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AFRICAN CONTINENTAL FREE TRADE AREA: Some Issues in Liberalizing Trade in Services

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Note

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INTRODUCTION

The 18th Ordinary African Union Summit held in January 2012 in Addis Ababa, Ethiopia, endorsed an Action Plan for Boosting Intra-African Trade and a roadmap for the establishment of a Continental Free Trade Area (CFTA), to be operationalized by an indicative date of 2017. There is an aspiration and commitment to pursue services liberalization to booster trade in services as part of the CFTA goal of boosting overall intra-Africa trade. The African Union has also agreed to conduct negotiations on trade in goods and in services in the first phase of the CFTA negotiations. So services liberalization and the development of services supply capacity and services trade are central to the formation of an integrated African market.

The services sector contribution to development is undeniable. The services sector is the world's largest employer, and produces 70 percent of global gross domestic product (GDP). Services however account for only one-fifth of global trade, leaving trade in services only about an eighth as intensive as trade in merchandise (Ghemawat, 2011). For this reason, trade in services is a relatively unexplored sector compared to trade in goods. However, it is easily illustrated that the channels through which merchandise trade benefits economies extend effectively to trade in services especially since services make up a far greater part of the world economy than goods. Infrastructure services such as transport of goods by road, air, railway and ships, is the underpinning enabler for greater integration.[1] The movement of people requires good transport infrastructure, but also spurs the development of connecting roads and railways simply through their movement or "lobbying with their feet". Ghemawat suggests the liberalization of services could potentially push the resulting gains past five percent of global GDP.

The push to booster intra-African trade continentally is occurring at an opportune time for Africa. According to Gernetzky (2012), Africa's population could reach 2.7 billion people with 1 billion people in the middle class bracket by 2060. This would then triple Africa's economically active population providing a basis for stable and consistent high levels of economic growth. As such, Africa's demographic configuration, embodying a young, growing population, represents an important structural factor that has impacted the region's economic prospects positively and, if well managed, promises to shape the economy for the foreseeable future.

Along with a youthful population and growing middle class, the prospect of rapid urbanization across the African continent is also spurring demand for modern goods and services while building a more sophisticated skills base, which is all part of the "demographic dividend". On this front, Africa already represents a substantial consumer population. As more Africans flock to the cities and disposable incomes rise, the demand for modern goods and services, such as telecommunications and banking services, has accelerated. The demographic structure suggests that this "dividend" will continue to make a substantial contribution to Africa's economic progress. Global businesses – whether based in Asia, Europe or the Americas – as well as home-grown African firms, will strive to meet this demand. An integrated African market in goods and services can provide major opportunities to maximize production, consumption and trade.

The formation of the CFTA and its implementation will present another catalyst to sustaining African economic growth potential. It can provide the necessary sustaining energy to boost trade, raise economic growth and foster development that is inclusive and sustainable and help Africa to reach common goals established under Africa's Agenda 2063 and the United Nations 2030 Agenda for Sustainable Development and the Sustainable Development Goals.

Africa's rising integration – within Africa and between Africa and the rest of the world – is a fundamental part of understanding Africa's full potential and realising its true economic prospects. Africa may be the least globalised region of all, but the region has started opening up to the rest of the world. This increased economic openness and integration over the past ten years has contributed toward Africa's economic rise. Over the past decade Africa has increasingly opened up the spread of exports to international markets. According to Visa Report (2013), export volumes have grown at an average of 8.8 percent per year since 2000, as compared to the world average of 3.7 percent. This reflects rising global demand for African products and services.

Moreover, given that Africa's export growth exceeded economic growth – albeit modestly – over the period, it follows that exports have become a relatively more important component of the region's economy since 2000 – indicative of the importance of economic openness as a component of sustained economic growth. Africa's economic growth and the region's rising competitiveness is evidenced further by the increased trade diversification and sophistication that has come about following important reforms during the 1990s and early 2000s, and subsequent relations with new trade partners who are also the new drivers of global economic growth.

This report is designed to inform and assist African trade policy makers, negotiators and regulators, as well as concerned stakeholders in the business sector, academia and civil society about the development potential of services sector and services trade development in Africa, and suggestions on how to negotiate a services trade agreement in the context of the CFTA so as to boost African services supply capacity and intra-African services trade growth. Chapter I examines the broader role contribution of services and services trade, including through integration into global and regional value chains, in promoting economic growth and development. Chapter II focuses on the contribution of services to development in Africa and efforts undertaken at intra-African level in terms of trade agreements to unlock the potential of services trade. Chapter III discusses the various services negotiation modalities and approaches that African countries can consider in development a continental services agreement under the CFTA. Finally the conclusion highlights some suggestions on a CFTA Services Agreement.

CHAPTER 1: THE SERVICES ECONOMY AND SERVICES TRADE

The services economy and services trade is a potential key driver of economic growth and structure transformation for African countries, including in boosting manufacturing capacities.[2] The formation of a CFTA services agreement would be a catalyst for harnessing the potential development impact of services economy and intra-African as well as extra-African services trade. The services negotiations could build on the autonomous liberalization and the acquis in the regional economic communities. Given the novelty and complexity of services, support in building up institutional, human and regulatory capacities of African countries to enhance their readiness and preparedness to commence negotiations is necessary and, even more important in terms of follow up implementation of agreed commitments.

In developing a framework for liberalizing trade in services and related policies and strategies to develop competitive services sectors, it would be useful to consider the broader contribution of services and services trade to development and poverty alleviation, including through integration into global and regional value chains, in promoting economic growth and development, and in widening access to basic services. This overview is provided in this chapter.

1.1. The “services economy”

With globalization the world economy is becoming predominantly a “services economy” both at the domestic and international levels. According to the World Bank, the services sector accounts for 72 per cent of GDP in high-income countries, 53 per cent in middle-income countries and 46 per cent in low-income countries. Furthermore, there is evidence showing that a stronger correlation exists between services growth and GDP than is the case for manufacturing growth and GDP and thereby, making services a key driver of growth in most economies. On average, services account for more than 74 per cent of employment in high income countries. Moreover, developing countries are seen to be shifting towards services even at lower levels of per capita income than was the case in the traditional development trajectory. This provides an additional avenue for development latecomers to accelerate growth using services as an engine instead of relying only on the traditional way of first developing a manufacturing sector.

As agriculture became the foundation for the rise of the industrial sector in the 19th century, the 20th century saw manufacturing giving rise to emergence of the modern services economy in which research and development (R&D), marketing, financial activities, education, health, waste management and other services constituted more than two-thirds of all global economic activities. The notion of a distinct tertiary service sector as distinguished in traditional economic theory (agriculture, industrial and services) overlooks the spectacular increase of service functions within the traditional productive sectors where services, technology and human capital are the engines of growth substituting for and supplanting both manufacturing and traditional agriculture. In the 21st century, services are now instrumental in coordinating dispersed production systems, especially infrastructure services and logistics services such as telecommunications, internet, express parcel delivery, air cargo, trade-related finance, and customs clearance.

Technology has, in most cases, greatly reduced costs associated with manufacturing while somewhat increasing the cost of services associated with both production and utilization. In the case of manufacturing, which was also dependant on the agricultural and natural resources sector, the service economy depends on the manufacture of products and tools needed for service delivery. There is no service without products any more than there can be products without services. Continuous development of people in terms of higher levels of knowledge and skill becomes the most essential