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Competitiveness and Diversification of Services Export in SSA: The Case of East African Community

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Introduction and motivation

- Trade in services has become the most dynamic segment of the world trade, growing rapidly than trade in goods

- Rapid advances in ICT, innovation, investment in research and development has led to increased tradability of services globally.

- Services exports has a role to play in Africa's economic transformation agenda and sustainable development
- Importance of services exports as an avenue of   export diversification and cushion against the effects of commodity price volatility in the world markets

… Introduction and research objective ….

- Exploit the interlinkages between goods and services exports
- The need to enhance the role of regional integration in promoting services exports
- In view of the above the paper seeks to examine competitiveness and diversification of services export in SSA focusing on the EAC.
- EAC considered to be the most integrated regional bloc in Africa
- Significant role and share of services in EAC economies - key driver of economic growth

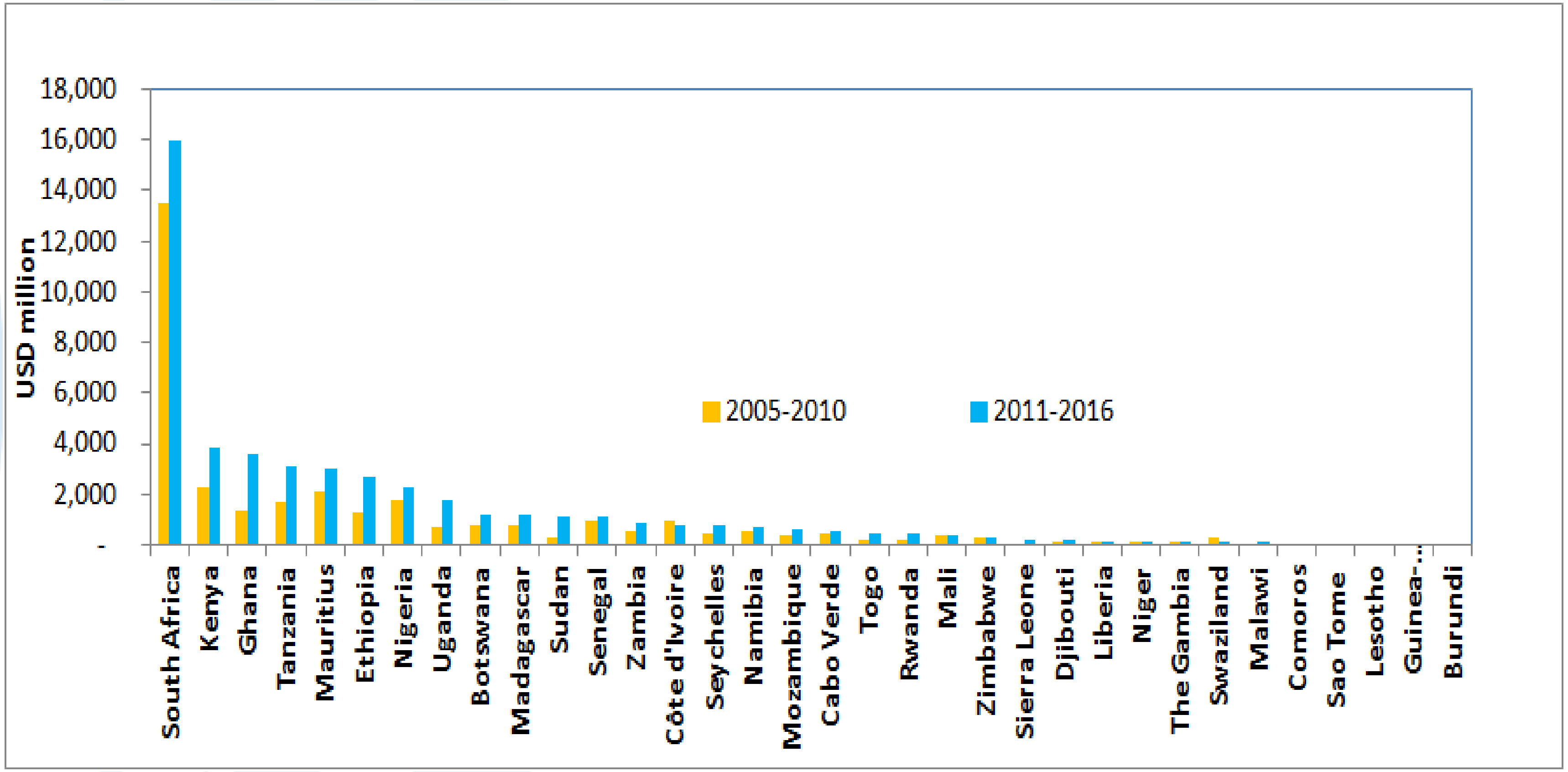
Methodology

- Revealed Comparative Advantage (RCA) index used to measure the competitiveness of services export complemented with market share analysis and other indices such TTCI
  - RCA index compares shares of sector specific exports in a country to total export relative to the share of the same sector in reference country or region's exports

$$RCA_2 = \left(\frac{X_{ij}}{X_{it}}\right) / \left(\frac{X_{wj}}{X_{wt}}\right) \dots\dots\dots\dots\dots\dots\dots\dots\dots\dots 1$$

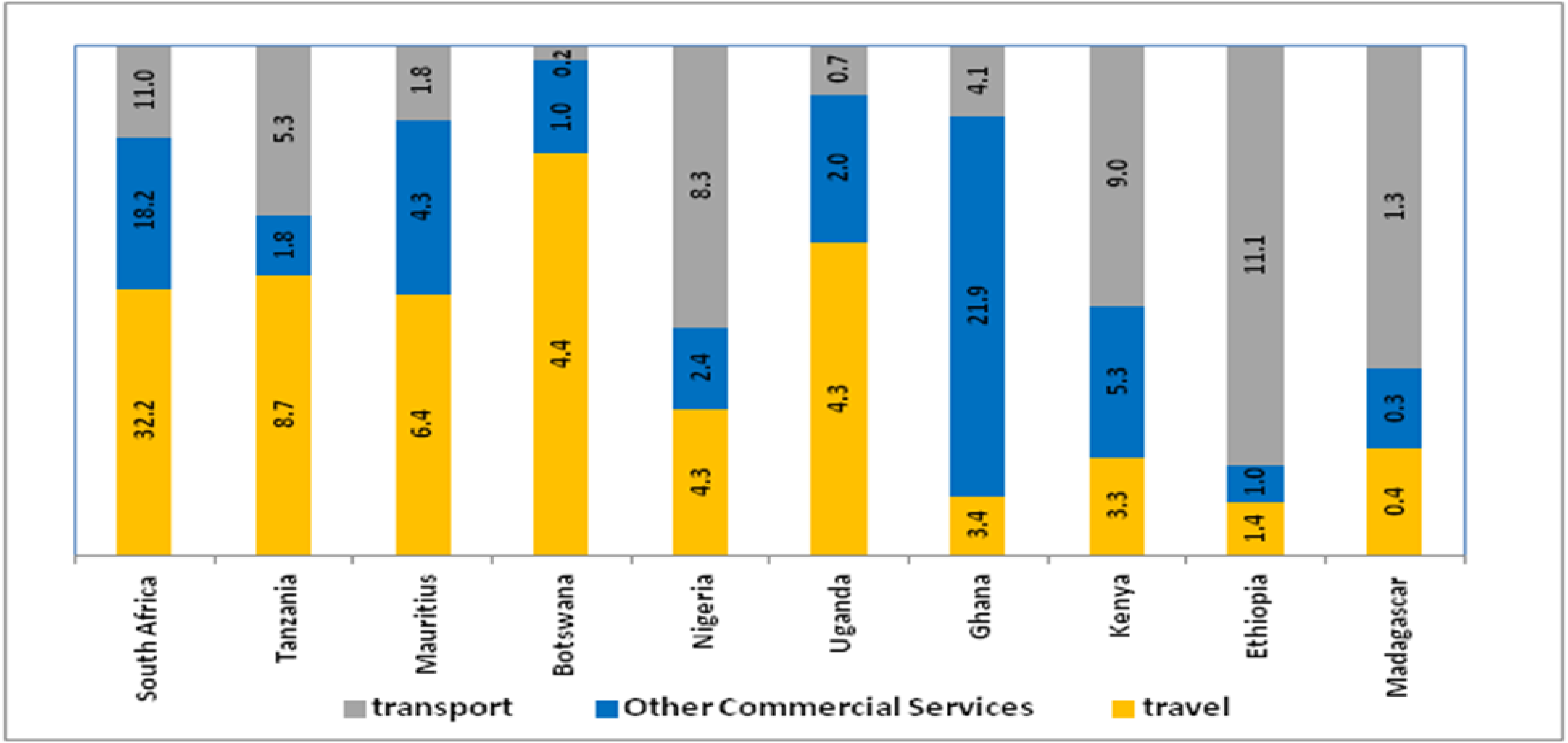
  - RCA_2 >1, implies country i's competitiveness in commodity j is greater than its average competitiveness. If RCA_2 is less than unity, the country is said to have a comparative disadvantage in the commodity / industry.

Export of Commercial Services in SSA



- Slight increase of export of commercial services, however SSA's world market share still negligible
- South Africa has remained a top major exporter of services, with travel services accounting for 32.2 percent of SSA services export

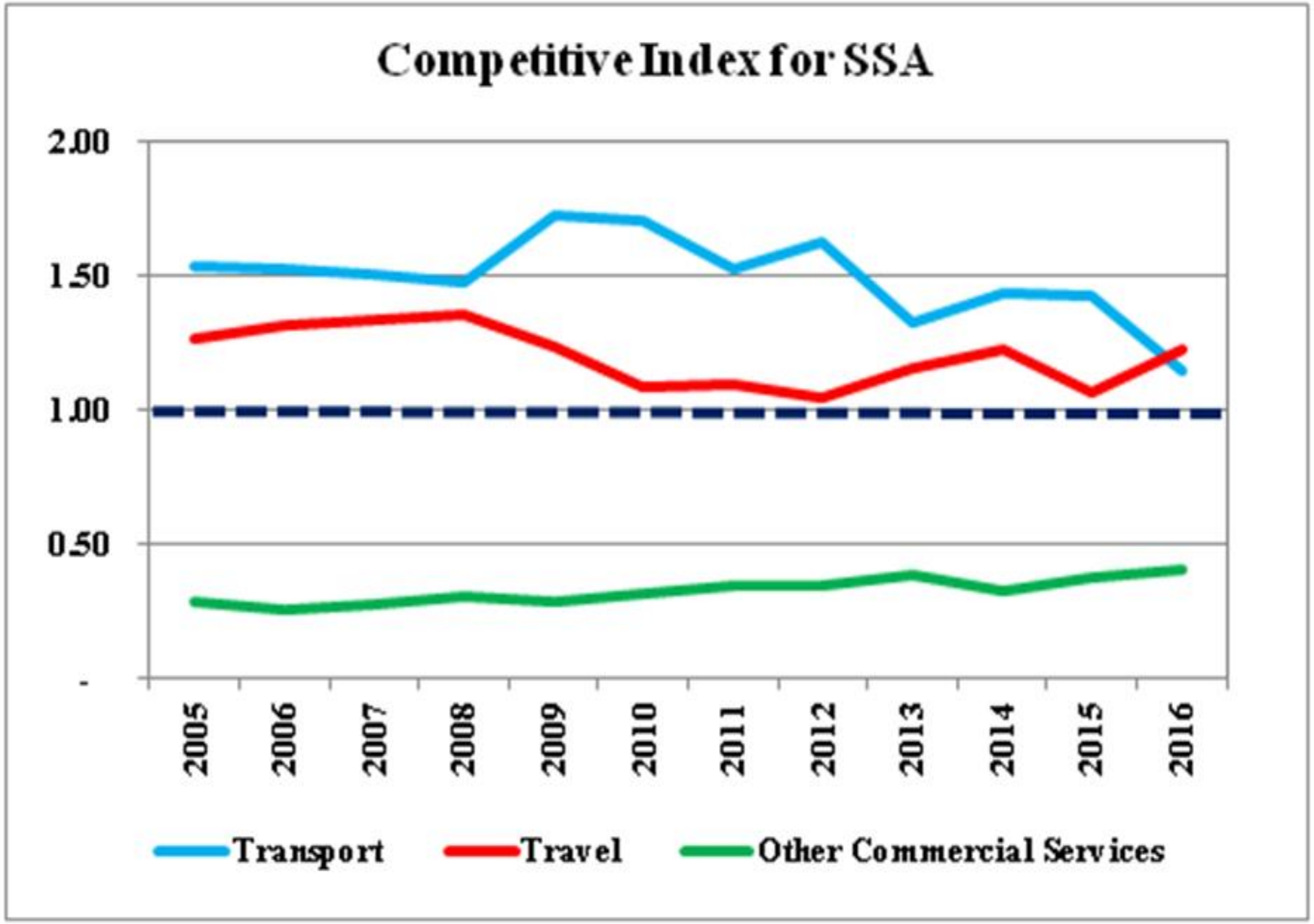
…Services export in SSA limited to traditional services, mainly travel and transport services



Results of the RCA Index for SSA

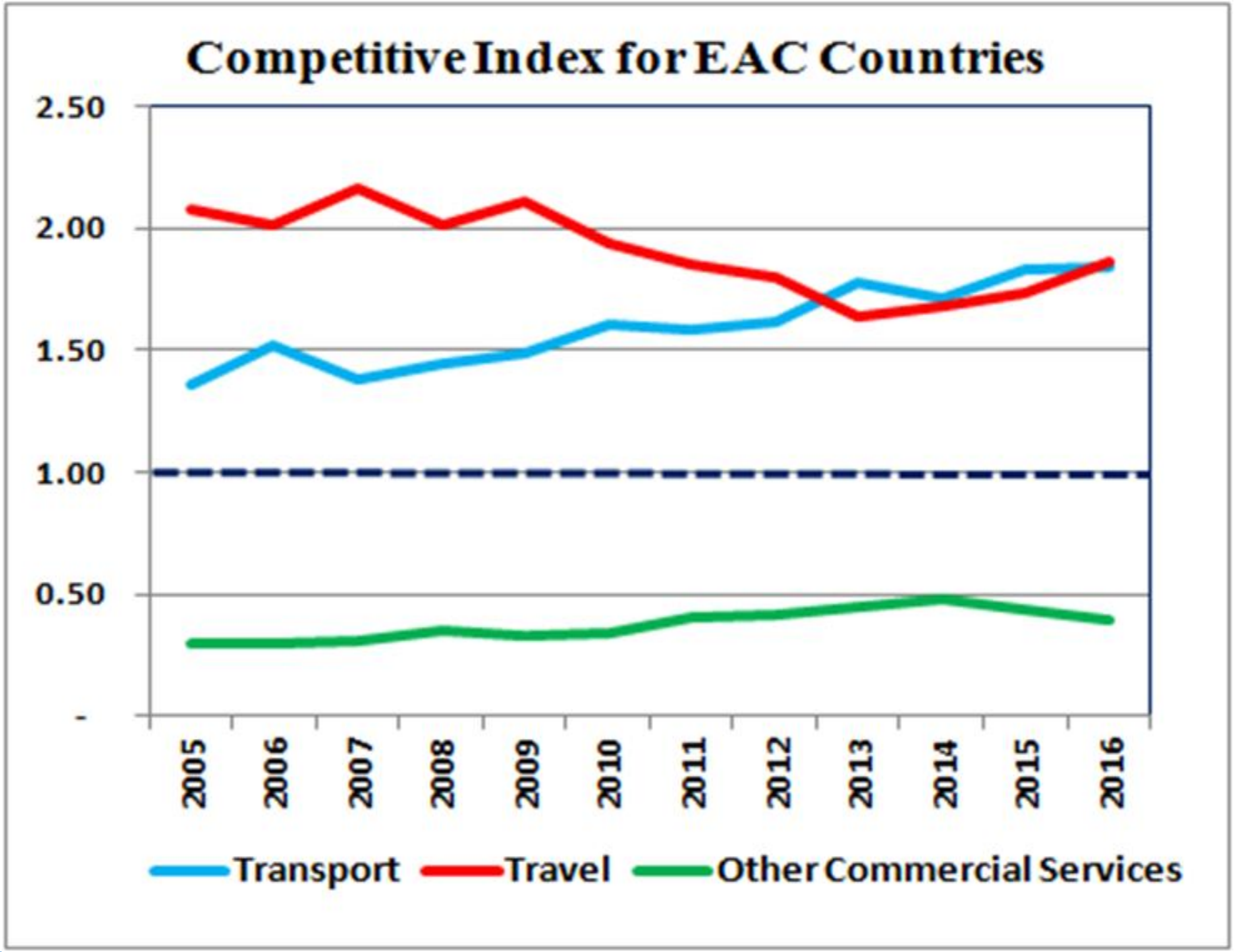
- Based on RCA, SSA has comparative advantage in transport and travel services but comparative disadvantage in other commercial services

- Slowdown in transport services in 2016 partly attributed to slowdown in global trade and global demand



RCA Index for EAC by sector

- EAC has comparative advantage in transport and travel services but comparative disadvantage in other commercial services



RCA Index by Country

	2005				2010				2016			
	Transport	Travel	Other Commercial Services	Financial	Transport	Travel	Other Commercial Services	Financial	Transport	Travel	Other Commercial Services	Financial
SSA	1.5	1.3	0.3	0.1	1.7	1.1	0.3	0.1	1.1	1.2	0.4	0.1
EAC	1.4	2.1	0.3	0.3	1.6	1.9	0.3	0.2	1.8	1.9	0.4	0.6
Nigeria	4.2	0.1	0.1	0.1	3.5	0.9	0.1	0.1	2.9	1.3	0.3	0.9
Ethiopia	2.7	0.8	0.4	0.4	2.9	1.1	0.2	0.0	4.3	0.6	0.1	0.0
Kenya	2.2	1.4	0.3	0.7	2.5	1.1	0.4	0.4	2.7	0.9	0.5	1.2
Madagascar	1.2	2.0	0.4		1.6	1.4	0.6		1.2	2.6	0.3	
Mauritius	1.1	2.0	0.5	0.1	0.7	1.9	0.7	0.2	0.7	2.2	0.6	0.2
Rwanda	0.9	3.0	0.1		1.4	2.6	0.1		0.9	2.6	0.3	
Tanzania	0.8	2.5	0.3	0.0	1.1	2.5	0.3	0.0	1.6	2.3	0.2	0.1
South Africa	0.8	2.4	0.4	0.6	0.9	2.3	0.4	0.6	0.9	2.3	0.5	0.6
Ghana	0.6	2.9	0.2		1.3	1.8	0.5		0.7	0.5	1.4	
Botswana	0.5	2.6	0.4	0.1	0.2	3.3	0.3	0.0	0.1	3.3	0.3	0.0
Sudan	0.1	3.2	0.3	1.1	0.1	1.6	1.2	0.6	1.8	2.4	0.1	0.1
Uganda	0.1	3.0	0.4	0.3	0.2	3.0	0.4	0.2	0.5	2.6	0.5	0.2

- Countries driving **transport services** in SSA include Nigeria, Ethiopia, Kenya, Madagascar, Tanzania and Sudan
- **Travel services** export mainly driven by South Africa, Rwanda, Kenya, Mauritius, Botswana, Uganda, Tanzania and Nigeria
- Kenya's improving competitiveness in **financial services**

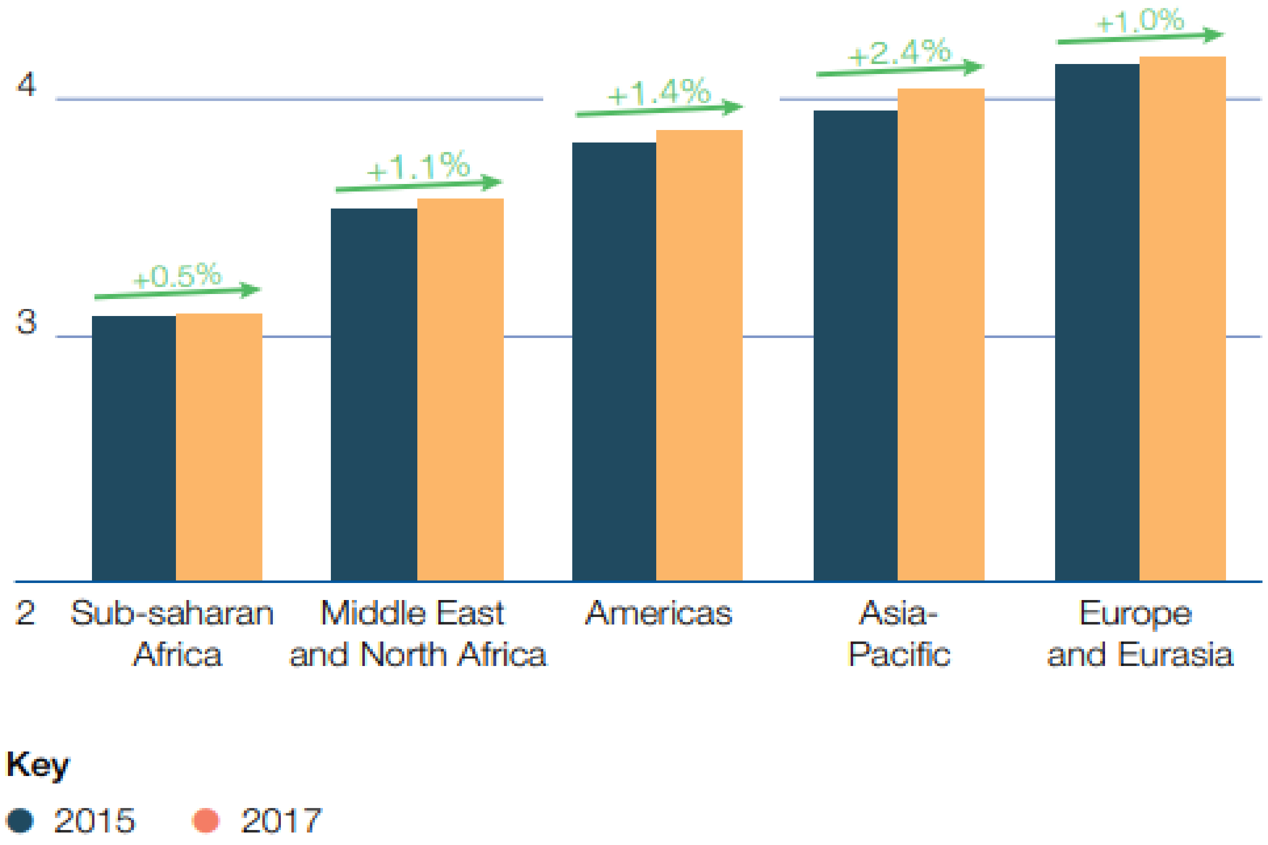
Travel & Tourism Competitiveness Index (TTCI)…

- SSA as a region is lagging behind in travel and tourism competitiveness

- Southern Africa rated as the strongest sub-region followed by Eastern Africa, and Western Africa

- Top SSA Xtries South Africa (53rd), Mauritius (55th), Kenya (80^{th}) and Namibia (82^{nd})

- [TTCI 2019 SSA ranking]

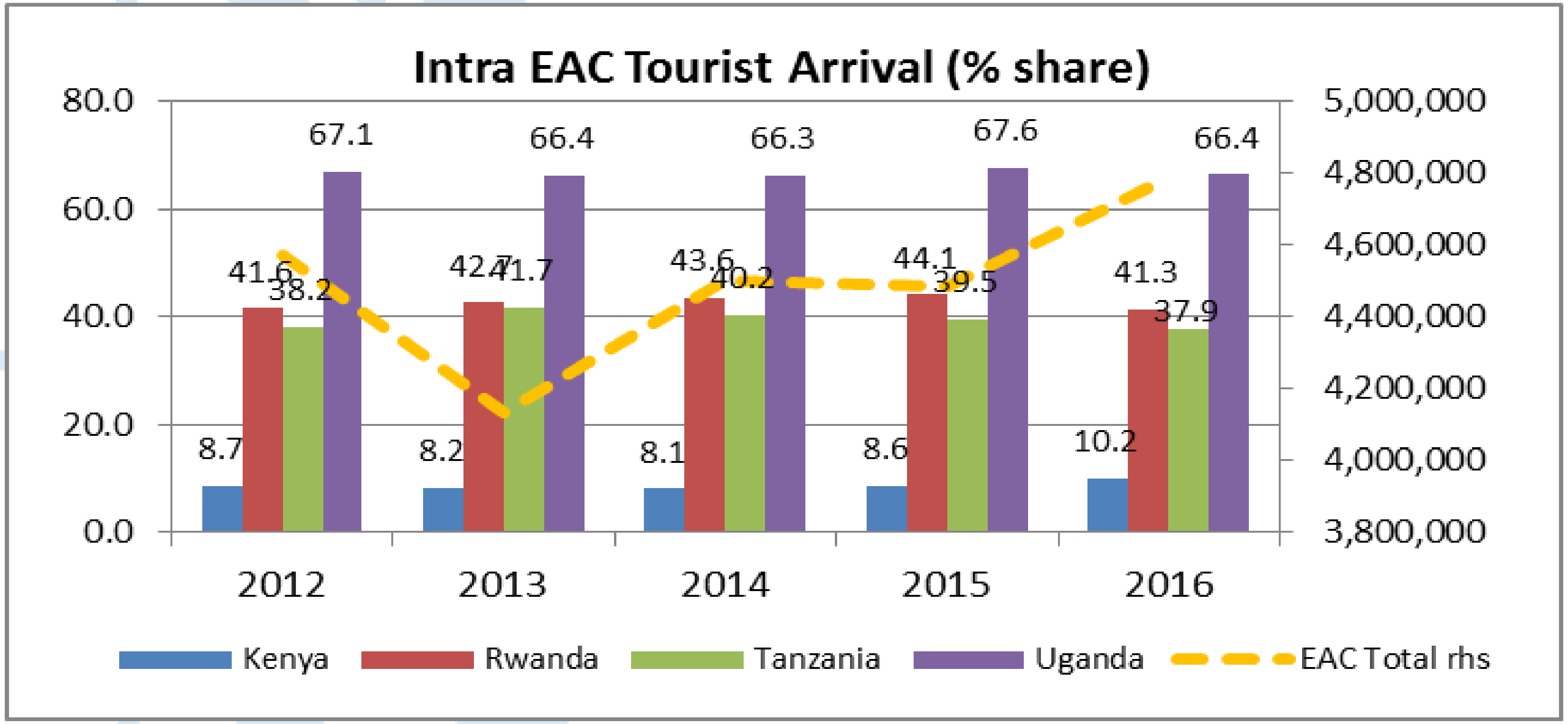


Source: TTCI report 2017

Intra-services: Tourist Arrivals in SSA

		2012	2013	2014	2015	2016
Ethiopia	Total Arrivals	596,641	681,249	770,428	863,742	872,597
	Of which from Africa	168,909	216,787	233,416	260,568	262,486
	% Share	**28.3**	**31.8**	**30.3**	**30.2**	**30.1**
Uganda	Total Arrivals	1,196,765	1,206,334	1,266,849	1,302,802	1,322,522
	Of which from Africa	927,481	933,226	985,888	1,044,175	1,043,608
	% Share	**77.5**	**77.4**	**77.8**	**80.1**	**78.9**
Rwanda	Total Arrivals	1,061,308	1,122,135	1,219,529	1,298,479	1,306,656
	Of which from Africa	935,743	987,882	1,087,574	1,153,797	1,105,721
	% Share	**88.2**	**88.0**	**89.2**	**88.9**	**84.6**
Tanzania	Total Arrivals	1,077,058	1,095,884	1,140,156	1,136,749	1,284,279
	Of which from Africa	488,744	521,876	525,937	530,354	568,641
	% Share	**45.4**	**47.6**	**46.1**	**46.7**	**44.3**
Mauritius	Total Arrivals	965,441	992,503	1,038,338	1,151,252	1,275,227
	Of which from Africa	269,957	227,252	273,706	284,126	291,256
	% Share	**28.0**	**22.9**	**26.4**	**24.7**	**22.8**
South Africa	Total Arrivals	9,188,366	9,536,568	9,549,236	8,903,773	10,044,163
	Of which from Africa	6,648,201	6,846,702	7,271,947	6,738,202	7,492,013
	% Share	**72.4**	**71.8**	**76.2**	**75.7**	**74.6**
Nigeria	Total Arrivals	4,673,136	4,037,806	4,803,213	6,017,338	5,265,453
	Of which from Africa	**1,091,802**	**1,280,784**	1,087,574	1,153,797	1,105,721
	% Share	**23.4**	**31.7**	**22.6**	**19.2**	**21.0**

Intra-services in EAC: Tourism



- A general increase in intra –tourism activities in the EAC
- Kenya relatively less competitive, Uganda most competitive

More on regional trade integration in EAC

- The EAC Common Market Protocol (CMP) launched in 2010 as the fundamental framework for economic integration among EAC Partner states
- The EAC seeks to progressively transform into a single market that allows for free movement of goods, persons, services, labour and capital
- The protocol commits Partner States to progressively remove all trade barriers to services trade and commit not to introduce new restrictions
- …but allows for regulation of services sectors as long as they are consistent with the Protocol

……Contd……………

- A set of commitments were made by Member states w.r.t trade in services across the modes of supply
- Different Member States committed to liberalize different sub-sectors: Rwanda has the highest commitment (101) while Tanzania the least (59)

No. of Services sub-sector committed by EAC Member countries

Services sub-sectors	Burundi	Kenya	Rwanda	Tanzania	Uganda
Business	31	15	32	7	33
Communication	6	17	21	17	21
Distribution	3	3	4	2	4
Education	4	4	5	4	5
Financial	9	12	15	16	11
Tourism and Travel	4	3	4	4	4
Transport	17	9	20	9	20
Total sub-sectors committed	**74**	**63**	**101**	**59**	**98**

...Cont'd...

- Common Market Scorecard (CMS) as a monitoring tool for the implementation of the CMP- measures legal compliance with commitments
  - countries assessed on whether they meet their obligations in the sectors in which they have made commitments
- In terms of progress from CMS 2014 to CMS 2016, overall Kenya undertook the most reforms
- The majority of Non-Confirming Measures(NCM) – about two thirds were noted in *professional services*, followed by *road transport* (25 percent)
- Under professional services, engineering had the most NCMs (38 percent), followed by accounting (29 percent), legal services (19 percent), and architecture services (14 percent)

Financial services - EAC

- Main actors constitute institutional investors (insurance companies, pension funds, mutual funds), retail investors, and intermediaries (brokers, commercial banks)
- The actors use market infrastructure (stock exchanges, payments, clearing and settlement systems), all of which are overseen by various regulators
- Payment systems and related infrastructures play critical role in fostering and deepening trade in goods and services across countries
- Critical role of financial integration in EAC's quest towards formation of monetary union
  - The EAMU Protocol signed in 2013 lays groundwork for a monetary union

…Cont'd…

- Regulators particularly central banks have been instrumental in facilitating financial integration e.g. East African Payment System (EAPS) which is a funds transfer mechanism used to transfer money from one bank to another across the border within the EAC
- Banking sector plays a key role in propelling regional financial integration
  - The main objective of the EAC policies regarding the banking sector is to attain a single market in banking services as a means to promote sustainable economic growth
- Kenya's financial sector is considered to relatively more developed by regional standards

Cross-Border banking services

- Cross-border banking has been expanding since early 2000s, with Kenyan banks being on the forefront in inter-regional banking activities
  - As at December 31, 2017, there were nine Kenyan banks with a total of 306 subsidiaries operating across the region.
  - Equity, DTB and Kenya Commercial Bank dominate the cross-border banking in terms of size and subsidiaries

	Uganda	Tanzania	Rwanda	Burundi	South Sudan	DRC	Total
2011	113	56	29	4	23		225
2012	125	70	51	5	31		282
2013	123	79	50	5	31		288
2014	131	89	57	6	32		315
2015	140	96	55	9	33		333
2016	99	77	55	9	26	31	297
2017	102	81	55	9	20	39	306

Source: Bank Supervision Reports, CBK

Table 3b: Cross border banking: Kenyan banks with subsidiaries 2017

Bank/Country	Uganda	Tanzania	Rwanda	Burundi	S. Sudan	DRC	Total
Equity	32	15	13	-	5	39	**104**
DTB	38	28	-	4	-	-	**70**
KCB	16	14	14	5	11	-	**60**
I&M	-	8	14	-	-	-	**22**
GT	8	-	13	-	-	-	**21**
CBA	2	11	1	-	-	-	**14**
NIC	2	5	-	-	-	-	**7**
ABC	4	-	-	-	-	-	**4**
COOP	-	-	-	-	4	-	**4**
TOTAL	**102**	**81**	**55**	**9**	**20**	**39**	**309**

Source: CBK Bank Supervision Report 2018

Challenges and constraints to services exports

- Whereas EAC member countries have implemented the EAC tariff schedule eliminating tariffs on each other’s goods, non-tariff protectionist and regulatory measures still an obstacle to services trade
  - According to CMS 2016, all EAC Partner States remain largely non-compliant in their services trade liberalization commitments
- Air connectivity and transportation costs across Africa remains a challenge besides visa policies and poor infrastructure
- Tourism in the EAC and Africa in general still largely driven by the traditional tourism, but there is significant room for growth and unexploited tourism opportunities such as Africa’s cultural richness, conferencing, medical tourism etc.

Conclusion

- Trade in services holds great potential of spurring trade and economic transformation of Africa
- However the SSA is lagging behind in services exports – its share of global services export is still negligible
- Exports services largely remain skewed towards traditional services i.e. tourism and transport services
- Notwithstanding comparative advantage in travel and tourism services, SSA relatively less competitive compared to other regions globally
- EAC making progress but protectionist measures and non-compliance with services commitments still remain a key concern

Policy insights …… cont'd

- Increase competitiveness in traditional services exports travel and transport
  - Exploit and promote Africa's diverse and rich culture to expand tourism exports
- Explore opportunities and untapped potential of modern services or other categories of services trade(financial, business and professional, telecommunication services, among others)
- Promote and enhance intra services trade through regional trade integration as an avenue of export diversification and economic transformation of Africa
  - Enhance compliance with services commitments among the EAC member states and generally across Africa.

Asanteni Sana!

SSA Countries Ranking TTCI 2019

Global Rank	Economy	Score	Difference from 2017: Rank	Difference from 2017: Score Growth (%)
54	Mauritius	4.0	1.0	2.3
61	South Africa	4.0	–8.0	–1.2
62	Seychelles	3.9	n/a	n/a
81	Namibia	3.7	–3.0	1.7
82	Kenya	3.6	–1.0	1.0
88	Cape Verde	3.6	–5.0	–0.1
92	Botswana	3.5	–7.0	–1.2
95	Tanzania	3.4	–4.0	–0.5
106	Senegal	3.3	4.0	3.8
107	Rwanda	3.2	–11.0	–3.9
111	Gambia, The	3.2	0.0	2.8
112	Uganda	3.2	–5.0	–0.3
113	Zambia	3.2	–5.0	–0.6
114	Zimbabwe	3.2	0.0	1.2
115	Ghana	3.1	5.0	3.4
118	Eswatini	3.1	n/a	n/a
119	Côte d'Ivoire	3.1	–10.0	–1.6
122	Ethiopia	3.0	–6.0	–2.4
123	Benin	3.0	4.0	6.3

Negligible market share of SSA services exports

	USD Million		Share to SSA		Share to World	
	2005-2010	2011-2016	2005-2010	2011-2016	2005-2010	2011-2016
South Africa	13,491	15,940	34.69	27.68	0.40	0.34
Kenya	2,279	3,852	5.86	6.69	0.07	0.08
Ghana	1,394	3,580	3.59	6.22	0.04	0.08
Tanzania	1,713	3,084	4.41	5.36	0.05	0.07
Mauritius	2,145	3,012	5.52	5.23	0.06	0.06
Ethiopia	1,297	2,723	3.34	4.73	0.04	0.06
Nigeria	1,800	2,293	4.63	3.98	0.05	0.05
Uganda	670	1,805	1.72	3.13	0.02	0.04
Botswana	807	1,216	2.08	2.11	0.02	0.03
Madagascar	805	1,208	2.07	2.10	0.02	0.03
Sudan	288	1,133	0.74	1.97	0.01	0.02
Senegal	914	1,094	2.35	1.90	0.03	0.02
Zambia	573	835	1.47	1.45	0.02	0.02
Côte d'Ivoire	921	782	2.37	1.36	0.03	0.02
Seychelles	423	750	1.09	1.30	0.01	0.02
Namibia	543	729	1.40	1.27	0.02	0.02
Mozambique	394	615	1.01	1.07	0.01	0.01
Cabo Verde	439	576	1.13	1.00	0.01	0.01
Togo	218	445	0.56	0.77	0.01	0.01
Rwanda	219	441	0.56	0.77	0.01	0.01
Mali	340	383	0.87	0.67	0.01	0.01
Zimbabwe	264	329	0.68	0.57	0.01	0.01
Sierra Leone	63	204	0.16	0.35	0.00	0.00
Djibouti	118	183	0.30	0.32	0.00	0.00
Liberia	124	166	0.32	0.29	0.00	0.00
Niger	99	158	0.25	0.27	0.00	0.00
The Gambia	109	142	0.28	0.25	0.00	0.00
Swaziland	275	105	0.71	0.18	0.01	0.00
Malawi	70	102	0.18	0.18	0.00	0.00
Comoros	49	71	0.13	0.12	0.00	0.00
Sao Tome	9	50	0.02	0.09	0.00	0.00
Lesotho	38	39	0.10	0.07	0.00	0.00
Guinea-Bissau	27	34	0.07	0.06	0.00	0.00
Burundi	5	21	0.01	0.04	0.00	0.00
SSA	**38,885**	**57,583**	**84.7**	**83.5**	**0.97**	**1.01**
World	**3,396,841**	**4,740,056**			**1.14***	**1.21***