**Connectivity through services:**

**the case for a focused services trade strategy for South Africa**

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**ABSTRACT**

All over the world the services sector is becoming an increasingly important contributor to employment, economic growth and development (Purfield et al., 2014; OECD, 2016). Advances in technology have been a major catalyst in this regard, reducing the “proximity burden” by enabling many sectors to provide services via the internet and other electronic platforms without the traditional constraints of suppliers and buyers needing to be in physical contact with one another (Christen & Francois, 2010). Surging digital connectivity is having a profound effect on the trade in services, significantly expanding the scope for firms to market their transport, telecommunications and many other services to widely dispersed target audiences.

Services actually perform a dual role. While they can be traded and consumed directly, they can also embellish and streamline the trade in tangible goods. Services often constitute vital inputs in the manufacture of goods and, when creatively combined, can unleash new forms of competitive advantage. For example, many traditional manufactured goods contain technology that requires installation, maintenance and repairs (Nagel, 2016). Furthermore, the competitiveness of many manufacturing firms is heavily dependent on low-cost, high-quality telecommunications, transport, financial and other business services (Francois & Hoekman, 2010). According to Roy (2016), certain services constitute crucial links in global supply chains, such as R&D, engineering, financial services, marketing, transport and logistics, and (at the end of the chain) wholesale and retail.

The OECD (2016) states that in many countries, services export growth has surpassed merchandise export growth. The share of services in total global trade will in all likelihood continue to rise in the face of ongoing technology-rich innovations, while continuing liberalisation efforts will act as a further stimulant. However, there are many barriers to the trade in services. Reducing these barriers will help to boost global trade and spur higher levels and new forms of employment – which is crucial in a world gripped by a shortage of jobs.

Despite the pivotal role that services play, both directly and indirectly, in global trade, many countries lack a formal services trade strategy. As a result, there is no clear consensus on which service sectors and target markets to prioritise and how to best allocate resources to take advantage of emerging opportunities. A services trade strategy should turn a vision of a better future, created by an optimal blend of imported and exported services, into a feasible collection of interventions that have the buy-in of both government and business, but also address the needs and concerns of those on the economic fringes – the unemployed, the poor and other marginalised communities.

South Africa, like many other developing countries (especially in Africa), has in recent years seen its share of global trade decline, which has mainly been prompted by shrinking demand for its exports in many of its traditional markets (Steenkamp, Grater & Viviers, 2010). The South African government has launched several wide-ranging economic initiatives at national, provincial and municipal levels in a bid to boost export revenues and also diversify the export mix with a view to reducing the country’s dependency on mineral and other commodity exports. These initiatives, which have largely been directed at reviving South Africa’s waning industrial capacity, are outlined in various policy documents and strategic frameworks, including the National Development Plan (NDP) 2030, the Integrated National Export Strategy (INES), the National Industrial Policy Framework (NIPF), the Industrial Policy Action Plan (IPAP) and the Trade Policy and Strategy Framework (TPSF) (DTI, 2010, 2016; NPC, 2012). Unfortunately, these policies and strategies have not induced the much-needed change in South Africa’s export fortunes, partly because the focus has tended to be on expanding employment opportunities in the low-skill, labour-intensive sectors rather than on building capacity and competitiveness in the value-added goods and services sectors. Though the former is extremely important, the latter would improve South Africa’s prospects of participating in global value chains and developing meaningful shares in high-growth markets.

In South Africa, the importance of the services sector has only recently started to receive serious attention from the government. Yet the country still does not have a ‘formal’ trade strategy for services. The question therefore has to be asked: in the absence of a trade strategy for services, what informs South Africa’s services trade negotiations? According to the World Bank (2009), developing country members of the WTO are often compromised in their ability to engage meaningfully in services trade negotiations because they enter into these negotiations without a proper services roadmap, which is exacerbated by generally weak negotiating, regulatory and implementation capacities. The end result is that the development potential of services negotiations and services trade in general is not adequately harnessed (World Bank, 2009).

In South Africa, services constitute almost 70% of GDP but services’ share of exports is only about 20% (SARB, 2017; ICT, 2016). Given the rising prominence of services in a global context, South Africa has much to gain from driving a more forceful services export agenda. One of the best ways to expand exports in a particular sector is through preferential market access. Since most of the deep integration in services trade has been effected through preferential trade agreements (rather than through the WTO’s multilateral structures), South Africa is well advised to prioritise its services exports under its existing preferential trading arrangements (Draper, 2014). However, most of these preferential trading arrangements are limited in scope and cover goods only. Other than GATS (General Agreement on Trade in Services), the only agreements relating to services (that focus on liberalisation issues) in which South Africa has a foothold are the SADC (Southern African Development Community) Protocol on Trade in Services and two other African initiatives – the Tripartite Free Trade Agreement (TFTA) and the Continental Free Trade Agreement (CFTA). These three agreements are at different stages of negotiation and/or implementation.

The first round of negotiations under the SADC Protocol on Trade in Services commenced in April 2012 and is still underway. The focus is on the liberalisation of six priority sectors, namely communication, transport, tourism, financial services, construction, and energy and energy-related services. There are indications that progress has been made in the deliberations on the first four sectors (Cronje, 2015), while negotiations on construction and energy and energy-related services are due to commence during 2017 (Cronje, 2017). The starting point for this first round of negotiations is members’ existing GATS commitments per sector, including the horizontal negotiations that straddle all sectors and are initiated by special request (Cronje, 2017). At the conclusion of this round, each member is required to improve on its existing GATS commitments in respect of each of the six priority areas (Cronje, 2014). In future rounds, additional service sectors will be negotiated, along with any Most-Favoured-Nation (MFN) exemptions (Cronje, 2014). The CFTA negotiations began in February 2017 although the negotiating modalities are still being considered. The TFTA services negotiations, which will be negotiated in phase II after goods, have not yet commenced.

The fact that these African trade agreements are still at an early stage of development is all the more reason why South Africa should take the opportunity to clarify its position on the services trade front vis-à-vis its regional trading partners, back up by a well-formulated services trade strategy that will guide the country’s ongoing trade negotiations in Africa. The uncertainty that has been created by the rapidly changing character of US trade policy in the wake of the Trump presidency, as well as developments in Brexit and the increasingly brittle relationships between various leading trading nations should, in turn, provide the impetus for South Africa to strengthen its international service partnerships via effective bilateral trade negotiations.

The recent launch of the WTO’s Trade Facilitation Agreement (TFA) will usher in new opportunities for service providers around the world in the transport, logistics, customs and other service sectors. The TFA is aimed at streamlining the movement, release and clearance of goods, and specifically calls for more effective cooperation between customs authorities (WTO, 2017). Not only will more efficient trade under the TFA eliminate some of the constraints faced by firms in the freight and logistics sectors, it will also create opportunities for firms in the financial services and ICT sectors to extend their market reach with more value-added services. Although South Africa has not yet ratified the TFA[[5]](#footnote-5), the country’s policymakers and traders need to factor the changing trade facilitation landscape into their services strategies and plans, particularly when dealing with countries that are TFA compliant.

To deliver optimal results, trade negotiations must be properly informed, on the one hand, by realistic, sector-specific export opportunities in high-potential foreign markets and, on the other hand, by the country’s economic development objectives and domestic service capacity which together influence import requirements. South Africa’s services import requirements are a reflection of the state of the domestic economy and prevailing demand conditions. South Africa’s services export opportunities are more difficult to determine because they are spread out around the world and are subject to many different variables, from market size and associated import demand per sector to the degree of market openness and level of market access as measured by the relative restrictiveness of the policy and regulatory environment.

This paper aims to address some of South Africa’s shortcomings in its services trade by presenting a broad strategy that provides an overarching framework for South Africa’s trade activities in the services arena. The paper places particular emphasis on the importance of trade negotiations as a vehicle for harnessing the development potential of trade in services from a South African perspective. In addition, the paper gives attention to some of the most serious barriers impeding South Africa’s services trade negotiations, including the fact that currently the country’s negotiators have insufficient information and knowledge to drive an effective services agenda (Sauvé & Roy, 2016). This is a particularly worrying factor as services are subject to many restrictive policies and regulations, especially in Africa (Rantanen, 2016). The formulation of an effective, inclusive and sustainable trade strategy for services will go a long way towards dismantling these obstacles and creating a more enabling environment in which service providers can operate and grow.

The paper concludes by setting out the key elements of an effective services trade strategy, gleaned from strategies adopted by a range of other countries, and highlighting what South Africa can learn from these countries’ successes and failures. Some of the key elements of such a strategy include:

* The formulation (at the outset) of a national services sector strategy – with clarity on all the relevant economic interlinkages and suggestions for improving domestic service-related policies and regulations – on which the services trade strategy can be built;
* The adoption of a sectoral approach to formulating the services trade strategy so as to properly address sector-specific challenges;
* The provision of proposed solutions to the typical data limitation challenges found within the services sector;
* The development of an export promotion sub-strategy that identifies and prioritises specific service sectors according to foreign market demand patterns, export capacity, barriers to trade and available/proposed government incentives;
* The development of an investment sub-strategy that is responsive to identified export opportunities and priorities;
* The establishment of a special department or unit within government to assume responsibility for services trade promotion and policy development and implementation;
* The creation of effective communication channels between the different government departments that are responsible for service-related policies and regulations;
* The alignment of the services trade strategy to government’s overarching political, economic, social, trade and development goals.

A key conclusion in the paper is that for South Africa to derive balanced and sustainable benefits from its services sector, it must develop a services trade strategy and ensure that the strategy is regularly revisited and adjusted, if necessary, in line with local and international developments. In this sense, the trade services ‘roadmap’ is not cast in stone. Rather, it should allow for selective deviations and detours. However, the overall vision and general trajectory should be maintained. The services trade strategy should also allow for monitoring and evaluation of progress against key goals, which will not only allow for correction, if and when required, but also reveal the relative effectiveness of the whole decision-making and strategy formulation process.

In today’s interconnected world, it is important that South Africa’s (or any country’s) services trade strategy actively promotes and allows for the exchange of information, technology, investment and expertise, thereby adding a strong inner lining to the fabric of the economy.

The paper should be of particular interest to developing countries that are keen to develop the potential of their services sector, particularly as a vehicle for achieving greater competitiveness and extended reach into international markets.

**Keywords:** services trade, connectivity, trade negotiations, trade strategy, South Africa

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5. At the time of writing this paper, the South African government had not yet ratified the TFA. However, it is currently busy with the necessary ratification formalities. [↑](#footnote-ref-5)