMESA region include overlapping membership in RTAs with ongoing services negotiations, technical capacity constraints, WTO ongoing accession processes, divergent levels of development, lack of political will, and issues of prioritisation alongside the ongoing tripartite negotiations. The protocol is also not fully operational; as of March 2010, only four member states – Kenya, Rwanda, Burundi, and Zimbabwe – had signed the Protocol.

The Southern Africa Development Community (SADC) ministers of trade adopted a draft SADC trade in services protocol in 2009 modeled largely on the GATS. Negotiations began in April 2012 in six identified priority sectors that include finance, communication,

transport, energy, construction, and tourism. SADC has several sector and modal-specific protocols which include the Finance and Investment protocol (mode 3), draft protocol on movement of persons (mode 4), and protocols specific to transport, communication, tourism, and education. The SADC Facilitation of the movement of persons was intended to facilitate lawful entry without a visa into the territory of another State Party for a maximum period of 90 days per year. However, this is not in force due to a lack of sufficient ratifications.

There is a compelling case to be made for supporting a continental African regional approach to promoting service sector development and services liberalisation [...]

Bottlenecks in the SADC region have revolved around the conclusion and adoption of the Draft Trade in Services Protocol, with some uncertainty as to whether the protocol will be presented to the SADC Summit for signature in August 2012. The back-loading of negotiations on the schedules of commitments until after SADC protocol adoption and capacity constraints in the management of negotiations have slowed progress. Like other regions, there is limited funding for the negotiation activities and weak coordination and involvement of regulators and private sector in services negotiations. SADC has also experienced limited political will, fearful that SADC EPA services negotiations will overtake SADC FTA services negotiations, resulting in an impetus for change coming from an EU-driven agreement. Difficulties in ensuring consistency between liberalisation of services and mandates of various protocols in specific services sectors, along with data limitations, are also concerns.

Conclusion

Overall, it appears that similar challenges impede the various regions, including limited funding by member states, poor coordination of negotiations and consultative processes, overlapping membership, implementation challenges, capacity issues, and political will. EAC and UEMOA have made the most progress on services integration and liberalisation, and could provide useful lessons for the rest of SSA. At a broader level, the COMESA-EAC-SADC Tripartite FTA is looking to expand trade, investment opportunities, and cooperative arrangements to diversify markets and take advantage of trading opportunities. Overall progress towards negotiations and implementation in SSA has in practice been patchy and plagued with similar challenges and constraints. There is, in this sense, a compelling case to be made for supporting a continental African regional approach to promoting service sector development, regional services integration and services liberalisation. Such an approach could positively reinforce individual REC efforts to remove barriers to services trade, as well as streamline the coordination process towards the longer-term goal of achieving a Continental Free Trade Area (CFTA) and broader African Economic Community (AEC).



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REGIONAL INTEGRATION

Driving trade in services reform through regional integration

Bede Lyimo

Regional integration can promote expediency in transforming and improving the quality of government services to the private sector.

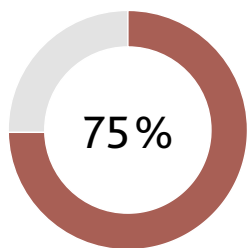
Today, trade in services contributes more than 75 percent to GDP in the case of highly industrialized countries but remains below 50 percent in the case of low-income developing countries. Raising the contribution of trade in services to GDP in developing countries is critical for sustaining high rates of shared growth. This reflects the dual role of services as tradable and as a major factor in the competitiveness of goods and factors of production.

Yet, it is questionable whether the majority of Sub-Saharan African national governments have accorded the services sectors their due recognition in national planning processes over the past decade. What initiatives are there for pro-active use of existing regional integration schemes to create a more conducive regional business environment that presents more attractive opportunities for international mobilisation of the huge resources required for modernisation of infrastructure based services? Is there due appreciation of the role of more cost-effective infrastructure services to promote domestic and foreign investment in agriculture and agro-processing? What efforts are there to develop key competencies in the skills that are required for the development of sectors in which SSA countries have unique comparative advantages and can transform these into strong competitive advantages?

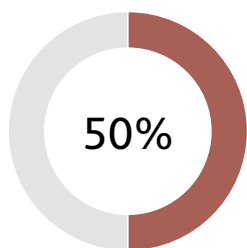
Resistance to policies for economic transformation has been one of the major impediments against the effective implementation of proclaimed policies that target expediting the processes of structural economic transformation. This is one of the binding constraints towards the establishment of vibrant market-economies in SSA states, like Tanzania, that operated strong planned economies up to the 1980s. This impediment is one of the public sector hangovers of a tendency to consider regulatory regimes as a tool for the realisation of the conflicting objectives of regulating the behavior and conduct of businesses and firms simultaneous with government revenue generation. Preference to prioritise the revenue generation objective undermines the effectiveness of the regulatory function, which seeks to balance conflicting economic and social objectives, such as profit maximisation on one hand versus sustainable use of scarce resources or the protection of human, animal, and plant health, the protection of property rights and other fundamental human rights at the level of the individual. The end result is a trend of increasing regulatory and administrative burdens due to enforcement of redundant regulations, duplication of regulations and multiplicity of regulatory institutions performing the same function. This leads to higher enforcement and compliance costs that undermine the competitiveness of national goods and services in regional and global markets.

Increasing regulatory efficiency

Regulatory best practice dictates that governments use a particular policy instrument to achieve a specific objective. For instance, taxation should be used as a tool for collecting government revenue, while regulatory licenses should be used solely to enforce guidelines that require firms to avoid certain conduct that may be quite sound for the individual firm but are inimical to the wider national or society's interests. This approach is critical for ensuring improved delivery of government functions in two areas: delivery of conventional government services and improvement of economic infrastructure-based services.



Trade in services contributes more than 75 percent to GDP in the case of highly industrialised countries.



Trade in services remains below 50 percent in the case of low-income developing countries.



Bede Lyimo

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Efficiency in government functions in the delivery of services that transcend the business cycle from business start-up – access to premises and capital and operations along the production and distribution cycle – is a key factor in encouraging investment. This depends on the existence of strong institutions operating administering open and transparent regulatory regimes with clarity of objectives. Information and communication technology (ICT) as an enabler makes it possible for governments, acting through a large number of institutions, to interact with its citizens and investors as a single entity, with a tremendous impact on improved services for private sector development.

Regulatory reform through regional integration

In spite of the powerful evidence emerging from regular annual and biennial publication of several global and regional indices of competitiveness, resistance to change persists. Regional integration from the East African Community perspective is a powerful tool for national uptake of best-practices in regulatory reforms.

Experience in simplification and harmonisation of sectoral policies at the national level, through sector-wide reform programs, confirms that rapid transformational change in public service delivery is possible at the national and local government level. Evidence from the EU confirms that regional harmonisation of national policies within the framework of regional integration is a powerful tool for stimulating the adoption and implementation of best practices in reforms at the national level. Emerging evidence in the EAC shows that Rwanda's success as an investment destination, attributable to the publicity emerging from its exemplary performance as measured by the Ease of Doing Business, has attracted a lot of attention within the region and is influencing the pace of reforms positively.

The salient lesson from the Rwandan success is the potential of member states in regional integration schemes to advance the agenda through deliberate measures for more rapid harmonisation of sectoral regimes to deepen the process of integration. At present, most regulatory reform changes in the EAC are being addressed at the national level, creating new regimes that may not necessarily be in harmony from a regional perspective. For instance, the integration of national credit reference bureaus as an East African joint institution could contribute to the image of East Africa as an economic entity, whose business sector cooperates in harnessing synergies of a regional competitiveness platform targeting competition with the rest of the world.

Initiatives for the transformation of infrastructure services based on modernisation of railways systems such as the Tanzanian Central Corridor linking Dar es Salaam and Bagamoyo ports with Rwanda and Burundi has much higher chances of securing international financing support if considered from the context of exploitation of rich resources in northwestern Tanzania, Rwanda, and Burundi, as well as the Eastern DR Congo. Likewise, the independence of South Sudan has increased the commercial viability and attractiveness of the project for modernisation of the Northern Corridor linking the Kenyan ports of Mombasa and Lamu with Uganda, Rwanda, and South Sudan.

Conclusion

The lesson from EAC is clear – regional integration can promote expediency in transforming and improving the quality of government services to the private sector. The advantages become enormous when one takes account of the potential to address investment climate challenges from a regional perspective. For this purpose, ceding considerable national sovereignty to regional administrations is a win-win outcome for members. Three policy recommendations emerge from this analysis. First, governments need to adopt and implement decisions to expedite regulatory reforms that contribute to improved service delivery at lower costs. Secondly, they need to work with partner states in regional schemes for joint efforts to address the challenges of infrastructure-based service delivery. Finally, they ought to cede considerable national sovereignty to regional institutions to reap the benefits of economies of scale that will make investment in high cost infrastructure projects a rewarding commercial investment.

REGIONAL INTEGRATION

Services in West Africa's integration agreements

Aimé T. Gogu   and Sekou F. Doumbouya

Integrating services into the Economic Community of West African States and the West African Economic and Monetary Union.

Regional Integration Agreements (RIAs) have been used as trade-policy instruments in West African countries since their independence. However, aside from the movements of the production factors, the first RIAs in the subregion barely mentioned services. The first agreements connected with services are: the Protocols of the Economic Community of West African States (ECOWAS) on the free movement of persons, the right of residence and establishment, and articles 91-95 of the treaty creating the West African Economic and Monetary Union (WAEMU). Encouraged by studies showing the positive relationship between the liberalisation of the trade in services and economic growth, the countries proceeded unilaterally – or made commitments during the multilateral negotiations at the WTO – for the liberalisation of the trade in services. However, in part due to the perceived loss of the ability to regulate and the lack of cooperation on regulations, they were reluctant to make major commitments within the General Agreement on Trade in Services (GATS). This reluctance can be overcome by cooperating on regulations to create stronger regulatory institutions, better enlarged access policies, better prudential and competition regulations, and better cooperation between host countries and source countries in Mode 4. This cooperation is already improving on a bilateral and regional level.



The liberalisation approach

As per usual, RIAs in West Africa will not immediately liberalise all service sectors and modes of supply. The content of the liberalisation of an agreement is either explicitly defined by universally applicable rules or detailed in market access lists that are specific to each country. The lists can be designed in a variety of ways. They can be based on *positive* elements (identifying what is covered or allowed) or on *negative* elements (unrestricted free trade except for the areas identified in the list). Mixed approaches are also possible. ECOWAS and WAEMU have chosen to adopt the negative approach.

Main areas

Trade agreements set rules that force governments to keep policies in place for the purpose of hindering foreign participation in the national economy. When it comes to the trade in services, these rules relate to national treatment, market access, MFN treatment, and domestic regulation.

National treatment

National treatment is one of the main areas aiming to prevent imported services from being subject to more restrictive political measures than the services of the importing country. The ECOWAS and WAEMU agreements include a national treatment obligation clause that applies to all service activities covered by these agreements. The scope of the national treatment obligation depends on how similar or analogous foreign services and services specific to the importing country are considered to be. National treatment in these agreements implements the "treatment identity" type, and the similarity is based on service providers and not on services. This wording is more than just rhetoric. The implications it has on the market opening are far from trivial. For example, a measure that states that "all taxi drivers must speak the country's language" metes out identical treatment, but is less favourable to foreign drivers.

Market access

Market access is the second main area involved in deciding the content of the liberalisation of integration agreements. For most RIAs, the measures covered by the market access areas fall into a catalogue of lists of explicit trade barriers. In the GATS, the provision on market access emphasises four types of quantitative restrictions, limitations on the type of legal entity, and restrictions on foreign-owned joint stock. The ECOWAS and WAEMU agreements do not set up areas of market access for quantitative restrictions that are non-discriminatory in nature.

MFN treatment

The principle of the Most Favoured Nation, one of the basic principles of the multilateral trade system, forces members of the WTO not to discriminate between their trade partners. There are no rules for MFN treatment concerning the right of establishment and the movement of natural persons in the West African integration agreements.

The movement of natural persons

Labour mobility is included in agreements on services because, in order for many services to be supplied, suppliers and consumers need to be in close proximity. WAEMU does not specify the category of natural persons and ECOWAS only identifies the following categories: migrant workers, occupational travellers, seasonal workers, and frontier workers.

Governments then recognise each other's standards, which leads to mutual recognition arrangements.

For professional services, the explicit lack of trade barriers is a prerequisite, but it is not enough to allow access to foreign suppliers. In order to work, foreign professionals must meet one of the two other conditions: they must either have the required local qualifications or have their foreign qualifications recognised. For some professions, the first condition can necessitate several years of training, which can be a *de facto* barrier to market access. The second condition relates to highly-skilled professions. Even in that case, the government will only recognise external qualifications if it considers that the foreign school system and the professional standards in place abroad are similar to national requirements. Governments then recognise each other's standards, which leads to mutual recognition arrangements. When it comes to ECOWAS, article 5 of the Establishment Protocol states, among others, that "to facilitate access to non-salaried activities and the exercise of such activities, the Commission shall recommend to the

Council, which shall propose to the Authority that decisions be taken for the mutual recognition, at Community level, of diplomas, certificates, and other qualifications."

Rules of origin

The advantages of RIAs on services benefit the signatory parties and discriminate against the non-signatory parties. The amount of preference given to signatory parties depends on the definition of the rules of origin. Here, the rules of origin are broader, since agreements on services apply both to services and service providers, and relate to (i) Origin of the services; (ii) Origin of legal persons providing services and (iii) Origin of natural persons supplying services.

The ECOWAS and WAEMU agreements have established 'quite' a liberal origin rule for legal persons. Indeed, they extend the benefits to legal people who are constituted or otherwise organised under the law of that other member, and are engaged in substantive business operations (or have their main business address) in the territory of that member or any other member, regardless of the national identity of those who hold or control these persons. For naturalised persons, the advantages are limited to community nationals and not extended to permanent residents. No specific origin rule is defined for services.

Trade rules

Trade rules for services are generally a group of areas designed to supplement the main obligations that determine the content of the liberalisation of trade agreements. The main obligations are essentially national treatment, market access, and the MFN treatment. Traditional areas for these rules are: domestic regulation, subsidies, public markets, and emergency safeguards. In these areas ECOWAS and WAEMU agreements have not changed the existing rules within the GATS, nor have they created any new ones (no GATS-X).

Conclusion

In Africa, there are two different liberalisation approaches: on one hand, the ECOWAS and WAEMU agreements and, on the other hand, the intraregional agreements of other regions that have followed the GATS model, like the EAC, COMESA, and the SADC. These differences could lead to a debate surrounding which approach to choose within the context of a broader integration of services on a continental level envisioned by the African Union (AU). Such a choice should *a priori* be guided by focusing discussion on the approach that would provide liberalisation, more transparency, and more credibility for the future intra-African agreement on services. From a technical perspective, both approaches could meet if the ECOWAS and WAEMU groups were to make the national restriction lists for rights of establishment and the movement of natural persons more transparent.

There seems to be a willingness to promote regulatory cooperation between the countries of the region in selected sectors such as telecommunication. However, it is crucial to follow article 5 of ECOWAS' right of establishment in order to move forward in the area of mutual recognition for professional services.



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INFRASTRUCTURE

Addressing the LDC infrastructure and investment gaps: Is there a role for GATS commitments?

Dale Honeck

GATS commitments – including partial commitments – can be used to make the existing investment openness of LDCs internationally binding, thus helping to improve their domestic business climate.

In attempting to achieve the Millennium Development Goals, the benefits of improved Least Developed Country (LDC) infrastructure cannot be ignored. Sub-Saharan Africa's situation is especially severe: just to overcome the current infrastructure gap within a 10-year period, the annual funding shortfall for low-income African countries is estimated at nearly US\$ 19 billion, with the biggest shortfalls for water supply/sanitation (about \$9 billion) and electricity (\$7.5 billion).

The recent increases in LDC growth did little to improve their investment situation, as noted by UNCTAD: "Investment in the LDCs as a group grew from 20 percent of GDP in 2000 to 23 percent in 2008. Gross fixed capital formation actually fell in 19 LDCs during the boom years of 2002-2007." An increasingly important mechanism to address the LDC infrastructure gap is public-private partnerships which, in addition to being useful funding sources, can improve efficiency and productivity.

Addressing the gaps

At the 2010 WTO Public Forum, it was noted that "LDCs had less than one percent of world infrastructure FDI stocks in 2006, and less than five percent of world FDI inflows. UNCTAD found four reasons to explain why LDCs were marginalised: multinationals tend to seek high returns; they perceive high risks in LDCs; small local markets are a disincentive; and there is competition from other investment destinations."

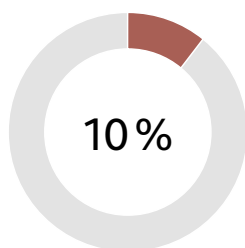
The high level of perceived investment risk in many LDCs is reflected in their typically poor ratings across a range of FDI (and other) indexes. With respect to Africa, Paul Collier has emphasised that governments face numerous disadvantages in attracting investment, leading him to conclude that "A reforming African government thus needs instruments which accelerate the improvement in its international reputation."

Value of GATS commitments

The WTO's World Trade Report 2003 highlights the importance of reliable market access, noting that "trade is likely to expand and be more profitable under conditions of certainty and security as to the terms of market access and the rules of trade." With respect to services, the gap between the existing investment openness in services and GATS commitments is now very wide. This is particularly evident when GATS commitments are contrasted with the applied LDC investment regimes reported in the World Bank's Investing Across Borders, which are generally very liberal.

Contrary to common misconceptions, making GATS commitments does not require full liberalisation, or even a guarantee of the status quo. Considering that, in order to attract FDI, many LDCs have already fully opened a wide range of services sectors under national laws, there may be few remaining domestic legal instruments to highlight their actual policy preferences (e.g. joint ventures). By investing part of their "policy gaps" in making GATS commitments, governments arguably can help protect their domestic "policy space" – by publicising and making internationally binding their actual domestic policy preferences.

As shown in Chart 1 below, there is an extremely wide variation in the number of existing GATS commitments among the LDCs by subsector, ranging from over 110 (Gambia and

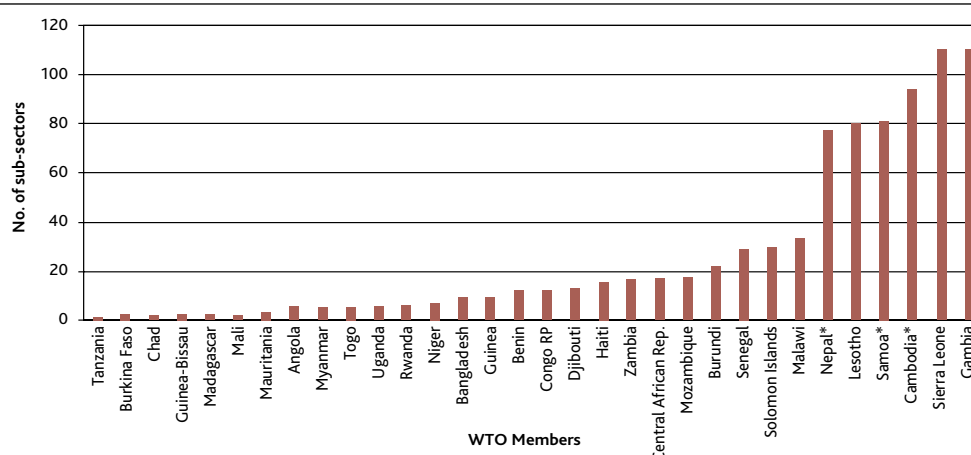


Domestic savings in the LDCs, excluding oil exporters, have remained constant at 10 percent of GDP.

Sierra Leone) to only one or two sub-sectors (Burkina Faso, Chad, Madagascar, Mali, and Tanzania). Additionally, it is striking that, of the current 32 LDC Members of the WTO, 21 have made no GATS commitments in any type of transport services, 20 have nothing in communications services, and 19 have nothing in financial services, despite all being major sectors in which many LDCs are presumably attempting to attract FDI.^①

Although LDCs are “not expected” to make new GATS commitments – even partial commitments – in the current WTO negotiations, it may arguably be in their interest to do so. By setting an internationally binding minimum level of market access, commitments can increase transparency and legal certainty, helping to reduce investors' fears of country-specific risks and justifying improved investment ratings. Depending on the wording, GATS commitments can also offer positive signals to domestic investors, e.g. by specifying a minimum level of total suppliers rather than only of foreign suppliers. For GATS commitments to be helpful, however, governments will presumably need to publicise them on investment promotion agency websites and in negotiations with investors.

Chart 1: LDC GATS Commitments



*WTO accession country. Sources: WTO Trade Profiles, WTO website.

Expect the unexpected?

No single option is evidently sufficient to address the LDC infrastructure and investment gaps; consequently, more holistic approaches are required. Although GATS commitments alone are unlikely to be enough to increase FDI, it is difficult to see how they could fail to be helpful, especially when used to improve the domestic investment climate and overall credibility of LDC trade policies.

Together with GATS commitments, other mechanisms to improve the international investment ratings of LDCs will presumably include regional commitments, as well as domestic regulatory reforms aimed at obtaining higher rankings in the World Bank's Doing Business index.^② This was recently demonstrated by Rwanda, which received extensive publicity as the leading reformer of 2010.

The best example to date of the implementation of the ideas expressed in this article is undoubtedly Samoa, which is the highest-ranked LDC on the UNDP's Human Development Index, the second-ranked LDC on the Doing Business index, and it has also made extensive GATS commitments.



Dale Honeck

Counsellor, Trade in Services Division at the WTO. This article is based on “Expect the Unexpected”: LDC GATS commitments as internationally credible policy indicators?, The Example of Mali, World Trade Organization, Staff Working Paper ERSD-2011-07, 19 May, 2011 (available online, at <http://bit.ly/LTEjYN>). All views expressed are those of the author and cannot be attributed to the WTO Secretariat or WTO Members.

^① Cape Verde and the Maldives were LDCs when their GATS commitments were made, but are no longer considered as LDCs by the United Nations. Vanuatu is not yet officially a WTO Member.

^② Of course, adequate regulations should be in place before sectors are opened to FDI; the focus in this article is the binding of existing openness. In addition, making GATS commitments does not interfere with the government's right to reform critical regulations such as non-discriminatory licensing/qualification requirements and procedures, and technical standards.

INFRASTRUCTURE

The role of infrastructure services for development in Africa

Calvin Manduna

How to increase government support for more open services markets and competition in order to improve access to affordable and quality services.

The World Bank's *Africa Infrastructure Report* concludes that, in addition to suffering from poor quality and coverage, Africans pay rates that are several times higher than in other developing regions for infrastructure services like electricity, water, sanitation, transport, logistics, finance, and information and communication technology (ICT). In the case of electricity, prices may genuinely reflect higher costs, but prices in transport, banking, and ICT suggest exceptionally high profits, which in turn undermine the competitiveness of other productive sectors. Despite huge potential, Africa accounts for just two percent of the global services trade, a share that has remained stagnant for the past 20 years.

The examples discussed in this article illustrate how achieving openness and competitive markets requires on-going regulatory reforms to avoid distorted markets, regulatory capture and to ensure price transparency. Lack of openness also presents a barrier to entry for regional services suppliers.

A sizeable body of literature exists on the costs of inefficient services and restrictive services regulations. These studies demonstrate that open services are critical for economic growth. Services are of particular importance to land-locked non-oil exporting countries in Africa that incur high transport costs when trading. It is not surprising, therefore, that services in these countries have grown more than three times faster than goods exports over the past decade.

The cost of distorted services markets: examples from transport and ICT

Despite its low wages, the trucking services industry in Africa is characterised by high transport prices, especially in West and Central Africa, fragmented regional markets for transport and logistics, and poor service quality compared to other developing regions. Studies of transport corridors across Africa find that freight logistics are fraught with anti-competitive behaviour, corruption, and inefficiency.

Various studies have estimated road transport costs in Sub-Saharan Africa to be 40 to 100 percent higher than costs in South East Asia. The three landlocked LDCs in West Africa – Burkina Faso, Mali, and Niger – are plagued by high road transport costs due to freight-sharing transport cartels, poor infrastructure, weak logistics, and corruption amongst public officials. A 2008 review of Transport Prices and Costs in Africa found that high transport costs in West Africa present a greater barrier to trade than regional import tariffs. Transport cartels in West and Central Africa enjoyed high profits despite low utilisation of their services – with high entry barriers. The review cautioned that without government action to remove market distortions, further investments to reduce road-transport costs will be futile as cartels will continue to capture benefits from reduced costs while maintaining high tariffs for end users.

Various examples demonstrate that market opening alone will not suffice. Additional regulatory tools are needed to ensure prices and services delivery reflect a truly competitive market. For example, problems with high prices set by South African telecoms persist despite a virtually saturated and competitive market with five mobile and two fixed line networks, revealing underlying policy failure and lack of pricing transparency. A 2012 report

40%-100%

Various studies have estimated road transport costs in Sub-Saharan Africa to be 40 to 100 percent higher than costs in South East Asia.

by Research ICT Africa examined 46 African markets and ranked South Africa thirtieth in terms of affordability for mobile telephone services. By comparison, prices in neighbouring Namibia were found to be three times lower. New entrants into the South African market have not increased competition but instead set prices according to those established by the market leaders. The same study noted that Ethiopia's state-owned operator established politically determined below-cost pricing, which does not produce sufficient earnings to re-invest in network expansion. As a result, although Ethiopia boasts some of the lowest prices in Africa, it also suffers from the lowest penetration rate.

Prior to reform, the Government of Zambia applied international gateway license fees of US\$12 million in order to protect the monopoly of the state-owned operator, Zamtel, in the international segment. These fees were the highest in eastern and southern Africa, far higher than fees of just US\$214,000 in Kenya and US\$50,000 in Uganda. The high price of entry led to a distorted market. In June 2010, the government finally dropped the international gateway license fee to US\$350,000 and awarded licenses to other operators. Not long thereafter, fees for international voice calls fell by between 40 and 80 percent, providing savings to Zambian consumers and businesses.

In part, distorted market structures are due to domestic pressure from the existing monopoly operators or cartels or fear of job losses from reforms and new competition. Labour unions are particularly effective in voicing these concerns and tend to over-shadow the benefits brought about by lower prices and access to better quality services.

Different measures can be adopted to address the aforementioned challenges, including:

- Support market reforms to increase openness, competition and price transparency.
- Collection of industry data is a sine qua non for informed analysis and policy formulation. This includes periodic market surveys to understand the impact of government policies and identify areas for policy adjustments to enhance industry competitiveness.
- Regulators should periodically benchmark services prices and quality against regional and global partners.

The case of port services

Ports bring together services such as towing, bunkering, ship repair and maintenance, distribution, water-housing, road and rail transport, freight forwarding, and customs broking. The efficiency of ports and logistics is particularly important for Africa's 15 landlocked countries, whose average transport costs are nearly 50 percent higher than for coastal economies.

Only two African ports - Port Saïd and Durban - rank amongst the world's top 50 ports.

A 2010 report by the African Development Bank noted that while 80 percent of global container traffic is handled by commercial global operators in Africa, between 50 to 70 percent of container traffic is still handled by state-controlled operators or public service ports. By global standards, Africa possesses a large number of small ports with capacity below 1 million twenty-foot equivalent units (TEUs). Container traffic is low, indicating failure to achieve economies of scale and resulting in high freight rates. Only two African ports — Port Saïd and Durban — rank amongst the world's top 50 ports. Capacity shortages are particularly acute in West and Central Africa. Overall, the majority of state-managed ports in Africa are inefficient, loss-making operations due to below cost tariffs, overstaffing, weak ICT infrastructure, and restrictive government regulations which perpetuate a monopolistic market structure.

The World Bank port reform tool kit (2003) outlines several options for reform in the port services sector with emphasis on re-structuring port management, reforms to the legal

and regulatory framework, establishing transparency, financial management reforms, and achieving labour efficiency.



Beyond market opening and private participation: The Case of Nigerian Ports

Nigeria's ports are the country's second largest source of revenue after oil. However, Lagos' port has achieved infamy for inefficiency, congestion, and poor facilities. As part of reforms, between 2003 and 2006, Nigeria awarded 21 port concessions to 15 different local and international terminal operators, including APM Terminals, to manage, operate, and develop the Apapa Container Terminal. APM was expected to raise capacity from 220,000 TEUs per year to 1.6 million TEUs. Within a few months of APM's operations, there was a noticeable reduction in berthing space delays, and shipping lines slashed their congestion surcharge from 525 euros to 75 euros per TEU, saving the Nigerian economy US\$200 million a year. However, the port soon became congested with over 9700 uncollected containers, a situation which Nigerian customs blamed on the need to physically examine all containers to combat high rates of fraud by importers. In addition, nearly 1000 containers that had 'cleared' customs remained uncollected because of a shortage of delivery trucks. These congestion challenges demonstrate that private participation and reforms are needed across the logistics value chain, including distribution, trucking, warehousing, and customs services.

Policy recommendations

- Countries should prioritise comprehensive reforms to facilitate the participation of private or other operators in order to achieve greater efficiency and competitiveness. Reforms should result in upgraded infrastructure in line with global benchmarks to attract more shipping business and reduce congestion and capacity problems.
- There are a number of revenue generating segments of maritime transport services that Africa has barely tapped into, such as repair and maintenance and ship registry, that could develop into a regional market. In this regard, it is important to learn lessons from developing countries like the Dominican Republic, Jamaica, and Panama that have established themselves as regional trans-shipment hubs.
- Regional planning and investment in port infrastructure are critical, especially since several landlocked countries are dependent on ports like Abidjan, Beira, Durban, Dar es Salaam, Lome, and Mombasa. Because ports can be very profitable, they are ideal projects for instruments like infrastructure bonds and other forms of private investment. Regional transport master plans should comprehensively encompass multi-modes of transport under corridors linking hinterlands and ports.



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Special meeting report

WTO WORKSHOP ON AID FOR TRADE AND SERVICES

Trade in services is increasingly recognised as a dynamic component of global trade, agreed participants at a workshop organised on the 11 July by the WTO. The event characterised the current backlash against the mainstream literature on trade and economic development, which the WTO says has "neglected" the role of services for sustainable development.

The workshop, chaired by Ambassador Maruping of Lesotho, dealt with two broad themes at the intersection of services and the Aid for Trade initiative. Firstly, a discussion on supporting the role of services in economic development was lead by Abdel-Hamid Mamdouh, Director of the Trade and Services Division at the WTO, Nora Carina Dihel, Senior Trade Economist at the World Bank, and Kenneth Schagrin, Attaché with the permanent US Mission to the WTO. This was followed up by a narrower reflection on the development potential of the tourism sector, moderated by Dale Honeck, Counsellor at the WTO's Trade and Services Division.

The value of services and their role in development

Services represent the biggest share of the economy in terms of GDP ascending proportionately with income level, agreed participants. Of particular issue for the WTO, however, were the "strategic" values derived from services that transcend mere numbers, such as competitiveness, quality of life, and social welfare.

Abdel-Hamid Mamdouh commented that "you cannot, for example, have a strong agricultural sector without a strong services backbone... Egypt is number six world-wide in producing fresh vegetables, but that is not reflected in the country's exports because getting them on the shelves is a separate process."

World Bank commentary drew significantly upon the theme of employment growth in services as the "major development" of the labour market in the past 10 years, with important repercussions for development particularly in landlocked countries, including LDCs. With regards to trade, many of the previously untradeable services – such as banking or telecommunication – have become tradable, in turn offering more opportunities for export diversification, significant employment creation through off-shoring of services (a trend already vastly materialising in Kenya, for instance). References to the high services employment rates for women and the positive correlation between the use of professional services and labour productivity namely in East Africa, served to strengthen arguments that, as an important "intermediate input," services could serve to generate widespread impact if made more efficient.

Services have become a commercial product

The obvious shift from government towards the private sector as the provider of services also attracted attention. As it was put, the transformation of services from "government functions" into "commercial products" was a natural evolution that, however, poses a range of policy-related challenges. "Nobody sat back and decided that the liberalisation of services was a good idea," Mr. Mamdouh of the WTO commented, but it was natural for "efficiency, broader choice, and cost reduction... [Now however,] there has to be an introduction of a proper set of rules and regulations."

Aside from the regulatory challenges arising out of the private sector's lack of concern for infrastructure, the US Mission highlighted the need to foster an open and transparent investment climate. Following this, it was generally agreed that such strong trade commitments would send good signals to the market.

Tourism

It was agreed that tourism, with the multiplier effects that it can have, has a potential for economic development that should be emphasised. The promotion of partnerships between the public and private sector was identified as one way to not only foster inclusive tourism, but as a way to integrate issues of economic and social sustainability into the process simultaneously.

Tourism was agreed to be a powerful force for promoting development, mainly because of the way in which it provides for jobs and income while diversifying economic activity. As an employment sector, it is not particularly demanding in terms of skills or academics. It was also found to employ substantial number of women.

Given the clear consensus upon the need to further recognise services as an important and increasingly present player in sustainability, more developing countries will conceivably be scaling-up their efforts to capture off-shored services.



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Publications and resources



Report of the African Union/RECS workshop on trade in services – African Union – March 2012

This report provides a summary of the workshop discussions undertaken in Zambia with regards to the need to establish a platform for RECs to discuss their experiences on regional services integration, liberalisation and sector development.

For full report see here: <http://bit.ly/POYA7Y>



The Global Enabling Trade Report 2012: Reducing Supply Chain Barriers – World Economic Forum – May 2012

The report explores how the globalisation of value chains impacts measurement of trade and overall trade policies, as well as addresses logistics investments, customs administration and state of the merchant fleet. Through the methodological framework of the Enabling Trade Index, it measures the extent to which 132 economies have in place the institutions, policies and services to facilitate the free flow of goods over borders and to destination.

For full report, see: <http://bit.ly/MX2euK>



Services Trade Restrictions Database - The World Bank

The World Bank's Services Trade Restrictions Database aims to facilitate dialogue about, and analysis of, services trade policies. The database provides comparable information on services trade policy measures for 103 countries, five sectors (telecommunications, finance, transportation, retail and professional services) and key modes of delivery.

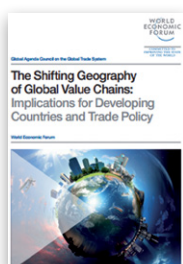
To access database, see <http://bit.ly/OGwviA>



Positioning services reforms and negotiations for development - ILEAP, ICTSD, and GIZ - November 2011

This report summarises the views of experts and policy makers from national governments, Regional Economic Communities (RECs), the private sector and other non state actors throughout sub-Saharan Africa regarding efforts and approaches for positioning services reforms and negotiations for development.

For full report, see: <http://bit.ly/O6cpw2>



The Shifting Geography of Global Value Chains: Implications for Developing Countries and Trade Policy – World Economic Forum – July 2012

The report presents a recent study on the political economy of value chains and the implications for developing countries and trade policy.

For full report, see: <http://bit.ly/Qt19yb>

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