OCCASIONAL PAPER NO 93

Economic Diplomacy Programme

September 2011

SADC Trade in Services: Negotiating the National Interest

Matthew Stern, Sarah Truen and Yash Ramkolowan

South African Institute of International Affairs

African perspectives. Global insights.

ABOUT SAIIA

The South African Institute of International Affairs (SAIIA) has a long and proud record as South Africa's premier research institute on international issues. It is an independent, non-government think-tank whose key strategic objectives are to make effective input into public policy, and to encourage wider and more informed debate on international affairs with particular emphasis on African issues and concerns. It is both a centre for research excellence and a home for stimulating public engagement. SAIIA's occasional papers present topical, incisive analyses, offering a variety of perspectives on key policy issues in Africa and beyond. Core public policy research themes covered by SAIIA include good governance and democracy; economic policymaking; international security and peace; and new global challenges such as food security, global governance reform and the environment. Please consult our website www.saiia.org.za for further information about SAIIA's work.

ABOUT THE ECONOMIC DIPLOMACY PROGRAMME

SAIIA's Economic Diplomacy (EDIP) Programme focuses on the position of Africa in the global economy, primarily at regional, but also at continental and multilateral levels. Trade and investment policies are critical for addressing the development challenges of Africa and achieving sustainable economic growth for the region.

EDIP's work is broadly divided into three streams. (1) Research on global economic governance in order to understand the broader impact on the region and identifying options for Africa in its participation in the international financial system. (2) Issues analysis to unpack key multilateral (World Trade Organisation), regional and bilateral trade negotiations. It also considers unilateral trade policy issues lying outside of the reciprocal trade negotiations arena as well as the implications of regional economic integration in Southern Africa and beyond. (3) Exploration of linkages between traditional trade policy debates and other sustainable development issues, such as climate change, investment, energy and food security.

SAIIA gratefully acknowledges the Swedish International Development Cooperation Agency, the Danish International Development Agency, and the Foreign and Commonwealth Office through the British High Commission in South Africa, which generously support the EDIP Programme.

Programme head: Catherine Grant catherine.grant@saiia.org.za

Please note that all currencies are in US$ unless otherwise indicated.

ABSTRACT

Despite the significant growth and opportunities in trade in services, countries remain reluctant to open key service industries to unfettered competition, and regulations continue to restrict or even prevent international trade in this sector. In the Southern African Development Community (SADC) region, the service sector accounts for an increasing share of gross domestic product (GDP) and employment, but in many countries and subsectors, service firms are uncompetitive and inefficient when compared to their peers. Trade agreements can provide an external stimulus and some incentive for SADC member states to engage in services liberalisation. They may also be used to source additional expertise and resources to support domestic regulation and reform. The draft EU–SADC Economic Partnership Agreement (EPA) has the ability to take SADC countries forward in committing them to good practices and policies in a number of critical services subsectors. However, it is clearly driven by EU trade and regulatory interests. The draft SADC Protocol on Trade in Services is much less ambitious and, in its current form, is unlikely to stretch member states beyond their existing World Trade Organization General Agreement on Trade in Services commitments. There is therefore some risk that the SADC Free Trade Agreement will be overtaken by the EPA; and that any impetus for change will come instead from an agreement crafted by Europe.

The paper begins with a review of the role of the service industry in the SADC economy, focusing on its GDP, employment, trade and investment. It identifies three major sectors for illustrative evaluation, namely transportation, financial and telecommunications services. The paper briefly considers the state of competition and regulation across SADC in these sectors. It looks at the proposed EPA and SADC services agreement and concludes with a discussion on the likely implications of these negotiations.

This paper was commissioned by SAIIA for the Dialogue on Promoting Trade Policy Reform in South Africa.

ABOUT THE AUTHORS

Matthew Stern, Sarah Truen and Yash Ramkolowan are all consultants at DNA Economics. DNA Economics is an economic and development consultancy based in South Africa. It combines an in-depth understanding of the Southern African business and policy context with specialist skills in international trade, public finance, regulation, competition economics and climate change.

ABBREVIATIONS AND ACRONYMS

CBPSD	Capacity Building for Private Sector Development
DRC	Democratic Republic of Congo
EPA	Economic Partnership Agreement
FDI	foreign direct investment
GATS	General Agreement on Trade in Services
GDP	gross domestic product
ICT	information, communication and technology
MFN	most favoured nation
SACU	Southern African Customs Union
SADC	Southern African Development Community
WEF	World Economic Forum
WTO	World Trade Organization

THE ECONOMIC IMPORTANCE OF THE SERVICE SECTOR

It has taken some time for trade economists to acknowledge the importance of trade in services. Until relatively recently services were largely regarded as invisible, non-tradable and confined to domestic economies, and were largely ignored by international economists.[1] Experience has shown, however, that most services can be traded. Over the last few decades the growth in trade in services has outstripped the increase in trade in merchandise goods. Service companies now account for more than 50% of all new foreign direct investment (FDI).[2] The service sector has grown to account for the largest share of jobs and output in most developed and developing countries, and a well-functioning service sector is now perceived as a primary force for economic development.[3]

These trends, coupled with pressure from service firms and professionals, have convinced governments and economists to review their approach to trade in services. The launch of the Uruguay Round of the General Agreement on Tariffs and Trade in 1984 provided significant momentum for more liberal trade in services. In World Trade Organization (WTO), Economic Partnership Agreements (EPAs) and regional trade negotiations, discussions relating to services have become as important, if not more important, than the remaining discussions on trade in goods.

The ultimate aim of these negotiations is to remove restrictions on cross-border trade, investment and on the movement of people across the full range of service sectors. Empirical analyses suggest that the gains from such liberalisation could be much greater than those that might arise from further goods liberalisation.[4] However, in practice many countries have been reluctant to open key service industries to unfettered competition, and regulations continue to restrict or even prevent international trade in services.

The Southern African Development Community (SADC) region is characterised by vast differences in economic size, development and structure. As expected, the scale of service output and trade also differs markedly by country. Moreover, most SADC countries are constrained by expensive and inefficient service industries. Effective service sector liberalisation could contribute to increased competition within SADC member states, which in turn could generate increased investment, lower prices and improved output in services, with spin-off benefits for the wider domestic and regional economy.

Table 1 (see page 6) provides a brief summary of the potential economic benefits and economic and political disadvantages of service sector liberalisation.

Greater competition in the financial sector should result in cheaper and better-quality financial products, which will benefit all users of such services. However, these benefits may come at the cost of local financial firms; and reforms would need to be sequenced to ensure that the resulting regulatory framework enhances access to financial services for all consumers. As Table 1 illustrates, there is little economic case for the continued protection of service sectors. Where such protection is justified, the rationale is typically based on political or social motivations, and not on economic ones.

SADC member countries are currently involved in a number of service sector negotiations at the multilateral, regional and bilateral levels. In particular, EPA negotiations with the EU incorporate a substantive services chapter, and SADC itself has initiated a Protocol on Trade in Services. As with any trade agreement, the eventual economic impact will depend upon the structure of production and trade, the current level of preference given to domestic firms, and the level of liberalisation involved.

Table 1: Potential benefits and disadvantages of services liberalisation

	Service liberalisation	No service liberalisation
Potential benefits	• Increased FDI. • Increased domestic and international competition – lower prices and better quality. • Local industry can access regional economies of scale. • Transfer of international best practice.	• Less pressure to develop regulatory capacity. • No short-term industry disruptions.
Potential disadvantages	• Political costs of foreign ownership. • Dividend outflows partially offset FDI. • May increase urgency for and difficulty of effective sector regulation. • Social inclusion implications.	• Inefficiency of local service industries is protected. • Potential for anticompetitive behaviour, including excessive pricing.

Source: DNA Economics, *Developing a Services Strategy for Zambia*, report prepared by DNA Economics for the EU Capacity Building for Private Sector Development (CBPSD) Programme, 2009, unpublished

The paper begins with a review of the role of the service industry in the SADC economy, focusing on its contribution to gross domestic product (GDP), employment, trade and investment. It identifies three major sectors for illustrative evaluation, namely transportation, financial and telecommunications services. The paper briefly considers the state of competition and regulation across SADC in these sectors. It looks at the proposed EPA and SADC services agreement and concludes with a discussion on the likely implications of these negotiations.

At this point, a caveat should be made regarding the quality of some of the data presented in the paper. Data on services in the SADC countries is difficult to obtain and often of poor quality. In some cases, data from different sources varied substantially (mostly due to different definitions of what a service constitutes). Given its variability and poor quality, caution should be taken in drawing specific inferences from this data, which has been essentially used to provide context to the paper.

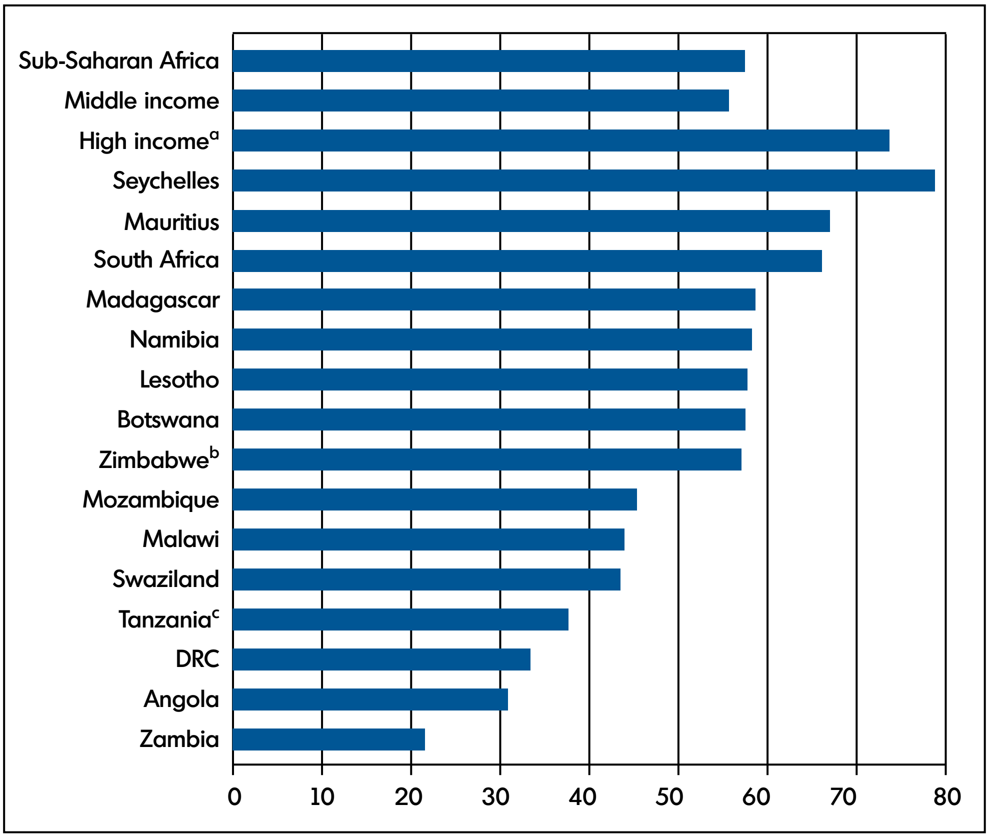
ROLE OF SERVICES IN THE SADC ECONOMY

Services are often intermediary products that are necessary for the efficient operation of most sectors of the economy, and the means by which the poor can achieve economic inclusion. For example, a farmer with a telephone has a great advantage when negotiating the price of his crop with an intermediary. He can farm a larger area if access to financial services is efficient and cheap enough to allow some form of input financing. Service sectors are also important contributors in their own right to economic output in the SADC region.

CONTRIBUTION TO GDP

In general, the service sector comprises a larger proportion of GDP in more-developed economies, relative to less-developed countries. Figure 1 illustrates the shares of the service sector in GDP in high-income and middle-income countries and the 15 SADC member states.

Figure 1: Shares of service sector in GDP (%), 2009



a Data for 2006.
b Data for 2005.
c Data for 2008.

Source: DNA Economics calculations based on World Bank, 'Open Data', database, http://data.worldbank.org, accessed 1 May 2011

Services contributed over 70% of GDP in high-income countries in 2009, compared to less than 60% of GDP in sub-Saharan African countries. Tourist destinations such as Mauritius and the Seychelles have fairly high service contributions to GDP, with the Seychelles even higher than the average for high-income countries. At the other end of the spectrum, the less-developed SADC countries of Tanzania, the Democratic Republic of Congo (DRC), Angola and Zambia have service sectors that contribute less than 40% to GDP.

Table 2: Service sector breakdown as a percentage of GDP

Sector	Botswana (2009)	DRC (2008)	Lesotho (2009)	Malawi (2009)	Mauritius (2009)	Mozambique (2009)
Agriculture and fishing	2.4	38.2	8.3	35.3	3.9	27.3
Mining	29.9	12.2	2.4	0.9	0.04	1.2
Manufacturing	4.1	4.1	18.6	8.0	19.2	13.9
Electricity, gas, water	2.5	0.6	5.3	1.5	2.2	5.2
Construction	6.0	8.3	5.3	4.7	6.9	3.7
Trade	9.2	22.4	7.3	14.3	11.4	12.7
Hotels and restaurants	2.9	22.4	1.3	1.8	6.6	1.7
Transport, communications	5.0	6.5	8.3	7.4	9.6	11.7
Financial	13.8	6.1	6.0	6.7	10.1	5.6
Real estate, business	13.8	6.1	14.4	5.7	11.7	7.5
Public administration	18.9	1.6	11.7	2.9	6.1	4.0
Education	5.2	1.6	7.9	2.8	4.4	4.1
Health, social, community	5.2	1.6	3.1	3.7	3.5	1.5
Other	–	1.6	3.1	4.3	4.3	–

Sector	Namibia (2009)	South Africa (2009)	Seychelles (2009)	Swaziland (2008)	Tanzania (2009)	Zambia (2008)	Zimbabwe (2007)
Agriculture and fishing	7.4	2.6	2.6	7.9	26.3	12.9	21.3
Mining	5.3	6.0	–	0.3	2.6	8.4	22.7
Manufacturing	14.7	16.7	8.9	42.3	10.1	10.2	8.0
Electricity, gas, water	2.8	2.1	1.5	0.8	2.2	2.4	11.4
Construction	4.1	3.6	6.0	3.0	7.2	11.7	3.1
Trade	13.2	13.4	10.5	8.9	15.2	17.0	10.9
Hotels and restaurants	2.1	13.4	20.5	2.10	2.4	2.9	10.9
Transport, communications	7.2	10.2	12.7	7.4	8.2	9.4	4.9
Financial	5.6	23.7	7.6	3.5	2.1	7.6	1.5
Real estate, business	10.9	23.7	18.1	0.0	10.8	8.6	0.5
Public administration	10.3	21.6	5.8	15.4	8.3	8.8	1.7
Education	7.8	21.6	2.6	4.20	1.9	8.8	1.9
Health, social, community	7.5	21.6	2.6	4.20	1.5	8.8	3.1
Other	0.9	21.6	0.6	4.0	0.7	–	9.1

Source: DNA calculations based on data from country central banks and statistics offices and African Development Bank, 'African Economic Outlook', database, http://www.africaneconomicoutlook.org/en

With reference to Table 2, where possible data reflects sector breakdown based on real GDP contributions, otherwise nominal GDP is used. Some contributions have been classified by DNA Economics.

Although the different classifications used by regional governments make cross-country comparison difficult, Table 2 nevertheless provides some interesting insights. As expected, the contribution of hotels and restaurants to GDP in the Seychelles is high at 20.5%, although it is far less significant for Mauritius, at only 6.6%. Wholesale and retail trade is a significant contributor for all countries, contributing at least 7% to GDP in SADC countries. The financial and real estate and business service sectors contribute significantly to GDP in most SADC countries, even in some less-developed countries such as Lesotho, where the two sectors combined contribute 20.4% to GDP. However, their contribution is sharply lower in Swaziland, at just 3.5%. As expected, in South Africa, where capital markets are well developed, the two sectors contribute 23.7% to GDP.

The transport and communications sectors comprise a small share of GDP for landlocked countries. They are particularly small in both Botswana and Zimbabwe, at around 5.0% of GDP. In South Africa, Mozambique and the island nations of the Seychelles and Mauritius, their contribution is higher. This may be a reflection of the relative size and development of these sectors, but could also be an indication of the high cost of such services in some of these economies.

As expected, mining services are very important in Botswana, but so too are public sector services (public administration, health, education and community services). This is true of all Southern African Customs Union (SACU) member countries, and may be an outcome of the large transfers from South Africa to the governments of Botswana, Lesotho, Namibia and Swaziland through the revenue sharing arrangement.

CONTRIBUTION TO EMPLOYMENT

Table 3 (see page 10) highlights the growing contribution of the service sector to regional employment for SADC countries with the exception of the Seychelles. Unfortunately, the data only extends to 1997, as newer comparative data does not seem to be available.

Employment in the service sector increased for most SADC countries between 1980 and 1997 (with the exception of Mauritius, which experienced a large industrial expansion during this time). The SACU countries were particularly dependent on the service industry for employment. In Malawi and Mozambique, however, service employment was relatively low.

Table 4 (see page 10) presents a breakdown of employment by service subsector (Angola, DRC, Malawi, Mozambique, Seychelles, Swaziland and Zimbabwe are excluded).

The trade and distribution sector is a major contributor to employment across many SADC countries, accounting for 22.9% of total employment in South Africa. In Mauritius, the hotels and restaurants sector accounts for 7.1% of total employment, twice as much as any other SADC country shown. Government is among the largest employer in all five SACU countries, providing almost one-third of total service sector employment in South Africa, Botswana and Namibia.

Table 3: Percentage of total employment by sector

Country	Agriculture		Industry				Services	
			Total		Manufacturing			
	1980	1997	1980	1997	1980	1997	1980	1997
Angola	76.0	73.0	7.6	8.3	4.0	4.4	16.0	18.4
Botswana	63.9	36.7	10.0	26.1	1.3	7.4	26.1	37.2
DRC	71.6	65.5	12.0	14.2	7.6	8.7	16.3	20.3
Lesotho	40.2	39.8	34.2	23.7	2.5	1.7	25.6	36.4
Madagascar	81.6	76.1	5.6	7.4	3.5	5.4	12.7	16.5
Malawi	87.3	86.3	5.4	4.7	3.3	2.8	7.4	9.0
Mauritius	27.2	9.8	27.6	53.2	18.4	41.3	45.2	36.8
Mozambique	84.3	81.5	7.5	8.5	6.7	7.6	8.3	10.0
Namibia	56.4	44.2	15.0	15.5	4.8	6.3	28.6	40.3
South Africa	17.3	11.2	34.7	30.3	18.2	14.2	48.1	58.5
Swaziland	50.0	32.5	18.6	25.0	9.1	12.3	31.4	42.5
Tanzania	85.8	83.6	4.5	5.1	3.4	3.9	9.8	11.2
Zambia	76.1	73.7	8.1	8.7	3.2	3.6	15.8	17.6
Zimbabwe	72.4	65.9	12.3	6.2	8.3	4.2	15.3	28.0

Source: Fafo, UNI and the Service Sector Workers in Southern Africa, 2000, www.union-network.org/unisite/regions/africa/pdf/UNIFAFOResearchInSouthernAfrica-en.pdf

Table 4: Employment by economic activity (%)

Sector	Botswana (2006)	Lesotho (1999)	Madagascar (2005)	Mauritius (2008)	Namibia (2004)	South Africa (2008)	Tanzania (2006)	Zambia (2000)
Primary	32.6	72.8	82.2	9.0	31.9	8.1	75.2	72.9
Manufacturing	6.7	3.5	2.8	19.7	6.2	14.3	3.1	2.8
Electricity, gas and water	0.8	0.5	0.3	0.7	1.6	0.7	0.1	0.4
Construction	5.1	4.8	0.1	11.1	5.1	8.3	1.2	1.3
Trade & distribution	14.4	4.7	4.9	13.8	14.0	22.9	8.8	6.8
Hotels & restaurants	2.7	0.7	0.7	7.1	3.4	–	2.1	–
Transport, storage, communications	3.0	1.7	0.9	7.4	4.1	5.6	1.4	1.9
Financial intermediation	1.6	0.3	0.04	2.6	2.0	12.0	0.1	1.0
Real estate	4.7	0.9	–	5.1	2.4	–	0.5	–
Public admin	11.2	1.2	2.1	6.6	8.0	19.1	1.0	12.9
Education	8.0	2.1	0.5	5.8	8.1	–	1.3	–
Health and social	2.6	0.8	0.1	3.2	3.6	–	0.6	–
Other	6.8	5.8	5.5	8.0	9.6	9.0	4.6	–

Source: DNA Economics calculations based on the International Labour Office, 'LABORSTA', database, http://laborsta.ilo.org, accessed 1 May 2011

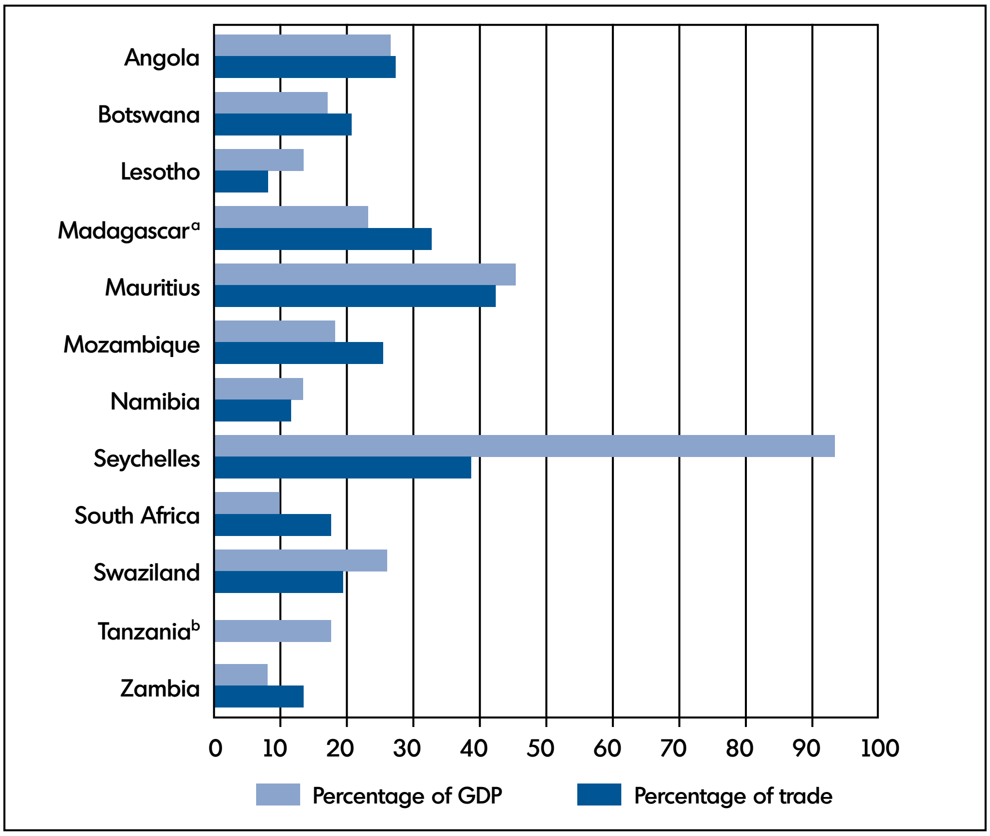
CONTRIBUTION TO TRADE

Services are essential inputs to many forms of economic activity. In many sub-Saharan African countries, service imports are therefore expected to be as important as service exports in stimulating economic activity. Business service imports in particular may be crucial factors in leveraging corporate and FDI activities in countries with relatively underdeveloped local legal and accounting sectors.

Net exports

Figure 2 shows the importance of trade in services as a percentage of GDP and total (merchandise and services) trade for SADC countries, with the exception of the DRC, Malawi and Zimbabwe.

Figure 2: Trade in services (%), 2009



a Data for Madagascar is for 2005.

b Data for Tanzania on services as a percentage of trade is not available.

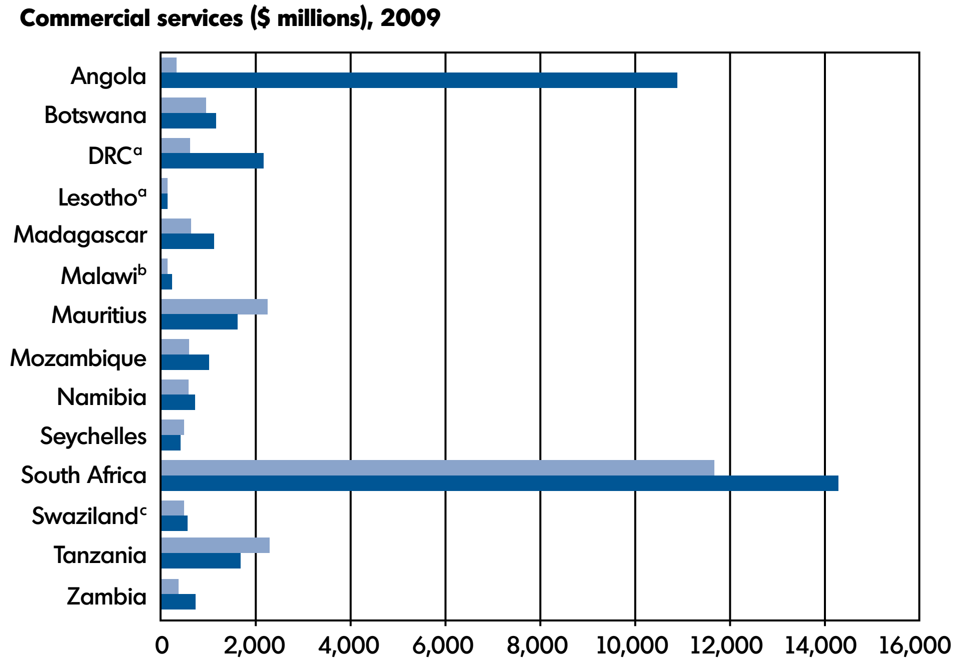
Note: Services as a percentage of GDP are calculated as service exports plus service imports divided by GDP. Services as a percentage of trade are calculated as the sum of service imports and service exports divided by the sum of total exports and total imports (merchandise and services).

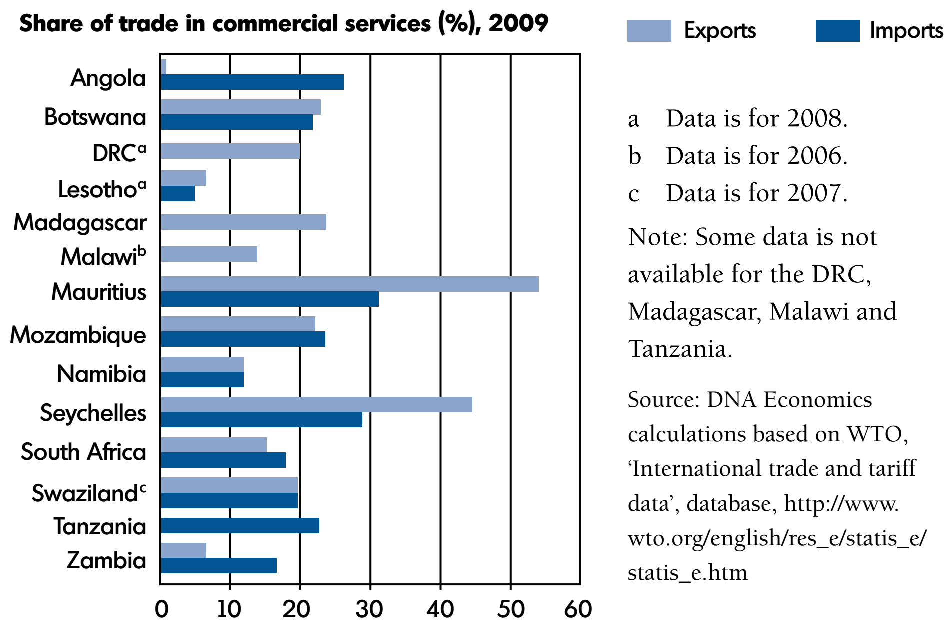
Source: DNA Economics calculations based on World Bank, 'Open Data', *op. cit*.

Total trade in services (ie exports plus imports) varies greatly across SADC, from less than 10% of total trade for Lesotho to over 40% of total trade for Mauritius. Trade in services is especially significant for the Seychelles, with service exports and imports combined in excess of 90% of GDP, and close to 40% of total trade.

The significant contribution of services to trade is generally explained by large services imports rather than exports of services. Figure 3 presents the trade in commercial services for SADC countries for 2009, with the exception of Zimbabwe.

Figure 3: Trade in commercial services, 2009





a Data is for 2008.
b Data is for 2006.
c Data is for 2007.

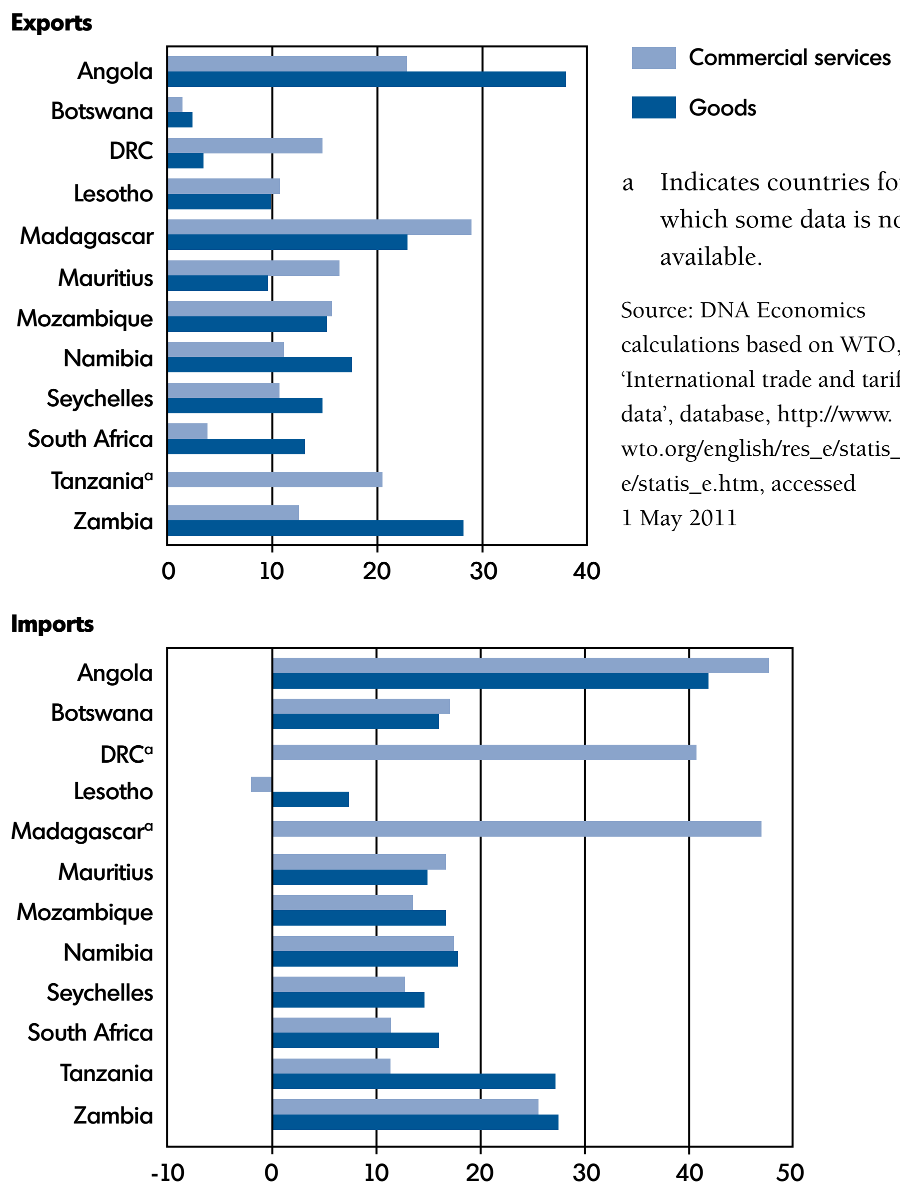
Note: Some data is not available for the DRC, Madagascar, Malawi and Tanzania.

Source: DNA Economics calculations based on WTO, 'International trade and tariff data', database, http://www.wto.org/english/res_e/statis_e/statis_e.htm

With the exception of significant tourist destinations such as Mauritius, Seychelles and Tanzania, SADC countries are net importers of commercial services. In absolute terms, South Africa is the largest importer of commercial services, followed by Angola. These two countries account for 70% of SADC services imports, with Angola's imports of commercial services over five times higher than the next biggest importer, the DRC. In net terms, Angola has the largest trade in services deficit, with services exports equivalent to only 3% of services imports. South Africa is the largest exporter of services, accounting for 56% of total commercial services exported in the SADC region in 2009.

Figure 4 presents the growth in services trade for SADC countries, with the exception of Malawi, Swaziland and Zimbabwe, from 2005–2008.

Figure 4: Growth in trade (%), 2005–2008



a Indicates countries for which some data is not available.

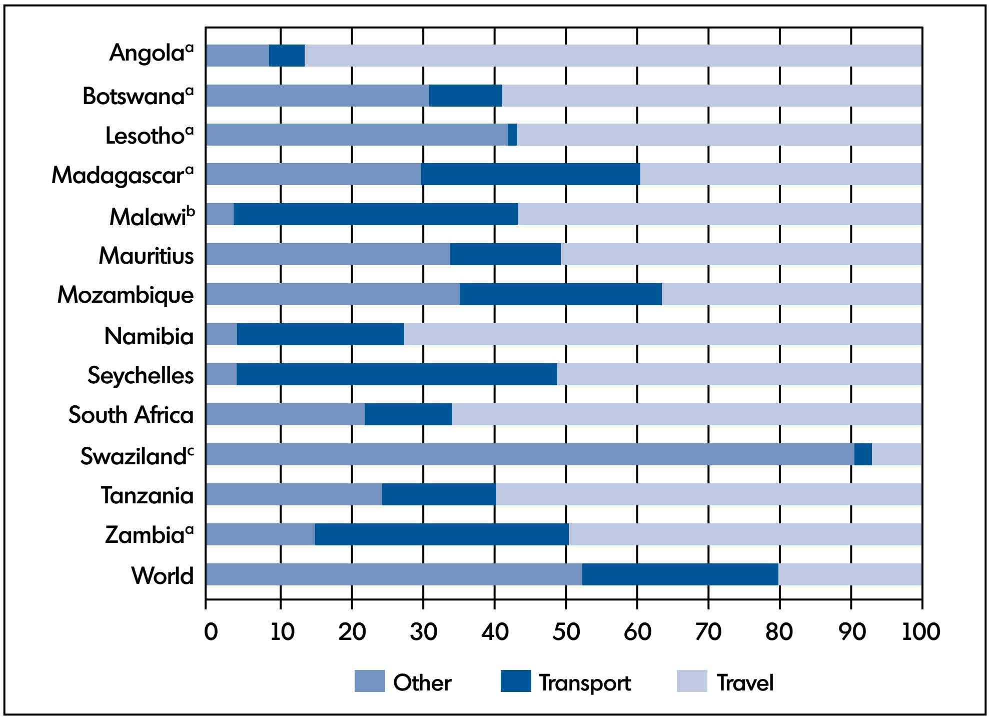
Source: DNA Economics calculations based on WTO, 'International trade and tariff data', database, http://www.wto.org/english/res_e/statis_e/statis_e.htm, accessed 1 May 2011

Growth in services trade largely matched that of growth in goods trade, for both exports and imports across the SADC region. However, there were some notable exceptions. Angola and Zambia experienced particularly strong growth in goods, relative to services, as a result of the commodity price boom over this period. Growth in imports of commercial services appeared to mirror that of merchandise imports, with the exception of Lesotho and Tanzania. A rise in consumption expenditure drew in equal measures of both merchandise and service imports to the region.

Composition of trade in services

The composition of trade in services varies greatly within the region. Figure 5 presents the composition of commercial services exports for SADC countries, with the exception of the DRC and Zimbabwe, and the rest of the world for 2009.

Figure 5: Composition of commercial services exports (%), 2009



a 2008 data.

b 2005 data.

c 2007 data.

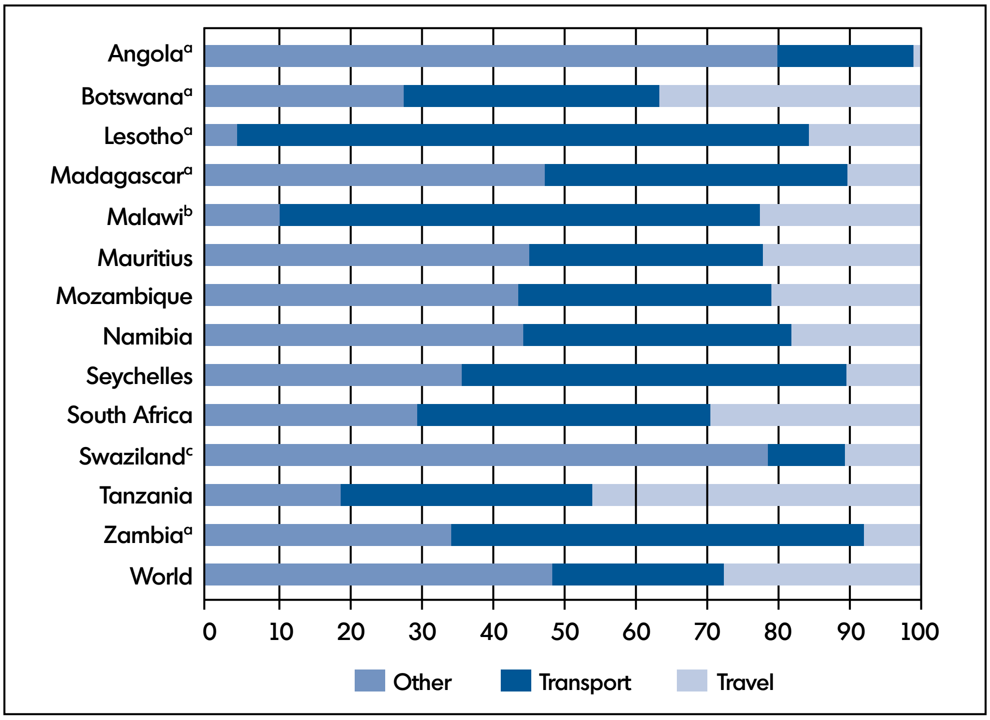
Source: DNA Economics calculations based on WTO, 'International trade and tariff data', database, http://www.wto.org/english/res_e/statis_e/statis_e.htm, accessed 1 May 2011

Somewhat surprisingly, the bulk of South Africa's services exports are in the travel and transportation sectors, despite the numerous South African firms exporting communication, construction, financial and other business services to the rest of Africa.

This is partly explained by much of this trade taking place through FDI and not being recorded as services trade in the national accounts (see Box 1 on page 16). With the exception of Swaziland, exports of travel services are significant for all SADC countries, accounting for more than 20% of total commercial services exports.

Imports of services are more diverse than services exports, with other imports generally accounting for a larger share of the total. Figure 6 shows the composition of commercial services imports for SADC countries, with the exception of the DRC and Zimbabwe, and the rest of the world for 2009.

Figure 6: Composition of commercial services imports (%), 2009



a 2008 data.

b 2005 data.

c 2007 data.

Source: DNA Economics calculations based on WTO, 'International trade and tariff data', database, http://www.wto.org/english/res_e/statis_e/statis_e.htm, accessed 1 May 2011

Transport services remain particularly important, especially for the landlocked member countries. In Lesotho, almost 80% of commercial services imports are explained by transport services. This is potentially a reflection of the cost of its unique geographical position.

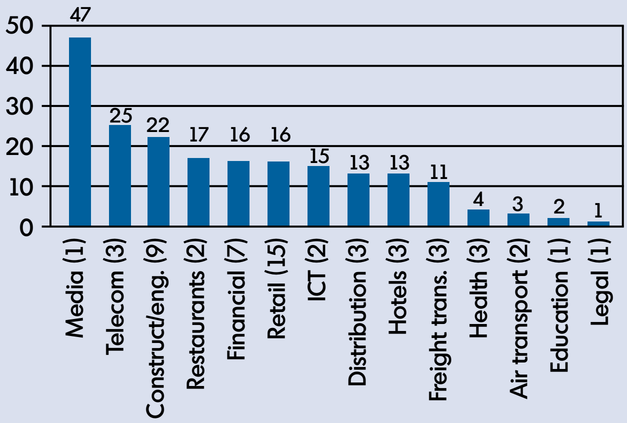
Most SADC countries sustain a trade surplus in travel services, with the exception of Malawi, Mozambique and Swaziland. Only Seychelles maintains a trade surplus in transport services. Most SADC countries show a trade deficit for other commercial services.

Box 1: The rise of the South African services multinational

The demise of Apartheid in 1994 opened up South Africa to the rest of the world. It also opened up the rest of Africa to South Africa. The rise in South African exports of goods to other African countries has been steady and unsurprising, whereas the expansion of the South African service industry northwards into the continent has been extensive and dramatic. DNA Economics, with support from the World Bank, recently concluded a scoping exercise to profile the activities and performance of South African service companies in Africa. A number of interesting sector and country trends emerge from the initial analysis.

- South Africa is a major player in the African media industry as the dominant provider of satellite television services.
- South Africa's mass market retailers, restaurants and mobile phone companies have been extremely aggressive across Africa, opening a large number of stores and operations and attracting substantial numbers of customers.
- South Africa's construction, engineering and information, communication and technology (ICT) firms have significant African operations. Most of this kind of work takes place on a project-by-project basis, and local companies are often established in a specific country to undertake project work.
- Most of South Africa's banks have not yet ventured far beyond the country's immediate neighbours. The exception is Standard Bank, which has an extensive network of branches and investments across sub-Saharan Africa.
- South Africa's freight, logistics and distribution companies do significant work in and between African countries. The biggest of these have established agencies and dealerships throughout Southern Africa.
- South Africa's major hotel groups have made steady inroads into Africa, with Namibia and Zambia being particularly favourable destinations.
- South Africa's airlines, hospital groups, educational institutions and professional service firms (law and accounting) are large and globally competitive. However, they have made little direct investments into African markets. Instead, they prefer to operate from their base in South Africa, and undoubtedly attract substantial numbers of African customers.

Figure 7: Number of African country operations by sector



Note: Number of South African companies indicated in brackets.

Source: Stern M *et al.*, *Scoping study: The Activities of South African Service Multi-nationals*, report prepared by DNA Economics for the World Bank, 2010, unpublished

Foreign direct investment

A large proportion of trade in services takes place through FDI or commercial presence. In many sectors, foreign companies need to establish offices, branches or agencies within a foreign country in order to deliver a service. As there is no FDI data available at the sectoral level for SADC countries, the importance of service sector-related FDI cannot be measured directly. Table 5 presents an overall picture of FDI inflows and outflows.

Table 5: Summary of FDI flows and stock

Country	FDI flows ($ millions), 2004–08 average		FDI stock ($ millions), 2008		Flow % of GFCF, 2004–08 average		Stock % of GDP, 2008	
	In	Out	In	Out	In	Out	In	Out
Angola	9,568	786	12,880	3,502	347	29	37	10
Botswana	434	5	885	545	17	0	8	5
DRC	1,050	22	2,521	–	63	1	22	–
Lesotho	70	–	934	2	19	0	58	0
Madagascar	487	–	2,953	6	28	0	32	0
Malawi	99	1	760	21	14	0	18	1
Mauritius	176	40	1,632	337	10	2	17	4
Mozambique	305	0	3,808	1	22	0	39	0
Namibia	483	-8	3,472	11	29	0	39	0
Seychelles	152	21	557	96	53	7	60	10
South Africa	4,324	1,635	68,007	49,788	9	3	25	18
Swaziland	58	1	542	59	15	0	20	2
Tanzania	550	–	6,621	–	12	–	31	–
Zambia	720	–	8,545	154	28	–	59	1
Zimbabwe	54	2	1,544	253	10	0	39	6

Source: DNA Economics calculations based on the United Nations Conference on Trade and Development (UNCTAD), 'UNCTADSTAT', database, http://unctadstat.unctad.org, accessed 1 May 2011

FDI outflows were insignificant for most countries in the region, with the main exceptions of Angola and South Africa. The extent of South Africa's involvement in the rest of Africa was reflected in its large FDI outflows, which averaged over $1.6 billion per year. South Africa's total outward stock was equivalent to 18% of its GDP in 2008, and a large proportion of this FDI occurred in Africa (see Box 1 on page 16). FDI inflows have tended to follow commodity extraction activities, with countries such as Angola, the DRC and Zambia being the largest beneficiaries of FDI outside of South Africa.

THE STATE OF SERVICE COMPETITION IN SADC

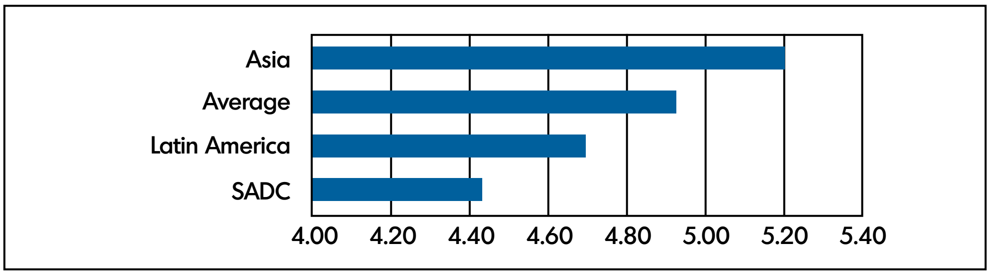
Despite the importance of services to wider economic growth priorities, and despite the importance of increased competition in driving that growth, key service sectors in SADC remain underdeveloped, overpriced and uncompetitive. To illustrate this, the section examines the state of the communications, transport and financial sectors. These sectors provide services that are essential to the survival of most modern businesses, and thus play a critical role in enabling development. The net impact of the development of these sectors on overall growth can be substantial. In 2000, the liberalisation of communications, transport and financial services was estimated to be worth about 5% of GDP to Tunisia, with total welfare gains from service liberalisation amounting to 7% of GDP.[5]

The underdevelopment of many service sectors in SADC is largely due to the small size and modest income levels of most SADC economies. However, economic size and development do not explain the full extent of underperformance. Competitive performance in the SADC region is weak, whether compared with global averages or with other developing region scores. Much could be done to improve the service sectors by focusing on increasing competitive forces, such as through the mechanism of services liberalisation.

TELECOMMUNICATIONS SERVICES

For Africa as a whole, ICT penetration rates are low compared to other regions. Access to the Internet is of particular concern, as it remains extremely low in absolute terms. In more-developed economies, access to the Internet has become a prerequisite for the development of a number of economic activities, and an important means of accessing customers and improving service efficiency. These innovations are not possible in countries with low levels of ICT penetration, which is experienced in most of Africa. Although penetration rates in mobile telephony are also lower in Africa than in other regions, the disparity is less pronounced than in other sectors of the ICT market. It is unlikely to be a coincidence that levels of competition and penetration rates in mobile telephony have tended to be higher than those in fixed-line telephony.

Figure 8: Intensity of local competition

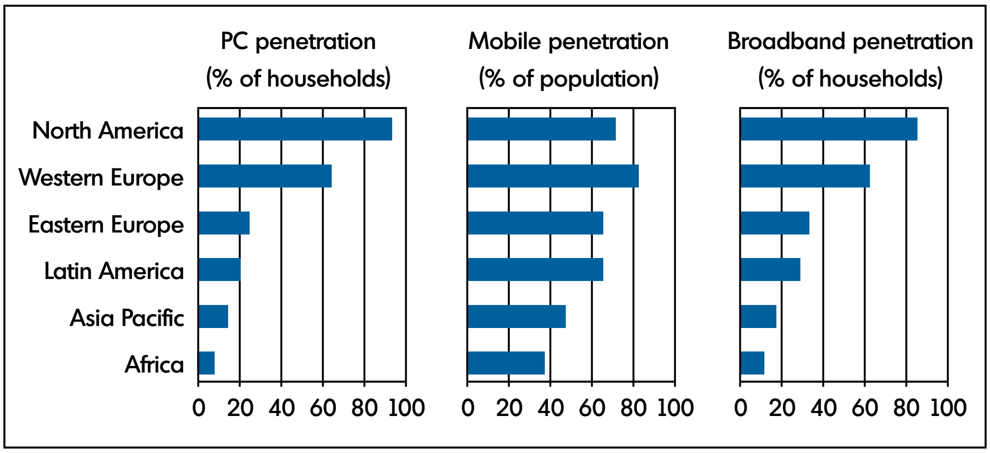


Note: 1 = limited in most industries; 7 = intense in most industries.

Source: Dutta S & I Mia (eds), *Global Information Technology Report 2009–2010*. Geneva: World Economic Forum, 2010; own calculations, 2008–2009 weighted average

Poor penetration rates in ICT are reflected in high telecommunications prices, which decrease affordability and exclude many potential customers from the market. A 2008 study examined the price performance of a sample of SADC studies against a comparable peer group. It found that the SADC countries had dial-up Internet prices that were 88.6% higher than the average for the peer group, and mobile telephony prices that were 25.2% higher.[6]

Figure 9: Regional ICT penetration rates, 2008



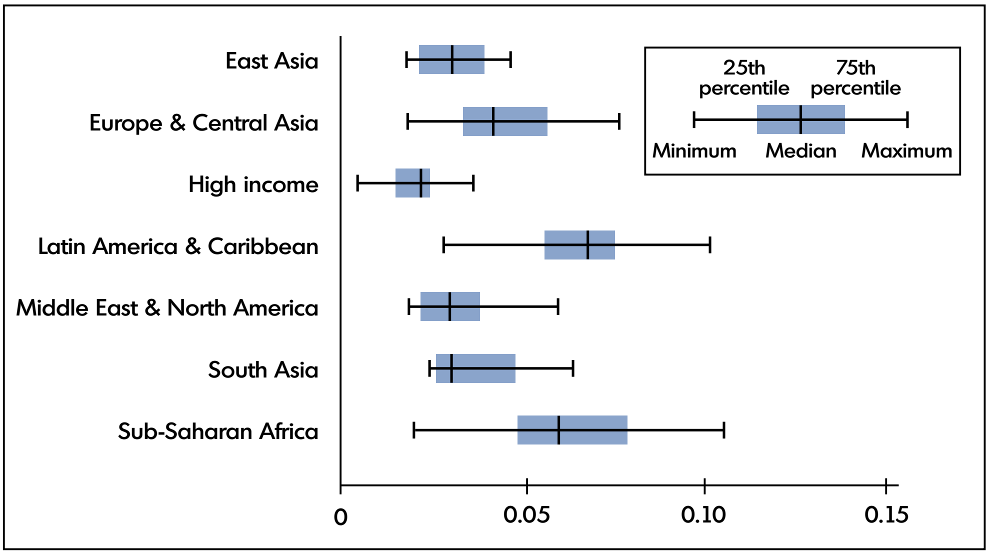
Source: Dutta S & I Mia (eds), *Global Information Technology Report 2009–2010*. Geneva: World Economic Forum, 2010, p. 67

FINANCIAL SERVICES

Fostering competition through deregulation in the financial service sector needs to be handled carefully, as unconstrained financial sector growth can be associated with severe systemic risks. If risk regulation is addressed adequately, then ease of access to financial services is a key enabler of economic growth. Access to such services has a number of dimensions. The level of sophistication of the financial sector can be the most important metric for a firm wishing to raise capital by listing its equity. However, the price of loans and collateral requirements has more impact on the ability of prospective homeowners to access financing.

The countries of the SADC region perform poorly on most of these measures of financial sector access. In 2011, five out of 10 SADC countries included in the World Economic Forum (WEF) Africa Competitiveness Report ranked access to finance as the single-biggest problem in doing business, with a further three countries ranking access to finance as second or third.[7] Price is a fundamental indicator both of the level of competition prevalent in a given market and of the ability of firms and individuals to access a product. As shown in Figure 10 (see page 20), which measures the price of debt in terms of the net interest spread, the countries of sub-Saharan Africa also have relatively expensive banking sectors.

Figure 10: Regional net interest margins in banking, 2007



Source: Beck T & A Demirgüç-Kunt, 'Financial institutions and markets across countries and over time: Data and analysis', quoted in Beck T, Fuchs M & M Uy, 'Finance in Africa: Achievements and Challenges', World Bank Policy Research Working Paper, 5020. Washington, DC: World Bank, 2009

TRANSPORTATION SERVICES

In many SADC countries, the bulk of the transportation network has been traditionally supplied by the state. Thus concerns over the state of competition in the sector have been reserved for those limited areas where service provider competition is permitted. Competition has typically been extremely limited in the provision of air services (particularly international air services), rail services and road operations. However, deregulation and decreased state involvement has the potential to improve substantially the efficiency and quality of transport services and infrastructure. In resource-constrained countries, private sector participation may also help to overcome financing constraints associated with transport infrastructure.

Improved access to transport translates into improved access to customers and suppliers. Accordingly, the state of the transport sector is of crucial importance in poverty alleviation and regional integration initiatives. Recent research suggests that in areas of sub-Saharan Africa that are within four hours' travel time of a city, crop production levels reach 45% of potential production levels. This falls to just 5% for areas that are more than eight hours away.[8]

Table 6 (see page 21) illustrates the quality of transport infrastructure in 10 of the SADC countries (Angola, DRC, Seychelles, Swaziland and Zambia are excluded), which is widely regarded by its business people as inadequate.

The component of transport infrastructure that is most highly regarded is air transportation, which is typically more expensive than road transport for the movement of both goods and people. In comparison, the road and rail networks that should service the needs of poorer commuters and primary and secondary industry are very underdeveloped.

Poor quality infrastructure, limited competition and regulatory issues combine to produce a high-cost African transport environment. When compared to other regions, African transportation costs are also very high. This affects the ability of African goods and service providers to compete in international markets.

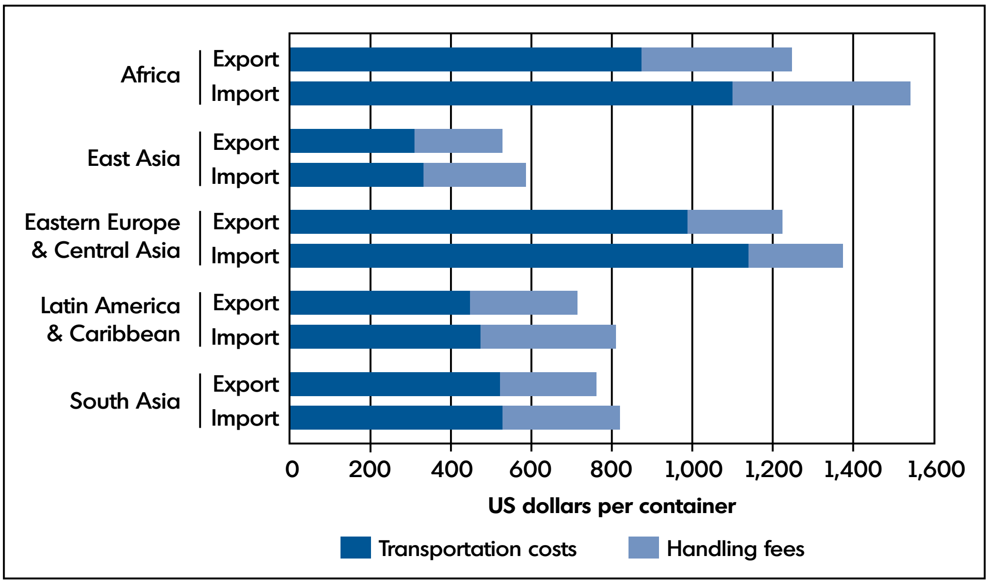
Table 6: Quality of transport infrastructure

Country	Quality of roads	Quality of railroad infrastructure	Quality of port infrastructure	Quality of air transport infrastructure	Average score
Botswana	4.5	3.6	4.2	3.8	4.0
Lesotho	2.0	1.9	2.6	2.3	2.2
Madagascar	2.9	1.7	2.6	4.3	2.9
Malawi	2.5	1.8	3.5	2.9	2.7
Mauritius	4.5	n/a	4.4	5.4	4.8
Mozambique	2	1.8	2.8	3.5	2.5
Namibia	5.4	4.3	5.3	5.1	5.0
South Africa	4.8	3.5	4.4	5.9	4.7
Tanzania	2.5	1.9	2.8	3.5	2.7
Zimbabwe	3.3	2.9	4.3	3.4	3.5
Average	3.4	2.6	3.7	4.0	3.5

Note: 1 = underdeveloped, 7 = extensive and efficient by international standards.

Source: WEF, *The Africa Competitiveness Report 2009*. Geneva: WEF, 2009

Figure 11: Inland transport costs and port handling fees for imports and exports



Source: World Bank, *Doing Business 2009*. Washington, DC: World Bank, 2009

THE POTENTIAL CONTRIBUTION OF A SADC OR EPA SERVICES AGREEMENT

As discussed, SADC communications, transport and financial markets are more inefficient and/or more expensive on a number of measures compared with the international norm. There are many potential explanations for this problem, but weak competition and inappropriate regulation are most likely to be important contributing factors. More importantly, these are factors over which governments wield direct control and influence. Why then have SADC member states not done more to lower barriers and facilitate competition in critical infrastructure services?

The World Bank asks a similar question in its handbook on *Development, Trade and the WTO* in 2002.[9] It proposes a number of reasons why multilateral (and this paper would add regional) negotiations on trade in services might make necessary reform more likely (or palatable):

- Firstly, liberalisation may be constrained by domestic opposition from those who benefit from protection.
- Secondly, a country cannot improve access for its exports to foreign markets on its own.
- Thirdly, a small country may not be able to deal adequately with anticompetitive practices by foreign suppliers.
- Finally, a country may lack the expertise and resources to devise and implement optimal policy, especially in the area of domestic regulation.

A regional or external agreement – by imposing a binding framework on SADC regulators, offering some incentives for domestic operators, and providing sufficient technical and financial assistance to develop appropriate regulatory capacity – might help to expedite necessary change. However, little progress has been made to date in concluding such agreements.

In addition to the stalled multilateral discussions on services, SADC member states are currently negotiating an internal (the Annex to the SADC Protocol on Trade in Services) and an external (the EU–SADC EPA Trade in Services Chapter) agreement. The formal intention of both agreements is similar – to release market forces while improving regulatory standards. However, in practice the two agreements differ significantly in terms of their focus, coverage and ambition. The SADC Annex is unlikely to challenge the status quo, whereas the EPA Trade in Services Chapter, if implemented in its current form, would require substantial changes to regulatory regimes in a number of countries and sectors.

Some of the key implications and limitations of these two agreements are discussed below. Although both agreements extend well beyond the transport, financial and communications services sectors, for the purposes of the paper the main focus of the discussion remains on these three sectors. Moreover, the intention of the paper is not to provide a complete and legal assessment of these texts, but to assess whether either of these agreements is likely have a meaningful impact on service regulation and performance in SADC.

THE EPA TRADE IN SERVICES CHAPTER

Four SADC member states (Botswana, Lesotho, Mozambique and Swaziland) signed an interim EPA in June 2009, which commits them to further negotiations on a comprehensive EPA, to include trade in services. Namibia and South Africa have yet to sign the interim agreement. They remain involved in the negotiations but have chosen to opt out of the services negotiations. Angola also has yet to sign the interim agreement, but its position on trade in services is unclear. The remaining SADC member states are negotiating under a different EPA configuration.

The proposed EPA services agreement is made up of two components:

- The main agreement, which incorporates the following: the scope and coverage of the agreement; its interaction with the SADC regional integration initiative; the movement of natural persons; and the extension of market access, national treatment and most-favoured-nation treatment to commercial presence and the cross-border supply of services. Whereas most of these conditions apply to all sectors, a number of specific chapters were initially included in the main agreement to prescribe how the financial, maritime transport and telecommunications industries (among others) should be regulated. The most recent draft (version SADC/EPA-SOM/22/2010/7) of the agreement excludes these sector-specific chapters and it is therefore not clear whether they will be retained in the final agreement. Regardless of the eventual outcome, which is still to be negotiated, the content of some of these chapters is considered below.
- A set of annexes and tables in which each country is expected to list all limitations to market access and national treatment by sector (and subsector) and by mode. Countries have some freedom to leave specific subsectors or modes 'unbound', although the EU is expected to push for substantial coverage across all aspects of the agreement.

THE ROLE OF EPAS – THE GENERAL TEXT

The central feature of the EPA services agreements are that countries agree not to impose any predefined limits on the investments and cross-border trade in services of all other signatories (European and SADC), and agree to treat the service providers of all signatories as if they were their own. There are of course multiple exemptions and the agreement specifically excludes some sectors entirely.[10] All countries are allowed to list sector specific exclusions and limitations to the treaty in an extended set of annexes. The main agreement also includes a specific chapter on the temporary movement of natural persons for business purposes. Although all these components are critical to the design and implementation of the EPA, the paper focuses on the sector chapters.

The chapter on telecommunications services

Section IV of the draft EPA (September 2008 version) deals specifically with telecommunications services. The text closely follows the 1996 WTO Telecommunications Services reference paper and represents an attempt to force the adoption of regulatory best practice in telecommunications across SADC. This is largely in the best interests of the economies and consumers of the region. If incorporated, it would help to cement the principle of independent telecoms regulation, which is already established in most member countries. Swaziland has yet to establish an independent regulator and will remain a major exception to this status quo until pending legislation comes into force.

However, best practice in telecoms regulation is technically and legally complex to implement, and requires high levels of human capital and operational capacity. Price regulation capacity and regulation of anticompetitive behaviours in particular are underdeveloped in the region. Although the legal frameworks across SADC are largely compliant with this chapter of the agreement, capacity to enforce many of the provisions included in this draft is still in the process of being developed. In particular, unless care is taken to develop and implement universal service policies, increased competition in more advanced and profitable subsectors may come at the cost of access to more basic telecoms services.

The chapter on financial services

Section V of the draft EPA (September 2008 version) specifically addresses the financial services sector, covering a wide range of banking, insurance and other financial services. As with the telecommunications chapter, the key purpose of section V is to support the establishment of best practice regulation in the financial sector, and in particular of prudential regulation. In principle, this is not problematic, as it is in the interests of every country to have a stable financial sector with adequate risk management. However, the devil is in the details, and a one-size-fits-all approach to regulation, implemented from a developed world perspective, may sometimes have unexpected results in a developing market.

South Africa, for example, has found problems with the clause on 'new financial services'. This effectively allows foreign service providers to offer any new product and service provided it is similar to what is already permitted in the domestic market and does not contravene reasonable prudential regulations. This clause (intentionally) gives the financial authorities little in the way of regulatory policy space. Issues of financial tiering[11] and access to finance for the poor should also be kept in mind when applying the conditions envisaged in section V. The current text probably does not prohibit the kind of pro-poor regulatory approach that may be needed and appropriate in most SADC countries. However, it would be prudent to examine the legal implications of the chapter further, to ensure that this is indeed the case, before signing.

The chapter on international maritime transport services

Section VI of the draft EPA (September 2008 version) focuses on maritime transport services. It seeks to ensure that foreign ships and maritime services providers are given the same treatment, in all respects, as domestic ships and maritime service providers. This includes reasonable and non-discriminatory access to ports and port services and equal treatment in the application of fees, charges and customs procedures. This section also outlaws ('within a reasonable period of time') cargo-sharing arrangements with third countries and other measures that 'could constitute a disguised restriction or have discriminatory effects on the free supply of services in international maritime transport'.[12]

Once again, the intention of this chapter is good and fair. Port services are critical contributors to the competitiveness of both export and import industries, and the nationality of the ship carrying export and import goods should be of no relevance in the provision of such services. European ports are well developed and equipped to provide the full range of port services 'on reasonable terms and conditions', whereas the ability of all SADC member states to do so is unclear. At the very least, the current state of port services in SADC would need to be assessed before member states could commit to the provision of all the port services described in this chapter.

THE ROLE OF EPAS – SECTOR SCHEDULES

In addition to the main agreement and sector chapters described above, the draft EPA requires that countries list and negotiate commitments across all of the twelve main service sectors. This involves first identifying sectors (and subsectors) in which each country is prepared to make commitments, and then describing any limitations to market access and national treatment to be retained in the sectors and subsectors committed by that country. If a sector is committed and no limitations are listed in the agreement, then the sector is deemed to be free from all such restrictions. In principle, scheduling mistakes can be costly, in that they can override existing regulations and prevent the introduction of new ones.

The process to be followed in the EPA is therefore similar to that adopted in the General Agreement on Trade in Services (GATS), although the EU has proposed a variation to the scheduling framework. However, for the agreement to be compatible with article V of the WTO, which governs economic integration agreements, EPA service commitments will need to demonstrate substantial sectoral coverage in the sense of the 'number of sectors, volume of trade affected and modes of supply' and 'should not provide for the *a priori* exclusion of any mode of supply'.[13] This requirement has been reiterated by the EU in that the draft EPA services text includes a commitment to negotiate substantial sectoral coverage within 'a reasonable timeframe'.[14] Both GATS and the EPA explicitly allow for greater flexibility for developing countries.

Although there is disagreement among WTO members over what substantial coverage entails, the EU–CARIFORUM Agreement provides an indication of what would at least be acceptable to the EU. In the first and only completed EPA, the European Commission made full commitments in more than 90% of service sectors (based on the W120 list of services sectors).[15] CARIFORUM countries aimed at full commitments in 65–75% of all sectors (although they did not achieve this target range).[16] Following this guideline, one can anticipate that SADC member countries would be expected to make commitments in around two-thirds of all sectors.

Looking at the existing GATS commitments of SADC (EPA) member states, only Lesotho and South Africa have made substantial multilateral commitments (in terms of sector coverage) in GATS services negotiations. The other five countries scheduled just 12 major sectors between them. Moreover, coverage within many of these sectors is weak, at well below the two-thirds level. For most SADC countries, EPA negotiations will therefore require them to reach far beyond their GATS schedule in order to achieve substantial coverage.

The negotiating and listing of sector-specific commitments is unlikely to involve the liberalisation of current laws and regulations. In reality, SADC service industries are generally unregulated, and few legal barriers to market access and national treatment exist. Notable exceptions include the important financial services, transport and telecommunications sectors, and the regulation of work permits. However, making commitments across a wide range of sectors might make it harder for countries to implement future regulations that are restrictive or discriminatory, regardless of their underlying merits (see Box 2).

Table 7: SADC EPA country GATS commitments, by sector

Country	Business	Communications	Construction	Distribution	Education	Environmental	Financial	Health	Tourism	Recreational	Transport	Other
Angola							X		X	X		
Botswana	X	X							X			
Lesotho	X	X	X	X	X	X	X		X		X	X
Mozambique							X					
Namibia	X								X			
South Africa	X	X	X	X		X	X		X	X	X	X
Swaziland	X							X	X			

Source: DNA Economics, *Developing a Services Strategy for Zambia*, report prepared by DNA Economics for the EU CBPSD Programme, 2009, unpublished

Box 2: Tying the hands of Botswana – the effectiveness of GATS

In March 2011, the Government of Botswana took action to formally revoke regulations enacted in 2010, which sought to restrict foreign ownership of certain tourism operations. According to the *Botswana Gazette*:[a]

> It appears the regulations were in conflict with the General Agreement on Trade in Services (GATS), to which Botswana is a signatory. According to GATS, commitments aimed at reversing or adding a further limitation can only be effected after a period of three years of being in place (this includes tourism). Had Botswana gone ahead with implementing the regulations she would have had to negotiate compensation – believed to be billions of pula – with all affected parties, that is, the non-citizens who control the largest share of the tourism industry; analysts say this would have undermined the development of

> the sector hence Mokaila was forced to revoke the regulations that were aimed at empowering citizens – on two occasions.

Botswana has listed no serious restrictions on market access or national treatment across two of the three tourism subsectors in GATS (hotel and restaurant services as well as travel agencies and tour operators). Only tourist guide services are excluded. According to the *Botswana Gazette*, the 2010 regulations would have reserved the provision of the following services for citizens of Botswana: camping and caravan sites; guest houses; *mekoro* (a traditional wooden dug-out boat) operations; mobile safaris and motorboat safaris. Such regulations would clearly have been in conflict with Botswana's GATS commitments.

The protestation of foreign tour operators has had the desired impact. The threat of legal action, based on Botswana's GATS commitments, seems to have played an important part in the government's decision to back down. It is questionable whether any other WTO member country would have lodged a formal dispute against Botswana on this matter. However, for now the Government of Botswana seems to have put its narrow national interests aside to demonstrate its commitment to international law and free trade. If true, then this is a positive endorsement of GATS, and probably a good thing for the Botswana tourism industry too.

a Ontebetse K, 'Mokaila dumps citizens fearing being sued?', *Botswana Gazette*, 11 March 2011, http://gazettebw.com/index.php?option=com_content&view=article&id=8929:mokaila-dumps-citizens-fearing-being-sued-&catid=18:headlines&Itemid=2

The interim EPA required that Angola, Botswana, Lesotho, Mozambique and Swaziland conclude negotiations in a single-service sector by 31 December 2008, with negotiations on all other sectors to take place over the ensuing three years. However, this did not take place, and to date substantive negotiations on trade in services have yet to commence.

THE SADC PROTOCOL ON TRADE IN SERVICES

A draft annex to the SADC Protocol on Trade was developed in 2002 and later converted into a separate SADC Protocol on Trade in Services. The text of the protocol is largely agreed by all member states and six specific services sectors have been identified for priority negotiation: finance, telecommunications, transport, energy, construction and tourism. Negotiations in these areas will only begin once the protocol is finalised and signed, but must be concluded three years thereafter. Currently, SADC does not expect the protocol to be ratified before June 2012.

The protocol itself is reasonably similar, in intent, to the EPA, but much less ambitious. For example, it includes a carve-out for most favoured nation (MFN) treatment, allowing countries to negotiate bilateral preferences and list exclusions to MFN treatment. It also offers countries the ability to regulate to meet national policy objectives, further stating that 'particular flexibility shall be granted to State Parties which are at a disadvantage by reason of size, structure, vulnerability and level of development of their economy to use this right.'[17] No further guidance is given on how competing national and regional priorities will be assessed in the implementation of this agreement.

The general agreement does not address any sector-specific issues and leaves all meaningful negotiations to the development of country lists and schedules. Similarly, it includes no specific provisions on the movement of natural persons. The only sector that is specifically excluded from the negotiations is air transport. Thus, unlike the EPA, negotiations can be expected to incorporate the sensitive audio-visual services and national maritime cabotage.

A substantial part of the agreement focuses on the establishment of institutions, rather than rules. Thus, the protocol seeks to create a 'co-operative mechanism' for dealing with state monopolies in one country, doing business elsewhere in the region; and seeks to enhance co-operation between competition authorities. It also establishes the institutional mechanisms for the implementation and monitoring of the protocol and for resolving disputes.

CONCLUSION

Although SADC service industries are large and increasingly important, they are also uncompetitive and inefficient when compared with their peers. A major shake-up is clearly needed, especially within the core economic infrastructure services reviewed above, to raise competition and improve levels of service delivery within these sectors. Ideally, such reform should take place unilaterally – governments should simply do the right thing. However, in practice, the voices of those in favour of change tend to be drowned out by vested business and political interests. Moreover, many SADC countries lack the capacity to implement and oversee complex regulatory reforms.

International agreements can provide an external stimulus and some incentive to SADC member states to engage in services liberalisation. They may also be used to source additional expertise and resources to support domestic regulation and reform. Closer inspection of the draft EPA suggests that this agreement has the ability to take SADC countries forward, at least in terms of committing them to good practices and policies in a number of critical sectors (if the proposed sector chapters are included). The EPA could also bring with it significant technical and financial assistance, as well as improved access to the EU in niche areas of interest to SADC member states. However, the EPA is clearly driven by EU interests, and it has been hard to identify the external interests of SADC service firms in the EU market. Moreover, the appropriateness of developed country regulatory frameworks for developing world contexts remains of concern in some sectors.

The draft SADC Protocol on Trade in Services is far less ambitious and, in its current form, is unlikely to take member states much beyond their existing GATS commitments. It also provides significant carve-outs to enable member states to continue to engage in uncompetitive or preferential arrangements for domestic policy or bilateral trade reasons. There is, therefore, a significant risk that the SADC Free Trade Agreement will be overtaken by the EPA; and that the real gains to the region will come from an agreement crafted by Europe. SADC negotiators need to be more active in identifying areas where regional co-operation makes sense. Where such opportunities exist, they need to work hard to achieve regulatory reform and harmonisation within the region.

ENDNOTES

1 Bhagwati J, 'Splintering and disembodiment of services and developing nations', in Singer H, Hatti N & R Tandon (eds), *Trade in Services*. Delhi: BR Publishing Corporation, 1999.

2 TIPS (Trade and Industrial Policy Strategies). *Service Sector Liberalisation: Literature Review*, in partnership with AusAID (Australian Agency for International Development), 2005, http://www.sadctrade.org/sadcssl.

3 Riddle DI, 'The role of the service sector in economic development: similarities and differences by development category', in Orio G (ed.), *The Emerging Service Economy*. Oxford: Pergamon Press, 1987; Stephenson SM, 'Approaches to Liberalizing Services', World Bank Policy Research Working Paper, 2107. Washington, DC: World Bank, 1999; United Nations Conference on Trade and Development & World Bank, *Liberalizing International Transactions in Services: A Handbook*. New York and Geneva: United Nations, 1994.

4 Brown DK & RM Stern, 'Measurement and Modeling of the Economic Effects of Trade and Investment Barriers in Services', *Review of International Economics*, 9, 2, 2001, pp. 262–286.

5 Konan D & KE Maskus, 'Box 3.3', in Mattoo A, 'Trade in Services: Using Openness to Grow', in *Global Economic Prospects and the Developing Countries*, report. Washington, DC: The International Bank for Reconstruction and Development/World Bank, 2001, chapter 3, p. 78.

6 Stern M *et al.*, *SADC Study on Trade in Services,* report prepared by DNA Economics for the SADC Secretariat, 2008, unpublished.

7 World Economic Forum (WEF), *The Africa Competitiveness Report 2011,* http://www.weforum.org/reports.

8 Dorosh P *et al.*, 'Crop Production and Road Connectivity in Sub-Saharan Africa: A Spatial Analysis', World Bank Policy Research Working Paper, 5385. Washington, DC: World Bank, 2010.

9 Hoekman B, Mattoo A & P English (eds), *Development, Trade and the WTO: A Handbook*. Washington, DC: World Bank, 2002.

10 Trade in arms, munitions and war material; audio-visual services; national maritime cabotage; and air transport services and most services connected to air transport.

11 The application of different regulatory standards to different types of financial services, whereby forms of services and/or low risk services aimed at the poor are less heavily regulated in order to encourage development.

12 SADC EPA Draft Trade in Services Proposal, Article 8, section 2, p. 8.

13 WTO General Agreement on Trade in Services, Article 5, section 1 and footnote.

14 SADC EPA Draft Trade in Services Proposal, Version SADC/EPA-SOM/22/2010/7, Article 8, section 2, p. 8.

15 WTO, Services Sectoral Classification List, 1991, www.wto.org/english/tratop_e/serv_e/mtn_gns_w_120_e.doc.

16 Gonzales AP, 'EPA WTO Compatibility: A view from a WTO perspective', 2010, p. 18, http://www.delbrb.ec.europa.eu/en/epa/one_year_on/EPA_conference_paper_Peter_Gonzales.pdf.

17 SADC Draft Protocol on Trade in Services, Version 30-07-09, Article 5, sections 1 and 2, pp. 7–8.

SAIIA'S FUNDING PROFILE

SAIIA raises funds from governments, charitable foundations, companies and individual donors. Our work is currently being funded by among others the Bradlow Foundation, the United Kingdom's Department for International Development, the European Commission, the British High Commission of South Africa, the Finnish Ministry for Foreign Affairs, the International Institute for Sustainable Development, INWENT, the Konrad Adenauer Foundation, the Royal Norwegian Ministry of Foreign Affairs, the Royal Danish Ministry of Foreign Affairs, the Royal Netherlands Ministry of Foreign Affairs, the Swedish International Development Cooperation Agency, the Canadian International Development Agency, the Organisation for Economic Co-operation and Development, the United Nations Conference on Trade and Development, the United Nations Economic Commission for Africa, the African Development Bank, and the Open Society Foundation for South Africa.

SAIIA's corporate membership is drawn from the South African private sector and international businesses with an interest in Africa. In addition, SAIIA has a substantial number of international diplomatic and mainly South African institutional members.

South African Institute of International Affairs
Jan Smuts House, East Campus, University of the Witwatersrand
PO Box 31596, Braamfontein 2017, Johannesburg, South Africa
Tel +27 (0)11 339-2021 • Fax +27 (0)11 339-2154
www.saiia.org.za • info@saiia.org.za

South African Institute of International Affairs

African perspectives. Global insights.