CHAPTER 2.2

Valuing Trade in Services in Africa

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The increasingly important role of services in economies across Africa is challenging long-held theories of economic development. For decades, the typical first steps on the path out of poverty have been increased agricultural productivity followed by growth in the manufacturing sector. A larger share of services in an economy has traditionally been considered a destination far in the future, an area of comparative advantage for more advanced economies. Over the last few years, Africa has been growing along a very different trajectory. Across the region, agriculture's share of gross domestic product (GDP) has declined and manufacturing, rather than growing as theory may have anticipated, has stagnated. Services, in contrast, are increasing as a share of total employment and GDP, driving value addition and providing critical inputs to boost other economic activities.

Today the service sector has not only found its way onto the development agenda, but it has also become an agenda in its own right. Because countries have begun to seize opportunities within and through services, policymakers and economists need to question old assumptions and consider new implications. What is the role of services in structural transformation and overall competitiveness? Can this sector help to reduce poverty? Is it a viable export sector in Africa? At this point, there may be more questions than answers. For decades, the service sector has received scant attention, especially in Africa. Data are scattered, insufficient, and difficult to collect. However, using the best available data and analytical tools, we can begin to seek answers to these questions.

In this context, this chapter examines the performance of services exports in Africa. A deeper analysis of trade statistics for countries in the region shows that service exports are much more significant for Africa than previously thought. The chapter also clearly illustrates the links among services and other sectors of the economy. By disaggregating value-added data, the importance of services as inputs to other export activities becomes much more evident, especially in exports of primary activities, such as agriculture and energy, and in exports of manufacturing. Based on this analysis, the chapter offers some insights to inform policies that can strengthen the competitiveness and export performance of the service sector in Africa. It also identifies how certain service trade policies, such as regulations that limit competition in service markets, have a negative impact on service exports. These findings support the argument that liberalization of the sector can contribute to service trade performance. To maximize potential gains, countries in Africa need to reduce the direct barriers to trade in services as well as the indirect ones that result from poor regulation.

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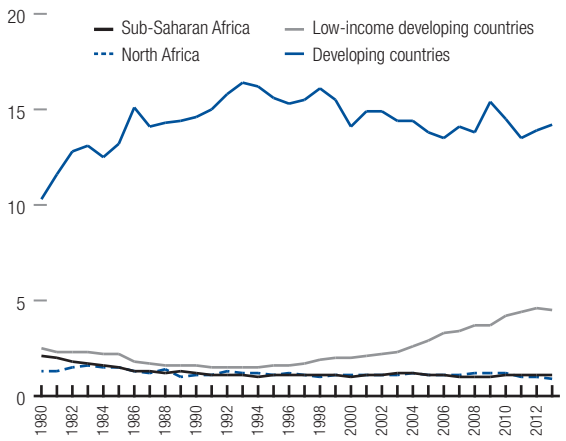
Figure 1: Service exports: Africa compared with other developing countries

Share of global service exports (percent of total exports)



Source: UNCTADStat, http://unctadstat.unctad.org/EN/Index.html.

SERVICES GO GLOBAL

Firms increasingly operate in a context of internationally fragmented production chains, a concept captured in the emerging literature on global value chains. Through this lens, trade is facilitated by flows of goods, services, investment, and knowledge necessary to produce products in multiple locations—giving rise to what has been called the *trade-investment-service-intellectual property (IP) nexus.*[1] Trade in services is one conduit that facilitates and coordinates the connections necessary to increase participation and boost competitiveness within these chains. Enhancing the competitiveness of the service sector—in effect, strengthening a country's bonds with the global economy—is now imperative for Africa's continued economic development.

Over the last few decades, the falling costs of travel, improvements in information and communication technologies (ICTs), and the development of electronic infrastructure have greatly enhanced the ability of services to be produced in one location and consumed in another. As a result, exports of services have picked up for all income groups. The rising share of low-income developing countries' service exports is particularly notable. Their participation in world service exports has increased dramatically, from 1.6 percent in 1990 to 4.5 percent in 2012 (Figure 1). But not all countries have enjoyed the same level of success.

Africa is lagging dramatically in terms of its share of global service exports. The lack of reliable service trade data in Africa presents significant challenges to understanding why this is the case. However, based on the data that are available, certain initial conclusions can be considered. Figure 1 shows that the global shares of service exports from developing countries have risen since 1980. The rising shares of developing and low-income developing countries have been dramatic, fueling much greater interest in this sector. Yet the shares of these exports in African countries have actually declined. Why is this happening and how can we identify solutions? Are some countries or sectors performing better than others? What can we learn from such comparisons? The chapter addresses these issues in subsequent sections.

New datasets and analytical tools have helped to confirm the significance of services in an economy. This importance has been successfully demonstrated through two key elements: (1) services as final exports and (2) the role of services in increasing the competitiveness of other economic activities, such as manufacturing.

Productivity in services plays a critical role as a strategic driver of economic competitiveness. The competitiveness of most exported goods in global markets depends not only on access to raw material inputs, but also on critical services inputs. These include efficient, competitively priced utilities (e.g., ICTs and transport), financial services (e.g., banking and insurance), and other commercial services (e.g., accounting, engineering, consulting, legal services, and marketing). Imported services can serve as a transmission channel for transferring new technologies. These technologies can boost performance in skill-intensive industries and increase the value-added of manufacturing exports.[2] As overall trade in services increases, the productivity of the service sector also tends to rise, further exerting a positive impact on overall productivity and growth over time.[3] Empirical literature on these impacts in Africa, in particular, also finds a significant and positive relationship between firm productivity and service performance, and confirms that inadequate access to essential producer services hurts African firms by undermining their productivity.[4]

Beyond their direct role in the economy, the development of the service sector is crucial for meeting broader poverty reduction and social development goals. For example, many of the Millennium Development Goal targets—such as education, health, and water and sanitation—are services. In addition, a more competitive service sector can contribute to gender equity in Africa (see Box 1).[5] For these reasons, increasing the competitiveness of the service sector can generate broad benefits to a country's its economy and society.

ASSESSING THE VALUE-ADDED OF SERVICES IN TRADE

Trade data are usually measured by transaction values, which is the price actually paid or payable for goods and services. *Transaction values* are gross values, or value-added plus domestic and foreign intermediate inputs. Value-added is measured as the net output of a sector after adding up all outputs and subtracting intermediate inputs. A measure of the direct contribution of services can thus be calculated by adding up the sector's value-added in services sold directly to final consumers (in the domestic economy or as exports).

Box 1: The gender dimensions of trade in services in Africa

Compelling new analysis by Coste and Dihel combines information from existing databases, qualitative evidence, and insights gathered from a business survey on professional services conducted in 17 sub-Saharan African countries to better capture gender participation in service trade.[1] The study shows that the proportion of women employed by service firms in Africa exceeds female employment in manufacturing. Sub-Saharan African countries' shares of female employment in services are also significantly higher than those in the Middle East, North Africa, and South Asia, though slightly lower than those in East Asia, Latin America, and Eastern Europe. Coste and Dihel further find that this female employment is larger than female employment in manufacturing across all regions, with the exception of East Asia where the shares are roughly equal. One possible reason more women work in the service sector than in manufacturing is the predominance of small firms involved in services. Their comparative smaller size makes it easier for women to own their own businesses. In female-managed businesses, the share of full-time female employees is substantially higher than it is in firms managed by men across all regions, though these firms are less likely to engage in export activities. By subsector, hotels and restaurants, along with wholesale and retail trade, have the highest share of female employment, female ownership, and proportion of women in top management positions. As a result, a large proportion of women are employed in highly tradable activities.

Women lack the same opportunities to access the full range of services occupations as men. The latter are overrepresented in managerial occupations, for example. Women represent only 6 percent of the top senior positions and 12 percent of the next-most-senior positions in professional services firms in East and Southern Africa. Moreover, women who work in the same occupation as men have fewer responsibilities, lower pay, and lower status for reasons unrelated to their skill or experience.[2]

Some countries are making progress in integrating women into management positions in the service sector. According to Coste and Dihel, Comoros, Madagascar, Rwanda, Swaziland, and Zambia are among the best performers in balancing gender in management positions of professional firms. Women in these countries represent almost 15 percent of the top management level. Analysis at the sector level shows that women are better represented in management of accounting and legal firms, but almost nonexistent in engineering and architectural firms.

The extent to which trade in services can act as a driver of greater gender economic opportunity for women and eliminate or mitigate barriers to achieving it requires further research. The potential links between service sector employment and gender equity are even more difficult to identify in African countries because of acute information and data gaps. There remains a critical need for more systematic data collection to fill the huge information gaps related to female participation in the service sector across Africa. The importance of improving data will only grow as the share of female employment in these sectors increases. Better data and analysis will allow a deeper understanding of the opportunities for and constraints faced by women seeking higher-skilled service jobs, as well as a further understanding of the factors that affect the trade performance of African service firms more broadly.

Notes

1 Coste and Dihel 2013.

2 ILO 2012; Staritz and Reis 2013.

Source: This box was adapted from the chapter "Services Trade and Gender" by Coste and Dihel in the book *Women and Trade in Africa: Realizing the Potential.* See Brenton et al. 2013.

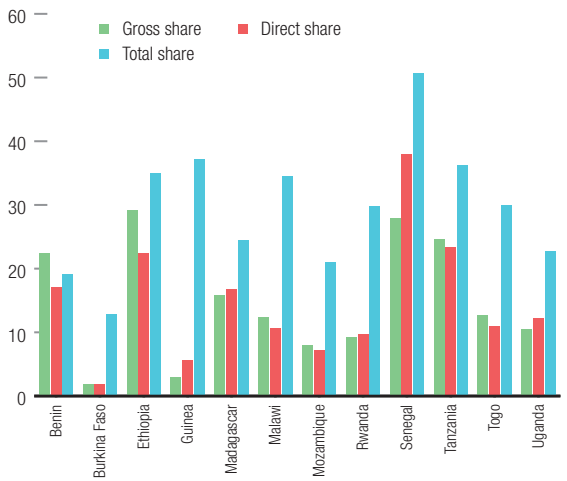
However, this is not a full reflection of the contribution of services' value-added since these services also enter as inputs in the production of products downstream in other sectors. To account for total services' value-added in exports, one needs to measure not only direct services exports but also their forward and backward linkages to other exports. *Forward linkages* are the value-added contributions of a specific sector as inputs to all other downstream sectors. Backward linkages, by contrast, capture value-added inputs demanded from other sectors. These linkages represent the interdependence of sectors of an economy. By not properly accounting for the forward linkages of services embedded as inputs in downstream sectors, gross export measures undervalue services' full contribution to trade.[6]

The importance of services in total African exports

For many countries, direct service exports are a major component of export activity. Figures 2 and 3 provide three different measures of the importance of service exports in Africa.[7] The first bar (in green) represents simply gross exports of services.[8] The second (in red) represents the share of direct service exports when measured by value-added.[9] The third bar (in blue) represents both the direct and indirect (or total) value-added of services in all exports (e.g., including forward linkages).[10] The data make clear that service exports constitute a significant share of total exports in many countries in Africa. Among Africa's least-developed countries, direct service exports comprise more than 20 percent of total exports in Ethiopia, Senegal, and Tanzania (Figure 2). Among the more developed regional economies, they make up more than 30 percent of total exports in Cameroon, Egypt, Kenya, Mauritius, and Tunisia (Figure 3). For other countries in the region, service exports are very low. This is particularly true for Burkina Faso, Guinea, and Mozambique among the least-developed countries, as well as Nigeria.

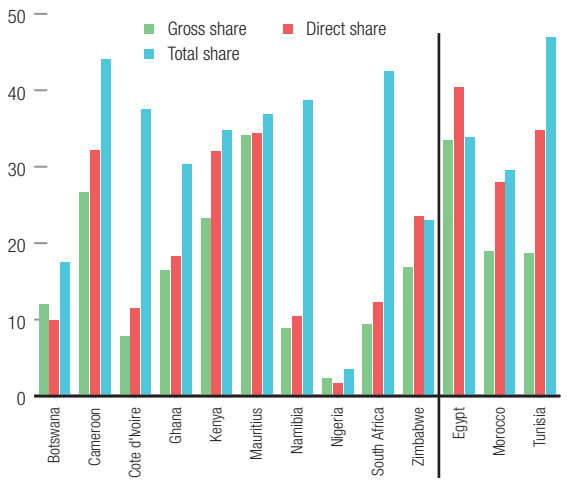
For many countries in Africa, services are an important input to other economic activities. This is illustrated by the importance of total service exports, including forward linkages in the share of total exports (the blue bar in Figures 2 and 3). Except for Egypt and

Figure 2: Africa's least-developed countries: Service export share of total exports, 2011
Percent of total exports



Source: World Bank's *Export Value Added Database*, http://data.worldbank.org/data-catalog/export-value-added.

Figure 3: Selected African countries: Service export share of total exports, 2011
Percent of total exports



Source: World Bank's *Export Value Added Database*, http://data.worldbank.org/data-catalog/export-value-added.

Zimbabwe, the share of total services in overall exports (both goods and services) is significantly higher than the direct share of services in total exports (red bar). The gap between the two indicates that services are supporting other export activities, such as manufacturing and agricultural exports. For example, services account for 83 percent of the final price of Ethiopian roses in the Netherlands. This is a clear indication of the central role that services play in increasing Africa's export competitiveness.

Direct exports of services are relatively more important than their contribution as inputs for other export activities in some countries. For example, the share of service exports in Kenya and Mauritius is 25 and 34 percent, respectively, when trade is measured by gross value. When measured by direct value-added, the share of service exports in total exports reaches 32 and 34 percent, respectively. When forward linkages are included, the total value-added contribution of services to exports in Kenya increases only slightly, to 35 and 37 percent. A similar situation exists in Morocco and Zimbabwe. A small gap between the direct and total measurements suggests that services have not yet developed strong links to other export activities. Overall, most countries have the potential for increasing direct service exports and diversifying their economies through stronger links with downstream sectors.

The significance of services to other economic activities in Africa

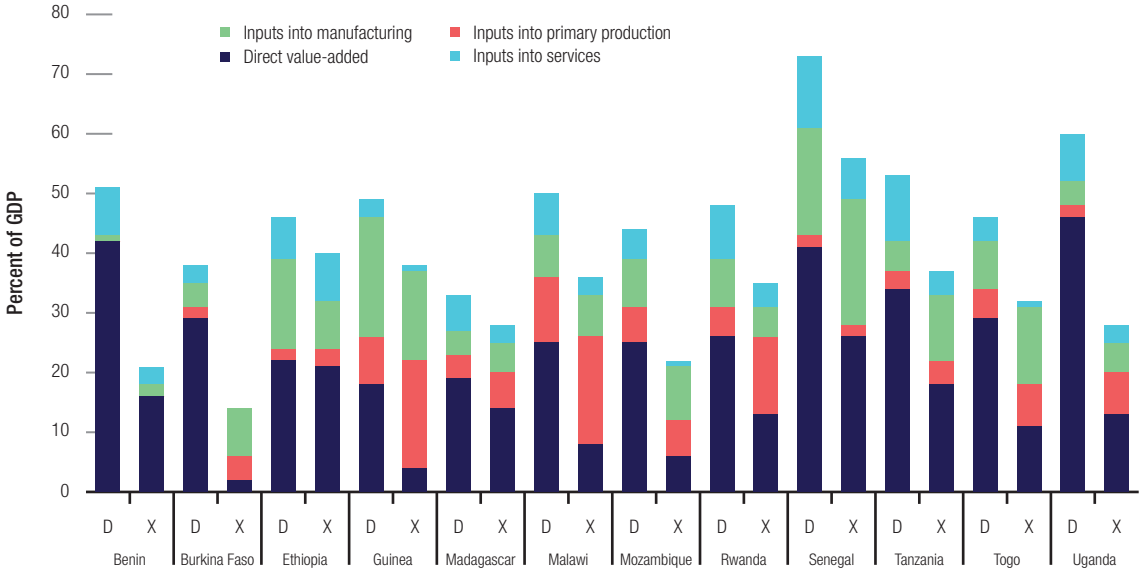
The structure of services and their links to the domestic economy differs from the structure of services and their links to exports activities. For example, the direct contribution of services to domestic value-added is usually much higher than the direct contribution of services to total exports. By contrast, the contribution of services as inputs into other activities such as primary exports and manufacturing exports is much higher for total exports than it is for domestic value-added. Figures 4 and 5 illustrate this point. They show the shares of service contributions to domestic production and exports in 2011. Their contribution as intermediate inputs into primary production (agriculture and energy sectors) and the manufacturing sector represent an important share of domestic production for most of the least-developed countries in Africa, with Benin and Burkina Faso being the only major exceptions. Even so, the contribution of services to export value-added to other sectors remains more important. For Burkina Faso, Guinea, Malawi, Mozambique, Rwanda, Senegal, Togo, and Uganda, for example, the service contribution to inputs in other export activities is higher than their contribution to domestic value-added.

For some countries at a higher level of development in the region, the contribution of services to manufactured exports is more important than their contribution to the domestic manufacturing value-added. This is true in all countries, except for Mauritius, as Figure 5 shows. For Côte d'Ivoire, Morocco, Namibia, South Africa, and Tunisia, the role of services in manufactured exports is especially large. For Cameroon and Côte d'Ivoire, services are an important input to the exports of primary products.

SERVICE EXPORTS FROM AFRICA

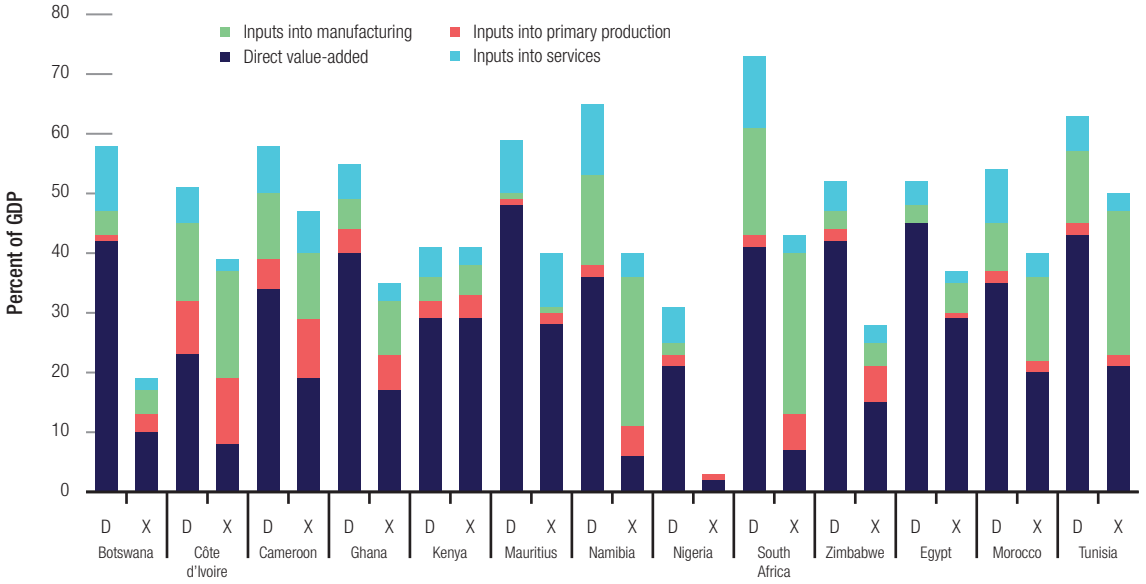
Service exports from African countries are increasing. Many countries in Africa are joining with

Figure 4: Service linkages to other economic activities and to exports: Africa's least-developed countries, 2011



Source: World Bank's *Export Value Added Database*, http://data.worldbank.org/data-catalog/export-value-added.
Note: D = Domestic value-added; X = export value-added.

Figure 5: Service linkages to other economic activities and to exports: Selected countries, 2011

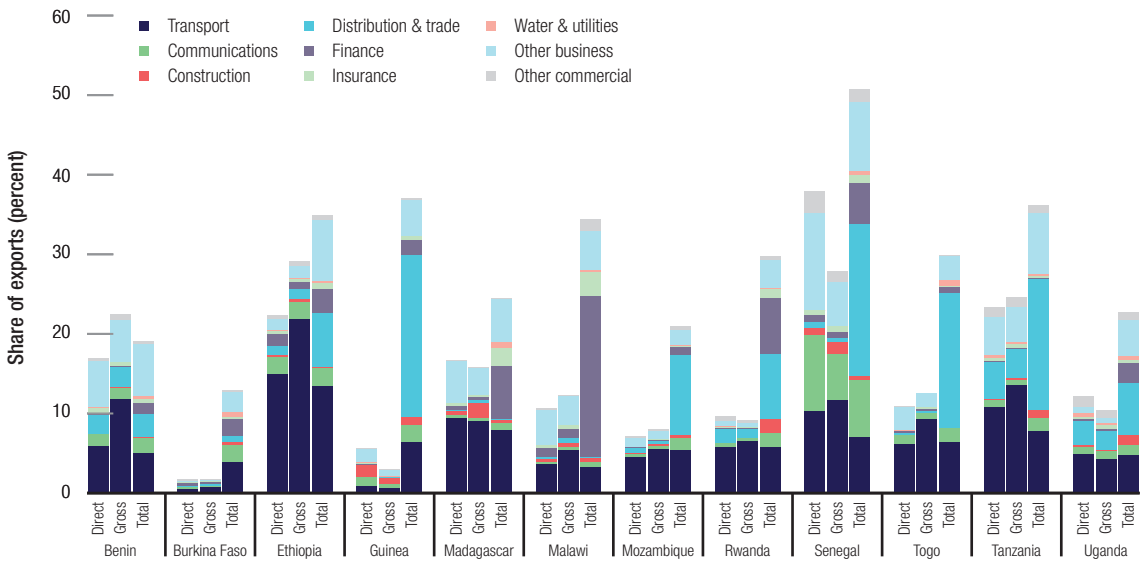


Source: World Bank's *Export Value Added Database,* http://data.worldbank.org/data-catalog/export-value-added.
Note: D = Domestic value-added; X = export value-added.

other developing countries that have demonstrated remarkable success exporting services both regionally and farther abroad to major markets. Atop that list are some of the world's fastest-growing economies, such as India, where service exports account for a significant share of total exports. Although India's success is well known, African countries also are participating in service growth. Today, for example, Kenya, Mauritius, Senegal, and South Africa provide services both regionally and as far away as European markets.[11]

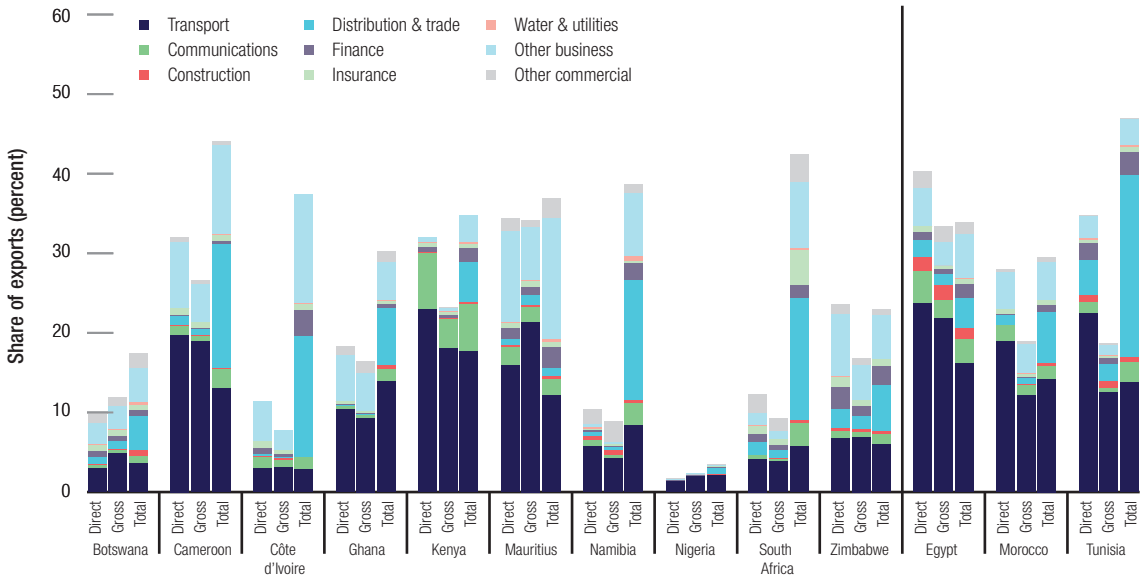
Transport, distribution, trade, and activities categorized as "other business services" are the main service exports of Africa.[12] Figures 6 and 7 show the subsector contributions to total service exports for selected countries in the region (see Appendix B for descriptions of these sectors). The figures make the importance of transport services very clear and represent a significant percentage of total service exports in nearly all countries. However, their importance diminishes when measured in terms of value-added. The decline in the share of value-added indicates weak links

Figure 6: Structure of service exports: Selected least-developed countries, 2011
Percent contribution to value-added in total service exports



Source: World Bank's *Export Value Added Database,* http://data.worldbank.org/data-catalog/export-value-added.

Figure 7: Structure of service exports: Selected countries, 2011
Percent contribution to value-added in total service exports



Source: World Bank's *Export Value Added Database,* http://data.worldbank.org/data-catalog/export-value-added.

between transport and other service sector exports. By contrast, distribution and trade services (which includes hotel and restaurants) and other business services (which includes ICTs and professional services) tend to have stronger links to other export sectors. In the case of Guinea, Senegal, and Tanzania, for example, these shares are much larger when forward linkages are included. This confirms the critical role that these services play in supporting other export activities in these countries and the region as a whole. It is also interesting to note that exports of "other commercial services"—such as personal, cultural, and recreational services—are important exports for several of the region's least-developed countries, including Malawi, Senegal, and Uganda.

Disaggregating service export data also helps in understanding how exactly services contribute to total exports in these countries. Figures 6 and 7 visualize this information. In Kenya, for example, the overall performance of service exports is driven by the direct value-added provided by transport and communication services. In Cameroon, Mauritius, and Senegal, exports of other business services account for a significant share of direct and total exports. Distribution

and trade services in Cameroon, Senegal, and Tunisia are important inputs to other economic activities. In South Africa, and to a lesser extent Namibia, services are mainly an input into other export activities.

SERVICE EXPORTS AND ECONOMIC DEVELOPMENT

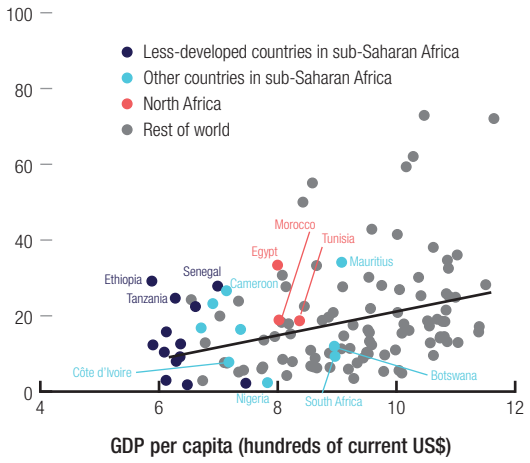
Although service exports already play a significant role—both as final exports and as inputs to other exports—in many economies in the region, increasing their contribution to overall development still has noteworthy potential. Sáez et al. show that the size of the domestic service sector is a robust pre-condition for specialization in service exports in later years,[13] but this relationship has weakened more recently. This weakening suggests that other forces, over time, have contributed to successful patterns of service exports. Goswami et al. review the empirical literature on determinants of services.[14] They point out the importance of countries' endowment of human capital and their electronic infrastructure, institutions, and other geographic and cultural factors. In particular, they found that for industrial and developing countries, the availability of electronic infrastructure and tertiary education enrollment significantly affect service exports. For developing countries only, however, the electronic infrastructure does not seem to have been critical in promoting service exports, whereas the effect of schooling is larger. The ability of large service-exporting firms in developing countries to create their own electronic infrastructure or to get access to dedicated infrastructure may reduce the relevance of economy-wide access indicators. In addition, bilateral goods exports are found to positively affect service exports. The effects of distance, language, and colonial history are significant as well: distance negatively affects service exports whereas common language and colonial history have a positive and statistically significant effect. The negative effect of distance suggests that, despite the growth of electronically delivered services, proximity between suppliers and consumers still matters.

While an initial analysis of the current limited data is not overwhelmingly conclusive, the share of service exports does positively correlate with economic development. This is true for the three different measures of service shares. In Figure 8,[15] one can see the share of direct service exports (Figure 8b) for the majority of least-developed countries in the region (depicted in black) are below what would be expected according to their level of development. Ethiopia, Senegal, and Tanzania are the only exceptions. Services exports in higher-income countries have more heterogeneity. Botswana, Côte d'Ivoire, Nigeria, and South Africa have low service exports relative to their level of development, while service exports from Cameroon, Egypt, Mauritius, Morocco, and Tunisia are above average. Côte d'Ivoire, South Africa, and Tunisia

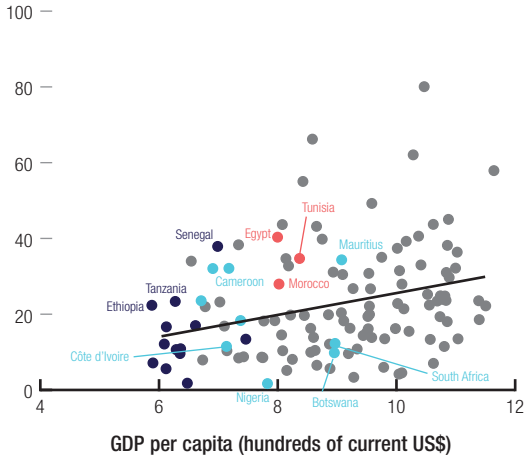
Figure 8: Correlation of service share of total exports and economic development

Total value-added share of total exports (percent)

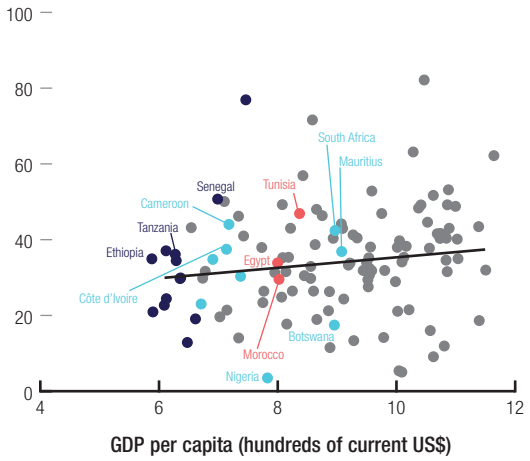
8a: Gross service exports



8b: Direct value-added of service exports



8c: Total value-added of service exports



Note: The total value-added includes an accurate accounting of forward linkages.

Source: World Bank's *Export Value Added Database,* http://data.worldbank.org/data-catalog/export-value-added.

illustrate the importance of services when accurately accounting for forward linkages (Figure 8c). When these are included in the analysis, the share of total services in total exports increases significantly for all three countries, above what would be expected according to their level of development. This, again, highlights the important role services can play as inputs into other export activities. It also confirms that low-cost and high-quality services generate economy-wide benefits.[16]

Interesting trends emerge when examining the correlation between total service exports (including forward linkages) for each subsector and the country's level of development. Figure 9 shows these correlations. First, the figure shows that not all service exports are equally correlated with development. As a country's income level rises, some services tend to become more important than others. For instance, transport, distribution and trade, and utilities (water) services tend to be negatively correlated with the level of development. On the other hand, communication, finance, insurance, and other commercial services are positively correlated with development. Other business services have an especially strong and positive correlation with the level of development.

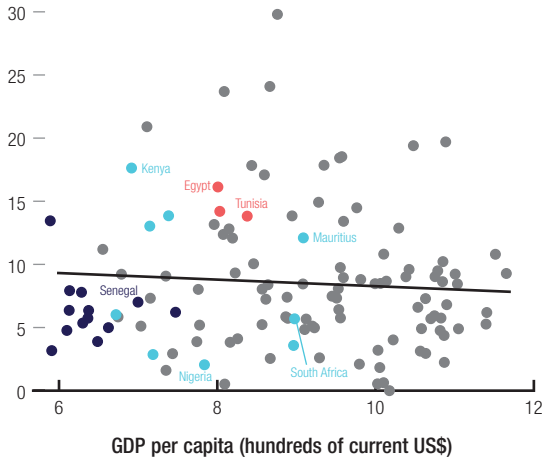
The fact that not all services are positively correlated with economic development reaffirms the importance of taking a country- and sector-specific approach when considering policies to strengthen the competitiveness of service sector exports. To take a few examples, Mauritius has a high share of service exports in transport, other business services, and other commercial services relative to its level of development.[17] This is perhaps not surprising given the government's commitment to developing its service export sectors. Senegal performs well in several service subsectors as well. Nigeria's performance is well below other countries at its level of development for all service sectors.

Most countries show a highly uneven performance in service exports. Kenya's share of transport services in total exports is above all other countries in the region, and the country comes in second highest in communication services. In fact, Kenya's shares in these services are above most other countries of similar income per capita. Yet the country's exports in all other subsectors are on par or even below those of comparator countries. Distribution services, which in general are important for trade, is one subsector where Kenya's performance is particularly poor. Likewise, Egypt performs well in transport, communication, and construction exports, but not in any other subsector, while Tunisia is strong in trade and distribution services. Finally, South Africa performs very well in communications, distribution, insurance, and other commercial services, but is average or below average in other subsectors.

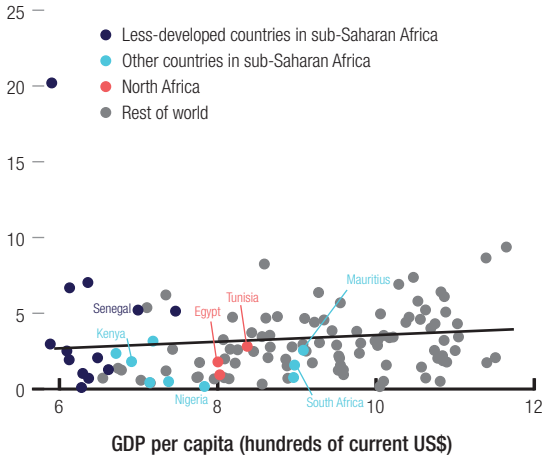
Figure 9: Correlation of sectoral service exports and economic development, 2011

Total value-added share of total exports (percent)

9a: Transport



9b: Finance



9c: Communication

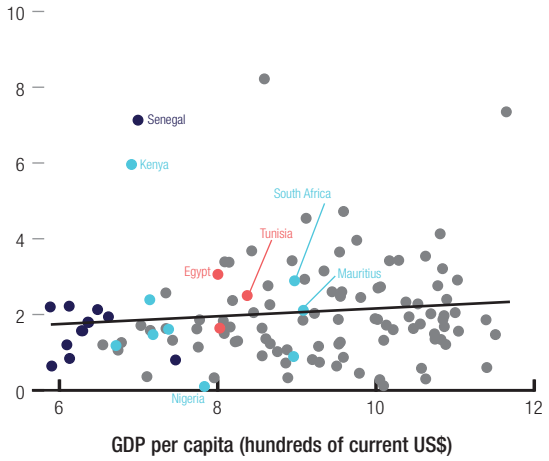


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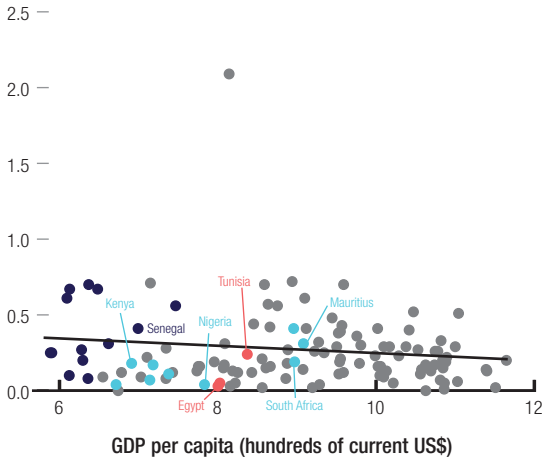
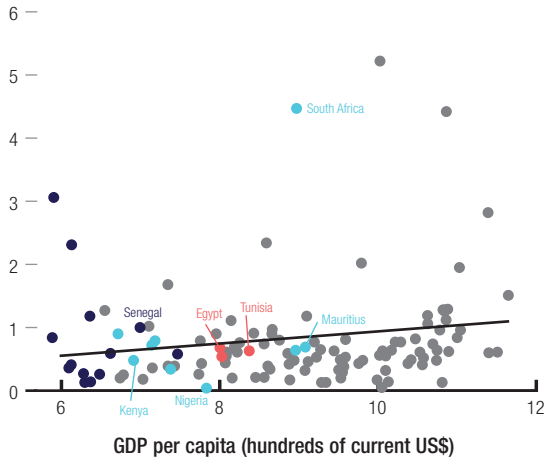
Figure 9: Correlation of sectoral service exports and economic development, 2011 *(cont'd)*
Total value-added share of total exports (percent)

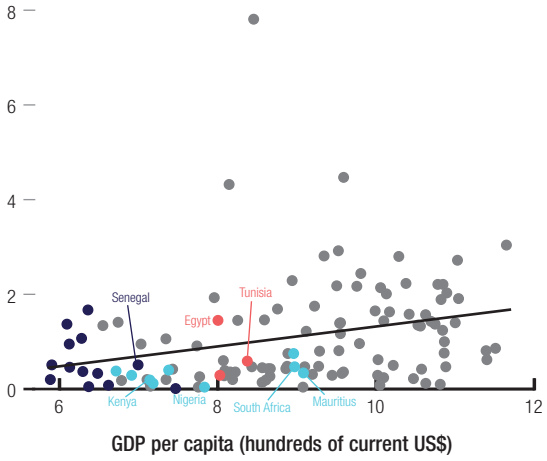
9d: Water and other utilities



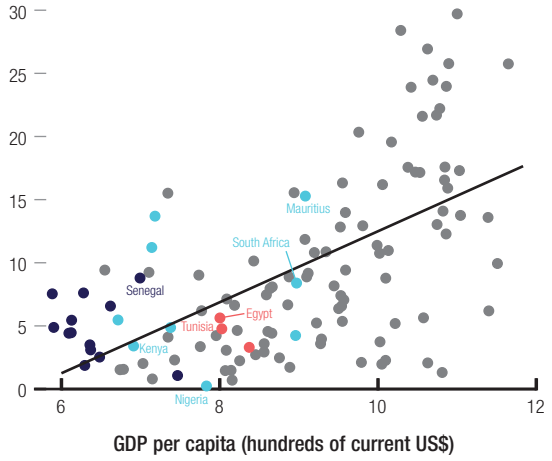
9g: Insurance



9e: Construction

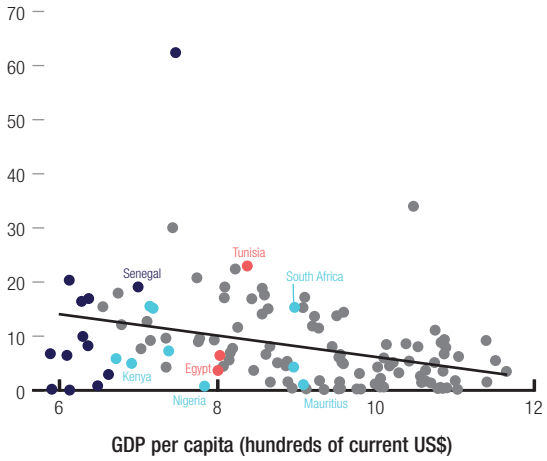


9h: Other business



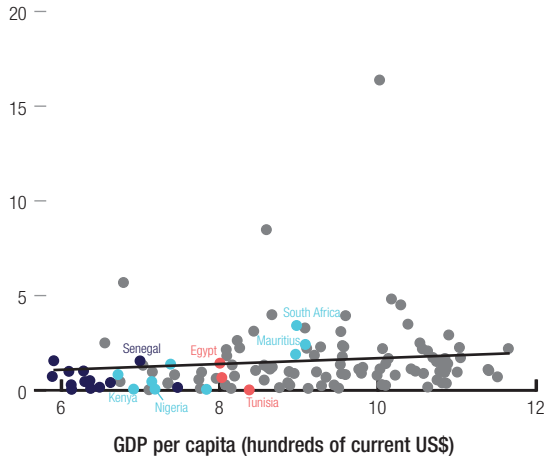
Note: The total value-added includes an accurate accounting of forward linkages.

9f: Trade and distribution



Note: The total value-added includes an accurate accounting of forward linkages.

9i: Other commercial



Note: The total value-added includes an accurate accounting of forward linkages.

Source: World Bank's *Export Value Added Database,* http://data.worldbank.org/data-catalog/export-value-added.

Box 2: The effects of restrictiveness on trade in professional services in East Africa

In East Africa, firm-level surveys have shown that a large number of formal-sector firms use professional services.[1] The heterogeneity of professional endowments and the earning differentials across the region indicate substantial scope for increasing trade in these types of services. Yet the market for such services remains widely underdeveloped and fragmented as a result of restrictive policies and disjointed regional regulations.

Domestic regulations on entry into and the operation of professional services have undermined competition and constrained growth across the region. For instance, Kenya, Tanzania, and Uganda impose particularly strict restrictions on entry into engineering and legal services. Each country has strict licensing and educational requirements. Certain activities require exclusive rights granted from the government, in addition to restrictions on prices and fees, advertising, and inter-professional cooperation. These types of restrictions vary regionally—Rwanda being an example of a less restrictive environment—but are still heavy in comparison with other emerging economies and Organisation for Economic Co-operation and Development (OECD) countries.

Explicit trade barriers, regulatory requirements, and immigration policies restricting the movement of persons across national borders further constrain trade in professional services. With the variety of professional endowments across the region, easier movement of foreign professionals and firms could help meet demand in underdeveloped sectors across the region. Again, the examples of Kenya, Tanzania, and Uganda in comparison to Rwanda are enlightening. In the former three countries, foreign professionals represent less than 10 percent of the total number of professionals in accounting and engineering. In Rwanda, however, foreign professionals account for more than 60 percent of the total number of professionals.

In legal services, there are almost no foreign professionals working in East Africa. This is further reflected in terms of commercial presence, where, again, there is a nearly complete absence of foreign legal services providers. Foreign law firms are simply not permitted in Kenya or Tanzania. Accounting and auditing firms also face very strict prohibitions.

These are but a few of the many regulatory limitations and constraints in the region, but they illustrate the necessity of policy reform. Without reform, the professional service sector is unlikely to develop in a dynamic and competitive manner. The World Bank Group's Africa trade team has been particularly active in working to reduce constraints applied by these countries on the movement of people, the establishment of commercial presence, and the cross-border supply of professional services. Much work remains in the implementation of proposed regulatory changes. Regional cooperation will be especially important in this effort to overcome the regulatory heterogeneity of East Africa, and of sub-Saharan Africa as a whole.

Note

1 Dihel et al. 2010.

Source: This box was adapted from the study "Reform and Regional Integration of Professional Services in East Africa." See Dihel et al. 2010.

EXPORT PERFORMANCE AND TRADE POLICIES

How do service trade policies affect service export performance? To assess the impact of specific policies on service export performance, we use the World Bank Group's database on applied service trade policies and regulations.[18] The database provides comparable information on service trade policy measures in five sectors: telecommunications, finance, transportation, retail, and professional services. It is a valuable instrument for facilitating dialogue about, and analysis of, service trade policies. Broadly speaking, service trade confronts two types of barriers: first, barriers that are directly aimed at limiting foreign participation in the provision of services (Box 2); and second, market failures, along with their potential unintended consequences. One finds many of the same market failures in service trade that one would find in any market. These are typically imperfect and asymmetric information, especially in such knowledge-intensive sectors as professional and financial services, and/or a lack of competition or barriers to entry, particularly in sectors with significant network externalities such as communications and transport. Often, however, the very policies and regulations that were designed to correct these distortions create their own unintentional barriers to trade.

Barriers to trade in services are more complex than barriers to trade in goods. Understanding them has required new tools, which is why the World Bank has used its database on applied service trade policies and regulation to build a global *Services Trade Restrictiveness Database* (STRD) of over 100 economies, including 15 least-developed countries and several regions including Africa, the Americas, Asia, and Europe.[19] The STRD allows policymakers and interested parties to evaluate the effects of policies and regulations implemented in ways that have proven economically inefficient or cost-increasing.

The STRD methodology defines five broad categories of policy.[20] These are determined according to their level of restrictiveness and are given an associated score. The scores are on a scale of 0 to 100, with 0 being the best and 100 the worst outcome. The categories, and scores, are as follows:

1. Completely open (0)
2. Virtually open, but with minor restrictions (25)
3. Major restrictions (50)
4. Virtually closed, with limited opportunities to enter and operate (75)
5. Completely closed (100)

Poorly designed regulatory policies can have two potentially negative effects on trade in services: escalating costs and restricting growth. Service trade costs are high relative to those for goods, to a large extent because of the impact of regulations. In

fact, these costs can be as much as twice as high for services as for goods, according to some studies.[21] Evidence also suggests the existence of complex links between policy choices and growth in services. This is the case experienced, for example, in Burkina Faso where the telecommunications sector has been liberalized but its poor regulatory framework impedes its growth.

The poor regulatory environment for service exports in much of Africa may be one explanation for its weak links within sectors and between markets. Countries with more restrictive regulations toward foreign service providers are associated with lower total service exports on a value-added basis. This relationship is not as strong, however, for gross service export shares or direct value-added service export shares, which suggests that the regulatory environment matters more for other sectors seeking to use services as inputs for their exports than it does for direct service exports. One can therefore conclude that a restrictive regulatory framework may likely both reduce service exports (and thus export diversification) and limit the competitiveness of other sectors of the economy (Figure 10).

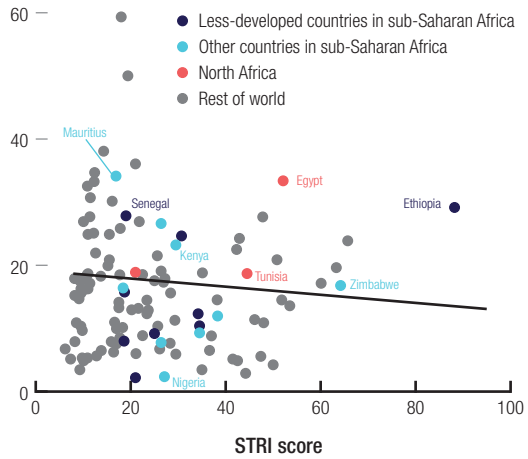
Key sectors such as telecommunications, professional services, and transport services are relatively restricted in many countries.[22] In Ethiopia, for example, telecommunications remains a monopoly. Professional services—a key input for many productive activities—tends to have the highest level of restrictiveness (above 30 percent) of any service subsector in Africa. Scores for transport services are not much better, falling above 25 percent in most countries. Overall, based on the STRD classifications, Ethiopia and Zimbabwe have the highest level of restrictiveness across all sectors (Figure 10). By contrast, nine countries, fall between completely and virtually open.[23]

Are these barriers important?

Research confirms that significant gains accrue from liberalizing trade in services.[24] Based on analysis of the STRD, a study by Borchert et al. finds that restrictions on foreign acquisitions, discrimination in licensing, restrictions on the repatriation of earnings, and inadequate legal recourse all have a significant negative effect on investment inflows into service sectors.[25] Restrictions, according to these authors, can reduce the expected value of sectoral foreign investment by US$2.2 billion over a seven-year period. Jensen et al. estimate that the welfare gains of full reform in Tanzania could amount to 5.3 percent and 16 percent of Tanzanian consumption in the medium and long term, respectively.[26] The medium-term gains derive primarily from the removal of non-discriminatory and inefficient regulatory barriers against services providers, and the removal of regulatory barriers against multinational service providers. Balistreri et al. find significant welfare gains in a similar study for Kenya.[27] They estimate that

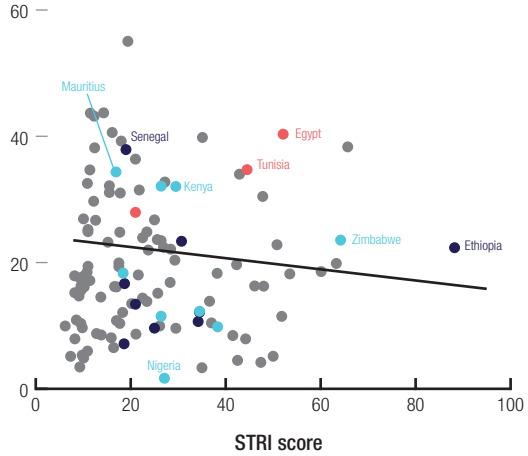
Figure 10: Export performance and service trade policies
Total value-added share of total exports (percent)

10a: Gross service exports



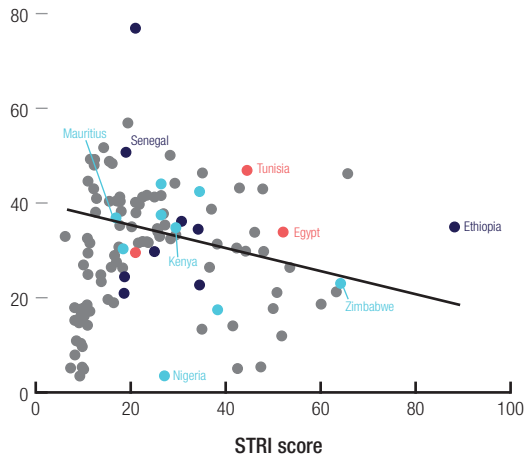
Note: The Services Trade Restrictiveness Index (STRI) scale is 0 to 100.

10b: Direct value-added of service exports



Note: The Services Trade Restrictiveness Index (STRI) scale is 0 to 100.

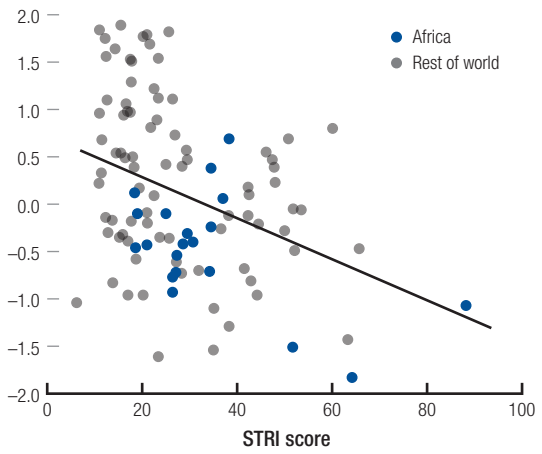
10c: Total value-added of service exports



Notes: The total value-added includes an accurate accounting of forward linkages. The Services Trade Restrictiveness Index (STRI) scale is 0 to 100.

Source: World Bank's *Export Value Added Database*, http://data.worldbank.org/data-catalog/export-value-added.

Figure 11: Services policies and regulatory quality
World Governance Indicators Regulatory Quality score



Sources: Borchert et al., 2012a; Borchert et al., 2012b; World Bank's Worldwide Governance Indicators (WGI), http://info.worldbank.org/governance/wgi/index.aspx#home.
Note: The Services Trade Restrictiveness Index (STRI) scale is 0 to 100. The WGI scale for Regulatory Quality is –2.5 to +2.5.

a 50 percent reduction in non-discriminatory services barriers and unilateral liberalization of all discriminatory service barriers would raise consumption by 10.3 percent.

Although reducing barriers to trade is a necessary condition to promote low-cost and high-quality service markets, it is not sufficient. As discussed above, a poorly regulated sector can also act as *de facto* barrier to export competitiveness. Figure 11 illustrates the relationship between restrictiveness and indicators of regulatory quality. A generally negative correlation exists between the two. However, the figure also shows that a similar level of restrictiveness can occur with a similar level of regulatory quality. In other words, reducing restrictiveness does not necessarily improve regulatory quality. Rather, to fully reap the benefits of liberalization, governments must address both trade policies that impede service exports and those that improve regulatory quality.[28]

A poor regulatory environment may arise from a poor institutional setting.[29] In such instances, government bodies and agencies responsible for regulating services often lack an adequate mandate to enforce policies. Without such authority, they struggle to resist pressures from other government bodies or private interests that seek to block reforms in these areas. Regulatory agencies also often lack adequate resources to fully evaluate the complexity of the market and the impact of regulations. Many limitations on trade and investment in services therefore stem from weak and ineffective governance. Recent regulatory assessments conducted by the World Bank in several developing countries, including Burkina Faso and Liberia, confirm these findings.[30] The lack of public access to laws and regulations, as well as their lack of clarity, is the most frequent problem identified. This applies not only to lower levels of regulation such as ministerial directives and procedural guidelines, but also to decrees and actual laws. In addition, many of these countries do not have standard rule-making guidelines that mandate the publication of a law as a requirement for entry into force, or sufficient publicity mechanisms, such as an official gazette or a digital repository. Mapping regulation and making it publicly available can help bridge important information gaps in the regulatory framework. Qualitative assessments can be especially useful in identifying further policies needed to improve the conditions for service trade.

EXPANDING SERVICE TRADE IN AFRICA

Policymakers across Africa are increasingly aware of the importance of service trade in their economies, and as a result the service agenda has never been higher on the list of government priorities. But identifying strategies for stronger service trade performance requires the consideration of a broad mix of factors.[31] There are certain fundamental determinants to consider. These include a country's basic factor endowments—land, labor, and capital. Human capital, in particular, plays a very important role in the development of services, primarily via skills and entrepreneurial ability. Infrastructure quality is also an important determinant, as it provides and facilitates the delivery of services.

Regulatory policies affecting trade, investment, and labor mobility are also important determinants of service performance. Poor regulations may affect market access and operations of both domestic and foreign suppliers of services and in turn increase the price and/or lower the quality of services provided. Service barriers are more akin to non-tariff barriers than to tariffs, and their impact will depend on how the government regulation is designed and administered. Regulations can affect competitiveness in numerous ways, such those surrounding the creation and establishment of a business, operations of firms, and regulations that are non-discriminatory versus those that are discriminatory.[32] Barriers can also result from a lack of regulations, for instance, when there is a lack of competition or there are no regulations to protect consumers.

The impact of regulatory policies can have far-reaching implications for service exports, especially for foreign investment, the participation of multinationals in service activities, and the movement of individual service providers. The STRD data discussed above show the presence of significant policy restrictions on several service sectors currently in place. This means that, from a policy perspective, there is scope for reforming policies to enhance the performance of services and their contribution to countries' economic development. Many governments, including Ghana, Mauritius, and Rwanda, have implemented proactive policies aimed at creating a more enabling business environment for service providers.

These usually include measures to streamline the regulatory environment, improve access to necessary infrastructure, and provide the private sector—national or foreign—with incentives that promote service trade. But not all of these policies have been successful. Policies typically fail because governments lack the capacity to implement them and/or those that benefit from trade barriers use their influence to keep them in place.

The successful development of service trade requires the adoption of policies at several levels. In many countries, for example, unilateral liberalization of the telecommunications sector has developed not only the use of mobile phones, but also a range of services based on telecommunications infrastructure now offered by the private sector. This expansion has required the development of a policy framework capable of encompassing new and perhaps unforeseen developments in the sector. In Kenya, for example, Safaricom's M-PESA service became a global leader in mobile-based financial services in the span of just a few years.[33] The rapid development of the mobile money platform has expanded access to financial services for millions, especially small traders and rural communities. The mobile money platform has now gone global, operating in countries as widespread as India and Romania, but it began in Kenya and neighboring Tanzania.

Regulatory policies that shape market integration also play a significant role in the development of service trade.[34] Despite the significant progress on regional integration made in Africa in recent years, barriers to service trade are still in place. These continue to limit the expansion of services because service providers are unable to expand their activities to neighboring countries. But, as services such as M-PESA are proving, global markets are providing new opportunities. Professional service providers in Kenya now export to as many as 40 different countries. Distance has never before been as easy an obstacle to overcome—consider the fact that South African professionals now provide health services in Canada, New Zealand, and the United Kingdom.[35]

Evidence shows that in many markets where adequate regulatory reforms were not implemented in a coordinated and complementary manner, service reforms did not produce their expected benefits.[36] For example, in Zambia—despite the liberalization of the telecommunications market—a *de facto* monopoly still exists in fixed-line telephony although there is competition in mobile telephony. In transport, important restrictions still affect international and domestic competition. In the case of the financial sector, the liberalization was not complemented with the strong prudential regulations necessary to maintain the soundness and stability of the financial markets.[37] Such incomplete reforms often occur as a result of the complex political economy of service reforms. Service trade policy reforms usually involve a large number of government agencies and private-sector representatives. Not only does the large number of actors create enormous coordination challenges, it also tends to increase the power of groups opposed to reform.[38] The World Bank Group's Africa trade team has been working on these issues extensively, providing support through analytical tools, technical assistance, and focused interventions (see Box 2).

CONCLUSIONS

Today, trade in services is a critical component of countries' overall trade strategies. As technological advances have facilitated the growth of service tradability, countries are beginning to capitalize on these new opportunities. The performance of service exports from Côte d'Ivoire, Kenya, Mauritius, and Senegal are strong examples of seizing this potential. And as the data presented in this chapter show, the role of services goes well beyond direct exports. Access to low-cost, high-quality services helps countries achieve social development objectives and allows them to effectively participate in local, regional, and global value chains—in effect, a solid service sector helps to connect countries to the global marketplace. As inputs to downstream activities, services also help increase the competitiveness and performance of other economic sectors—especially in agricultural, food processing, and manufacturing activities, such as textile and apparel exports.

More research needs to be done to better evaluate the complex roles that service exports play in African economies. The sector has been understudied and received too little attention in the region. The service agenda must be better defined, and it must also be tailored to meet the social and economic development goals of each country. Doing so will require addressing the very significant gaps in data and analysis, and building on the best available tools and techniques, as evidenced in this chapter. More fully understanding these roles will allow policymakers to design the necessary reforms—both those specific to the service sector and those complementary to it—that can best position a country to increase service trade and boost overall economic competitiveness.

NOTES

1 Baldwin 2011, 2012. See also Feenstra 2010; Grossman and Rossi-Hansberg 2008; Helpman 2011; and Jones 2000 for an analysis of defragmentation, trade in tasks, and offshoring.

2 See Francois and Woerz 2008; for the positive link between trade liberalization of the service sectors and manufacturing productivity, see Arnold et al. 2007; Arnold et al. 2008.

3 van der Marel 2011a, 2011b.

4 See Triplett and Bosworth 2004; Inklaar et al. 2007; Arnold et al. 2008; Inklaar et al. 2008; World Bank 2011; Hoekman and Kostecki 2009.

5 See Brenton et al. 2013.

6 Francois et al. 2013; Francois and Woertz 2008; Sáez et al. 2014; see also Appendix A. The dataset is based on the Global Trade Analysis Project (GTAP). The GTAP database represents the most comprehensive, convenient, and internationally comparable source of sector-specific data across countries. Of the 129 regions in GTAP version 8, 112 represent individual countries and 17 represent composite regions. In the case of individual countries, the social accounting matrix (SAM) for each country relies on the most recent input-output data available from national sources for each country (see the regional input-output data in Aguilar and Walmsley 2012, available at https://www.gtap.agecon.purdue.edu/resources/download/6139.pdf). These are harmonized in the GTAP database to a standard 57-sector format for ease of comparison. Limitations of the GTAP data include the infrequency of updates (the most recent GTAP 9 pre-release takes the data only to 2011) and the fact that some input-output data may be adjusted to provide consistency with merchandise trade and macroeconomic data also used in the SAM. Therefore, results should be interpreted cautiously and should be seen as a first attempt to understand trade performance in developing countries.

7 The data come from the World Bank's *Export of Value Added Database,* which covers only 25 countries in Africa.

8 *Gross exports* is the transaction value of a sector's exports. This captures both the value-added embodied in the production of the export and all domestic and imported intermediate inputs. See Appendix A for more detail.

9 *Direct value-added* of exports measures gross exports less domestic and foreign inputs. This measure captures the true sector-specific value-added contribution of exports. See Appendix A for more detail.

10 *Total value-added* of exports adds the value-added of inputs produced domestically to the direct value-added of exports. It captures the indirect contribution through value chain links with other export activities, expressed as forward or backward linkages. See Appendix A for more detail.

11 Cattaneo et al. 2010; Goswami et al. 2012.

12 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.

13 Sáez et al. 2014.

14 Goswami et al. 2012.

15 The data for Figures 8, 9, and 10 cover all countries in the *Export of Value Added Database.*

16 Hoekman and Mattoo 2008; Francois and Hoekman 2010.

17 *Other commercial services* include public administration and defense, education, and health and social work; see also Appendix B.

18 The *Services Trade Restrictions Database* of the World Bank's Development Economics Research Group is available at http://iresearch.worldbank.org/servicetrade/aboutData.htm.

19 The policy information to build the STRD was collected in the period 2008–09. The underlying source of the data derives from countries' legal and regulatory structures. Borchert et al. 2012a, 2012b provide an in-depth description of the database.

20 Borchert et al. 2012b.

21 Miroudot et al. 2013.

22 A discussion of the impact of regulations on professional services in East and Southern Africa and their impact on firms' productivity can be found in World Bank 2011.

23 The nine open countries are Burundi, Ghana, Madagascar, Mauritius, Morocco, Mozambique, Rwanda, Senegal, and Zambia. The regulations that explain the level of restrictiveness are available in the STRD for all countries.

24 Francois and Hoekman 2010.

25 Borchert et a. 2012a.

26 Jensen et al. 2008.

27 Balistreri et a. 2009.

28 Molinuevo and Sáez 2014.

29 Molinuevo and Sáez 2014.

30 These assessments followed the methodology outlined in Molinuevo and Sáez 2014.

31 See Goswami et al. 2012 for a more detailed analysis of determinants of trade in services.

32 Molinuevo and Sáez 2014.

33 The Economist 2013.

34 World Bank 2011.

35 Stern 2008; Cattaneo et al. 2010.

36 Mattoo and Payton 2007; World Bank 2011.

37 Mattoo and Payton 2007.

38 Brenton and Hoffman 2015.

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Appendix A: Valuing Services

As mentioned in the chapter, reliable trade data in Africa are lacking. However, the World Bank's *Export Value Added Database* uses input-output data from the Global Trade Analysis Project (GTAP) to construct country-specific measures of the direct and indirect contribution of services to the value-added contained in a given country's domestic production and exports. Specifically, the database contains two matrices: a domestic value-added table and an export value-added table, which together identify the value-added contribution of particular inputs to sectors that either sell the final good to the domestic market or export it. The cross-country database covers about 100 countries and 27 sectors (nine commercial service sectors, three primary sectors, and fourteen manufacturing sectors) spanning intermittent years from 1997 to 2011.

Exports (of both goods and services) can be measured as:

- **Gross exports:** This is the transaction value of a sector's exports. The gross exports measure captures both the value-added embodied in the production of the export along with all domestic and imported intermediate inputs. Gross measures of trade statistics are registered in customs or balance of payments, usually at the transaction value—that is, the price actually paid or payable for the goods and services. For example, a business process outsourcing (BPO) service from India contains telecommunications services, from both local providers and foreign owners of satellites. India's gross exports of BPO services measure their delivery price, which accounts for the value-added generated by BPO exports as well as the cost of telecommunications services inputs.
- **Direct value-added of exports:** This is the amount of a sector's domestic value-added embodied in its own exports, measured as gross exports less domestic and foreign inputs. This measure captures the true sector-specific, or the direct, value-added contribution of exports. To continue with the above example, this measure nets out domestic and foreign inputs and captures the direct value-added generated by BPO exports in India.
- **Total value-added of exports:** This measure adds the value-added of inputs produced domestically to the direct value-added of exports. It captures the indirect contribution through value chain links with other export activities, expressed in terms of forward or backward linkages. This measure is increasingly important in an environment where global production is fragmented across production sharing networks.
- **Forward linkages:** This measures the value-added when considering the contribution of a particular sector as an input to other sectors' exports. This treats that particular sector as an upstream activity. To continue with the above example, this measure captures the value-added contributions of the telecommunications sector to all sectors' exports, including BPO services. In other words, forward linkages show how important telecommunications services are as inputs to other export activities.
- **Backward linkages:** This measures the value-added when considering the contribution of all other sectors to that particular sector's exports. Backward linkages treat the particular sector as a downstream activity. To continue with the above example, this measure captures the value-added contributions of all domestic inputs to the BPO sector's exports, including telecommunications services (but not the value of foreign-owned satellite input). In other words, backward linkages show how important BPO services are to other sectors' value-added exports.

Appendix B: ISIC Mapping of Service Sectors

The International Standard Industrial Classification (ISIC) is the international reference classification of production activities. The list here shows areas of production according to ISIC classification.

Water: Water and Other Utility Services

ISIC 401 Production, collection and distribution of electricity
ISIC 402 Manufacture of gas; distribution of gaseous fuels through mains
ISIC 403 Steam and hot water supply
ISIC 41 Collection, purification and distribution of water

Construction: Construction

ISIC 45 Construction

Distribution: Trade and Distribution Services

ISIC 50 Sales, maintenance and repair of motor vehicles and motorcycles; retail sale of automotive fuel
ISIC 51 Wholesale trade and commission trade, except of motor vehicles and motorcycles
ISIC 521 Non-specialized retail trade in stores
ISIC 522 Retail sale of food, beverages and tobacco in specialized stores
ISIC 523 Other retail trade of new goods in specialized stores
ISIC 524 Retail sale of second-hand goods in stores
ISIC 525 Retail trade not in stores
ISIC 526 Repair of personal and household goods
ISIC 55 Hotels and restaurants

Transport: Transport Services

ISIC 60 Land transport; transport via pipelines
ISIC 63 Supporting and auxiliary transport activities; activities of travel agencies
ISIC 61 Water transport
ISIC 62 Air transport

Communication: Post and Communications Services

ISIC 64 Post and telecommunications

Finance: Financial Services

ISIC 65 Financial intermediation, except insurance and pension funding
ISIC 67 Activities auxiliary to financial intermediation

Insurance: Insurance Services

ISIC 66 Insurance and pension funding, except compulsory social security

OBSICT: Other Business and ICT Services

ISIC 70 Real estate activities
ISIC 711 Renting of transport equipment
ISIC 712 Renting of other machinery and equipment
ISIC 713 Renting of personal and household goods
ISIC 72 Computer and related activities
ISIC 73 Research and development
ISIC 74 Other business activities

Consumer: Other Consumer Services

ISIC 92 Recreational, cultural and sporting activities
ISIC 93 Other service activities
ISIC 95 Private households with employed persons

Other Commercial Services: Public Services, Dwellings

ISIC 75 Public administration and defense; compulsory social security
ISIC 80 Education
ISIC 85 Health and social work
ISIC 90 Sewage and refuse disposal, sanitation and similar activities
ISIC 91 Activities of membership organizations
ISIC 99 Extra-territorial organizations and bodies

Source: United Nations, Department of Economic and Social Affairs, 2008.