Global Services Forum

Room Tsavo 3

Kenyatta International Convention Centre, Nairobi

Thursday, 21 July 2016

Servicification, Trade Facilitation: A Policy Agenda for Africa

CONTRIBUTION

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Global Services Forum, UNCTAD 14

Nairobi 21, July 2016

For African countries the 2030 trade Agenda should be aligned with the Boosting Intra-African Trade (BIAT) program of the Continental Free Trade Area (CFTA). The greatest sustainable development dividends can be obtained through a concerted effort to reduce trade cost with a particular focus on services and trade facilitation. The associated policy agenda can be clustered around three objectives. First African industrialization and agribusiness development should be complemented by focused trade in services reform. Secondly, actions to reduce trade cost which consist of complementing and augmenting the support to the WTO Trade Facilitation Agreement (TFA) should also prioritize infrastructure related services and end-to-end supply chain. Third, the rules making agenda in trade in services should prioritize alignment of goods' trade facilitation rules. Overall, there is a need to avoid the fragmentation of trade policymaking by mobilizing stakeholders around one coherent and consistent agenda. This note proposes an approach for realizing these three objectives.

I. Complementarity between trade in services and trade in goods

African manufacturing and agribusiness firms are both consumers and suppliers of services which implies trade policy should focus simultaneously on trade in goods and on trade in services. Worldwide research shows that the degree of servicification is positively related to the level of sophistication in the industry and the economy (Hoekman and Shepherd, 2015b); these are also valid for Africa.

First we traced the backward linkages by measuring the input penetration of services in the manufacturing and primary sector of selected African countries. We used the value-added generated by the service sector as an intermediate input in the production (D) and the export (X) of primary and manufacturing sectors (figure 1); this measure does not include the direct value added of services, neither the contribution of services as inputs into the service sector. With Benin and Nigeria being the only major exceptions, our analysis shows that: (1) the contribution of service as intermediate inputs into primary production and the manufacturing sector represent between 5.4 and 27.4% of domestic production of the non-service sector, (ii) the contribution of

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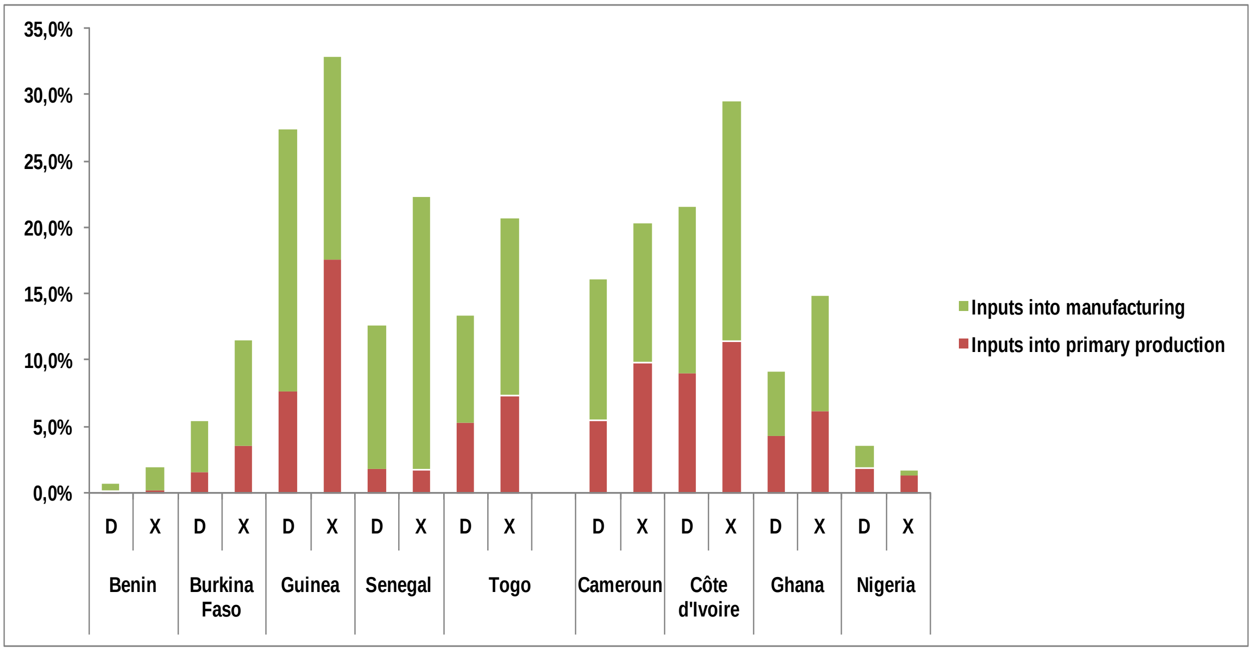
services to export value-added to primary and manufacturing sectors remains non negligible, ranging from 11.5% (in Burkina Faso) and 32.8% (in Guinea), (iii) the service contribution to inputs in primary and manufacturing exports is higher than its contribution to domestic value-added (included Benin), as a result there is a need to take into account the relative importance of services for exporting firms. Hence the services dependence is not primarily a matter that is relevant for OECD countries (Hoekman and Njinkeu, 2016).

Figure 1: Service inputs linkages to other economic activities and to exports

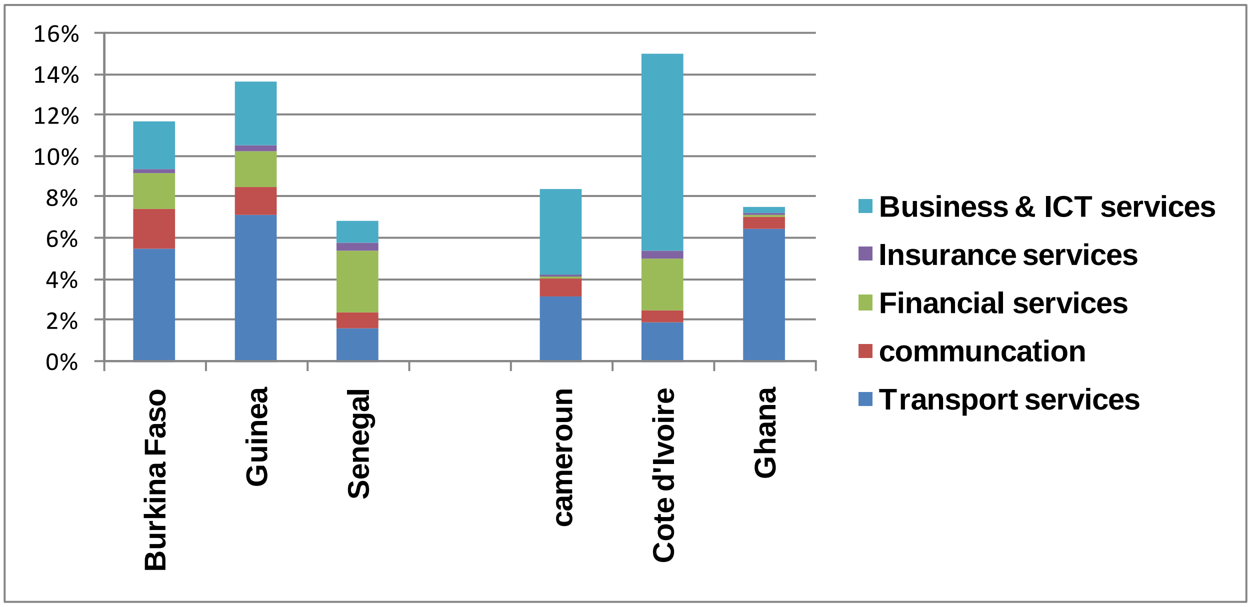


Source: World Bank Export of Value Added Database
Note: D = Domestic value-added, X = export value-added.

Second, disaggregating service input data helps in understanding how exactly sub-sectors services contribute to total export of value-added of all primary and manufacturing industries; transport, communication, financial, insurance and other business services[3] play the most important role (see figure 2).

Figure 2: Services input penetration in the wide economy, selected countries

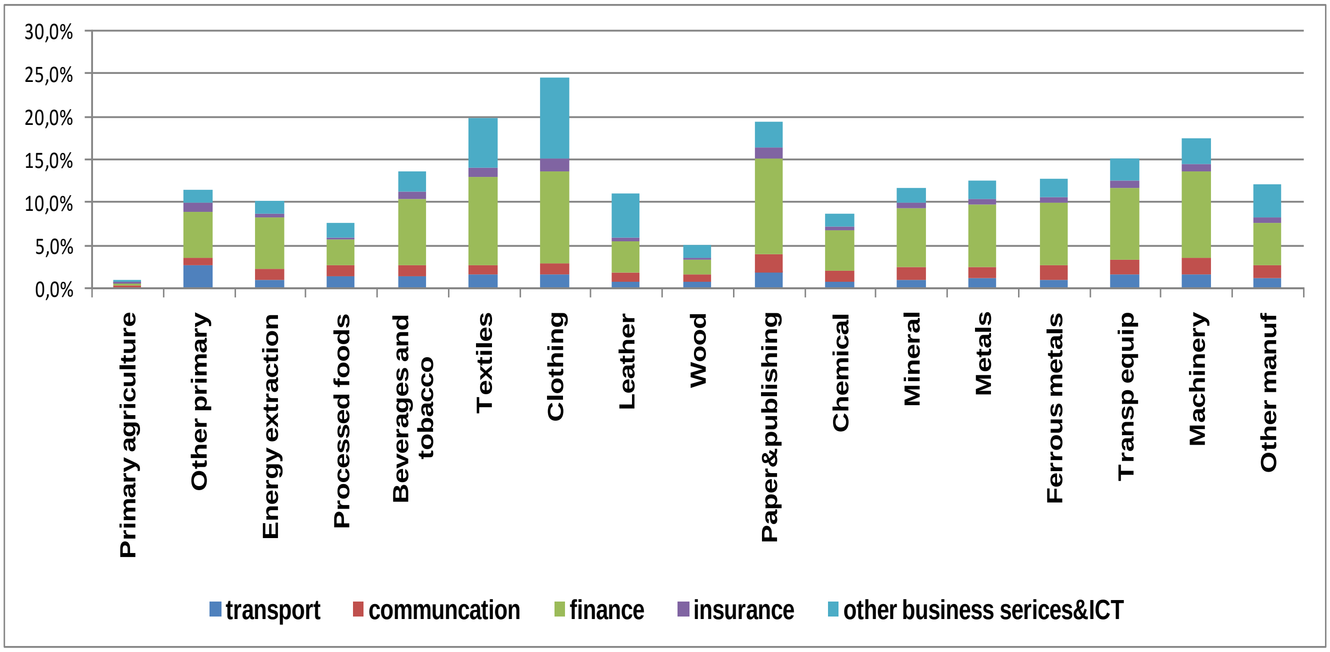
[3] Other business services include real estate activities, renting of transport equipment, renting of other machinery and equipment, renting of personal and household goods, computer and related activities, and research and development. https://www.gtap.agecon.purdue.edu/databases/v9/v9_sectors.asp



Source: World Bank Export of Value Added Database

Third, the disaggregated service input data shows that sub-sector services contribute substantially to total export of value-added of different subsectors of primary and manufacturing industries. For instance, in Senegal we find that transport, communication, financial, insurance and other business services play a major role as input in all non-service industries; the average input intensity of these five service industries in manufacturing is 13.8% with a peak of 24.7% for clothing (figure 3).

Figure 3: Services input penetration in different primary and manufacturing sectors in Senegal



Source: World Bank Export of Value Added Database

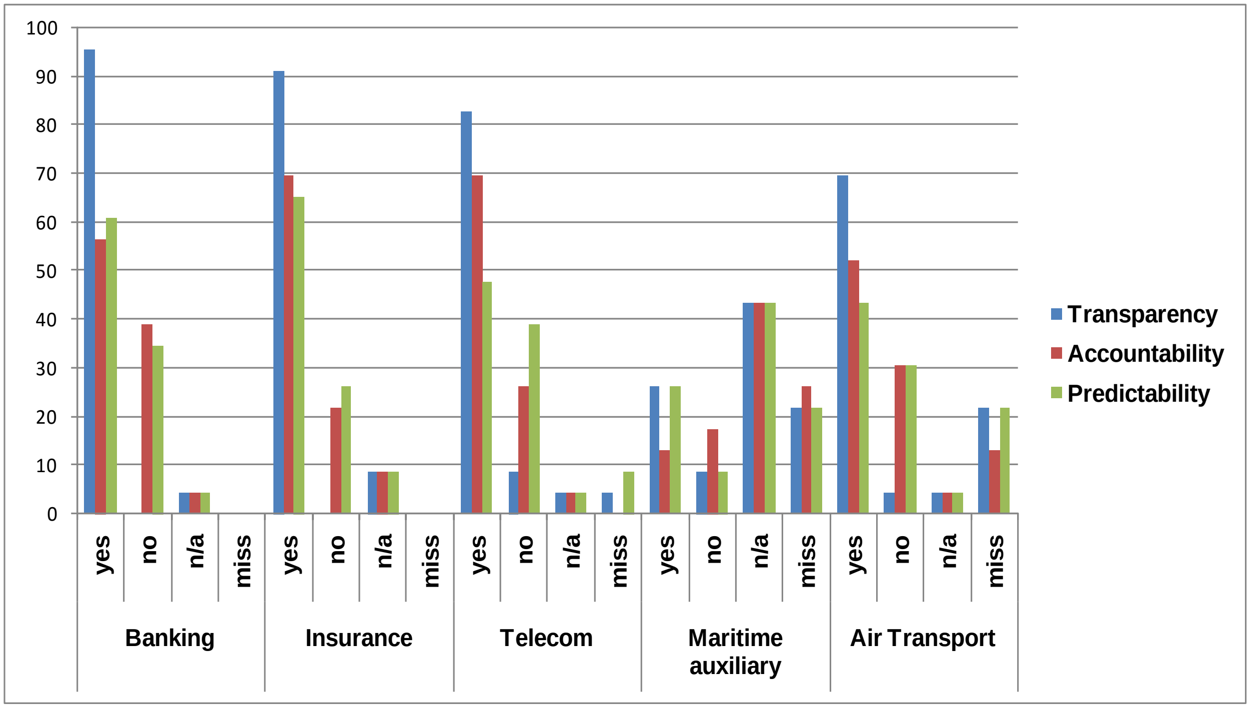
In conclusion, trade in services should be considered in parallel with efforts to promote African manufacturing and agricultural sectors. There will be a need to review the production process of industrial and agricultural product of interest in order to identify the relevant trade in services impediments that should be prioritized. Research has shown that nurturing the interaction between goods and services improves productivity, reinforces the case for the industrial and agricultural development which ultimately fosters job creation and sustainable development.

II. Servicification and Trade in Services Policy Agenda

The main policy agenda to nurture the interface between trade in goods and and trade in services should prioritize trade in services barriers that have spillover effect on the infrastructure and distribution related services; especially regulatory convergence, mutual recognition, harmonization of trade and standards.

Regulatory cooperation help address regulatory externalities transmitted by the exporter. Although reducing barriers to trade is a necessary condition to promote low-cost and greater choice in service markets, it is not sufficient. Poorly regulated service sectors and regulatory heterogeneity between trading countries are other factors that can act as de facto barriers. Figure 4 show that fulfillment of publicly stated criteria does not automatically lead to a license issuance (61% for banking and 48% for telecom) suggesting that there is a need to address de facto regulatory barriers in the promotion of low-cost in service markets.

Figure 4: Transparency, Accountability and Predictability of the licensing regime in Sub-Saharan Africa



Source: World Bank Services Trade Restrictions Database

The regulatory heterogeneity can act as a de facto barrier to export competitiveness. For example, (see table 1) foreign professionals already licensed to practice in other jurisdictions are still required to go through a cumbersome process to practice in other African countries. The cost imposed by this regulatory heterogeneity is incurred by professionals who must take tests for competency, requalification, retraining and fulfilling other licensing requirements. While some of this cost may be legitimate to address international regulatory externalities transmitted by the jurisdiction of the exporter, most are not necessary. These policies help to ensure the desired quality of a service in the importing country. Regulatory cooperation via harmonization or mutual recognition can help to eliminate or reduce this cost. The UEMOA region has adopted such approach for many professional services.

Table 1: Entry Regulatory heterogeneity for Certified Accountants in selected African Countries

Country	Education - Required	Education - Type	Education - Number of years	work experience required	Training or work experience - Number of years	professional exam in the host country required
Cameroon (2008)	no	n/a	n/a	yes		no
DRC (2008)	no	n/a	n/a	no	n/a	no
Côte d'Ivoire (2008)	yes	french system diploma in accounting		yes	3	yes
Ghana (2008)	no	n/a	n/a	yes	4	yes
Mali (2008)	yes	accounting		no	n/a	no
Nigeria (2008)	yes	intensive conversion course	2 weeks	yes		no
Senegal (2008)	yes	DECOFI or its equivalent		no	n/a	no
Burundi (2010)	yes	baccalaureate	4	yes		yes
Ethiopia (2008)	yes	membership with an association of chartered accountants		yes	8 to 16	no
Kenya (2008)	no	n/a	n/a	yes	2	yes
Lesotho (2008)	yes	university degree		yes	3 to 5	yes
Madagascar (2008)	yes	higher education degree	4 to 5	yes	3	yes
Malawi (2008)	no	n/a	n/a	yes	500 days plus 30 months	yes
Mauritius (2008)	no	n/a	n/a	yes	2	no
Mozambique (2008)	yes	accounting		yes		no
Namibia (2008)	yes	n/a	n/a	yes	5	yes
Rwanda (2009)	no	n/a	n/a	no	n/a	no
South Africa (2008)						
Tanzania (2008)	yes			yes	3	yes
Uganda (2008)	n/a	n/a	n/a	n/a	n/a	n/a
Zambia (2008)	no	n/a	n/a	yes	7	yes
Zimbabwe (2008)	yes			yes	3 to 5	yes

Source: World Bank Services Trade Restrictions Database

In conclusion, the trade in service agenda should prioritize regulatory cooperation between African countries. Regulatory cooperation can start by strengthening regulatory capacity in African countries; weak capacity has the potential to undermine the benefits of liberalization and induce hold-backs even when there is no regulatory externality.

III. Trade in Services and Trade Facilitation

Business operators consistently complain about the high cost of moving goods and services, as well as the unreliability of supply chains. For example, the World Bank Enterprise Surveys show that many firms identify transportation as a major constraint for their operation in several countries of West and Central Africa. The importance of trade facilitation has been widely debated and its outcomes materialized through a concerted effort to implement the WTO Trade Facilitation Agreement (TFA). WEF (2015) analysis has shown that improving even a restricted set of supply chain barriers halfway to global best practices could expand trade by 15% and increase global gross domestic product (GDP) by nearly 5%. This is a significantly higher pay-off than what can be obtain with complete elimination of all tariffs. It will be essential for WTO TFA implementation to include individual firms. While this might not reduce trade cost enough to ensure they become competitive, the measure may foster a greater focus on the entire supply chain. It is crucial to ensure that reforms enable firms to price products competitively along the global or regional supply chain. To foster global competitiveness efforts shall focus on all four dimensions spelled out in the Enabling Trade Index:

- market access (Quotas - Import fees – not tariffs (e.g. tax schemes) - Local content requirements - Rules of origin - Technical, sanitary & phytosanitary measures or other requirements - Import/export licenses)
- border administration (efficiency of customs administration, efficiency of import-export procedures, transparency of border administration)
- telecommunications and transport infrastructure (availability and quality of transport infrastructure, availability and quality of transport services, availability and use of ICT),
- and business environment (regulatory environment such as investment policy, labor market efficiency, trade finance; physical security).

The WTO TFA focuses only on market access and border administration. While the TFA implementation support programs focuses on compliance with international standards it does not pay adequate attention to which sectors are affected and when there is an effect whether it leads to an improvement on the market entry in regional or international market. There is also a need to take a comprehensive view of trade cost. Despite cumbersome cross-border procedures, if the most binding constraints are in other areas such as domestic infrastructure or storage facility the mere compliance with the TFA will have little to no impact on the firm's ability to expand production and trade. TFA implementation support shall be an integral part of broader programs that improve the end-to-end value chain binding trade constraints.

This broadened approach has the potential to reinforce the consensus around TFA implementation. TFA disciplines in particular will improve the regulatory environment of storage and warehousing services, freight forwarding services and contract logistics services providers. Furthermore, the WTO Proposed disciplines on domestic regulation in services (WTO 2011) in the jurisdiction of the importer country have valuable elements similar to TFA in goods particularly with respect to transparency of processes.

The interface between the trade in services and the TFA agenda could help address the severe weakness of trade information (often missing or inaccurate) and the legal and regulatory regimes that grossly undermine sound business planning, raises cost of doing business and ultimately undermines competitiveness. To comply with TFA several countries have developed web portals where information on trade can be found but most do not cover the full spectrum of what is critically needed. These should also include all information on trade procedures, transport and customs documentation requirement and on business, export and other market opportunities. The holistic approach would include a platform for identifying and addressing the root cause of these trade impediments. Such a platform shall ensure that stakeholders have access to i) the best information on rules and regulations that affect the provision of trade facilitation services and their impact on costs, trade and investment; ii) the appropriate design of reforms and the capacity required for effective implementation; iii) likely outcomes of specific reforms, including overall benefits as well as identification of those who may lose; and, iv) policy options to address any adverse distributional consequences. The platform will enable networking and information sharing among businesses and chambers of commerce through integrated and interconnected trade information systems. Such work on transparency would complement the support on essentially technical dimensions provided by other institutions such as the World Customs Organization. An appropriate advocacy program could be developed on such information so as to promote transparency and ethical business behavior.

IV. Conclusion

African trade policymaking should be framed in terms of trade in tasks where goods and services are considered in a single package. Efforts at boosting trade in industrial and agricultural goods should be revisit to properly integrate the dismantling of binding trade in services. Trade in services reforms should prioritize development of rules for that account for a servicified reality. Further research is needed to fully understand servicification and its implications for all trade stakeholders. The implementation of the TFA should be part of a broader trade facilitation agenda that properly account for infrastructural services and other business environments. Furthermore, there is a need to develop a research and advocacy program which ensure all the political economy constraints are properly understood and the necessary actions are taken to build and sustain a coalition for reform.

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