



**Economic Commission for Africa
Southern Africa Office**

Distribution: Limited
ECA-SA/AEGM.AfCFTA/2020/Info.1
September 2020

**Ad-hoc Expert Group Meeting (Virtual)
20 October 2020**

**Theme: *The African Continental Free Trade Area (AfCFTA) and Trade in Services:
Opportunities and Strategies for Southern Africa***

Concept Note

1. Context:

The United Nations Economic Commission for Africa (ECA) Sub-Regional Office for Southern Africa (SRO-SA) will convene an Ad-hoc Expert Group Meeting on the theme of “*The African Continental Free Trade Area (AfCFTA) and Trade in Services: Opportunities and Strategies for Southern Africa*”. This Ad-hoc Expert Group Meeting (AEGM) will be held as a prelude to the 26th Session of the Inter-Governmental Committee of Senior Officials and Experts (ICSOE) of Southern Africa on the theme: “*Policies and strategies towards effective private sector-led growth and job creation in Southern Africa*”.

The Intergovernmental Committee of Senior Officials and Experts (ICSOE)¹ is a United Nations (UN) General Assembly policy sub-organ of the Economic Commission for Africa (ECA) Conference of African Ministers of Finance, Planning and Economic Development established to provide a forum for engaging member States’ senior officials and experts on policy and programme-related matters in each of the five (5) sub regions of Africa – North, Central, West, East and South. The ICSOE is an integral part of ECA’s governance machinery and meets annually to consider, provide guidance and endorse the formulation and implementation of the programme of work in line with the priorities of each sub region and issue recommendations with a view to ensuring that the development imperatives of the sub regions are fully reflected in the overall work programme of ECA.

The ECA Sub regional Office for Southern Africa (SRO-SA) based in Lusaka, Zambia is one of the five sub regional offices and serves eleven (11) member States: Angola, Botswana, Eswatini, Lesotho, Malawi, Mauritius, Mozambique, Namibia, South Africa, Zambia and Zimbabwe. The ICSOE of Southern Africa is under the leadership of a Bureau of the ICSOE, consisting of a Chair, Vice Chair and a Rapporteur, elected at each Session, and serving until the next session, is the executive arm of the Committee that works closely with the Secretariat during the year in delivering on the programmed work. The Bureau of the 25th ICSOE was elected at the 25th session hosted by the Government of ESwatini in September 2019 and had as its Chair, the Kingdom of ESwatini, the Kingdom of Lesotho as the Vice-Chair and Malawi as rapporteur. Sessions of each ICSOE are held under a theme selected by the Secretariat in consultation with the Bureau.

The 26th ICSOE of Southern Africa to be hosted by the Government of Lesotho under the theme; “*Policies and strategies towards effective private sector-led growth and job creation in Southern Africa*” will be organized virtually on 28-29th October 2020. This AEGM will generate key messages and policy recommendations that will be presented to member states at the 26th ICSOE for their endorsement and will be taken into account in the future workprogramme of SRO-SA. In the light of ongoing negotiations under Phase 1 of the African Continental Free Trade Area (AfCFTA) including under the Protocol on Trade in Services, it is expected that the AEGM will serve the objective of informing member states on the current status of trade in services negotiations under the AfCFTA and provide a platform of dialogue and deliberations as to how

¹Previously Intergovernmental Committee of Experts (ICE)

the Southern African region can better position itself to take advantage of the potential benefits of the AfCFTA, with attention paid to the role of the Southern African private sector in this process.

b. The African Continental Free Trade and the Protocol on Trade in Services.

The African Continental Free Trade Area (AfCFTA) is one of the African Union's major flagship projects, intended to foster deep regional integration on the continent, going beyond the sheer liberalization of tariff and non-tariff barriers in merchandise trade to encompass the promotion of intra-regional trade in services, the development of regional value-chains both in goods and services sectors and broader substantive issues of intellectual property rights, competition policy, cross-border investment and e-commerce. Complementary measures needed to ensure that countries reap the expected benefits of an effective implementation of the AfCFTA are also given proper consideration and these relate to industrialization, enhanced competitiveness, the building of productive capacities and accelerated structural transformation, trade facilitation, trade-related infrastructure and import defence (ECA et al., 2019²). The private sector should be the major actor driving the regional integration process of Africa. Building the capacities and competitiveness of the private sector (both large companies and Micro, Small and Medium-sized Enterprises (MSMEs)) to leverage the opportunities of the AfCFTA is a critical objective to be attained by all African member states. Such opportunities lie in fostering intra-regional trade in goods as well as intra-regional trade in services on the continent, a building of inter-sectoral linkages across goods and services sectors as well as harnessing intra-regional investment opportunities in both the goods and services sectors.

As at May 28, 2020, 54³ of the 55 member states of the African Union have signed the Agreement Establishing the AfCFTA and 30 member countries have ratified, including in the Southern African region: ESwatini (July, 2018), South Africa (February, 2019), Namibia (February, 2019), Zimbabwe (May, 2019), Mauritius (October, 2019) and Angola, the latter is the latest AU member country to have ratified in April 2020. The Agreement Establishing the AfCFTA consists of the Protocol on Trade in Goods, the Protocol on Trade in Services, the Protocol on Rules and Procedures on Settlement of Disputes, that are being negotiated under Phase 1 and the Protocol on Competition Policy, Protocol on Intellectual Property Rights and Protocol on Investment that will be negotiated under Phase 2. Phase 3 negotiations shall include a Protocol on E-commerce as per the Decision of the 33rd ordinary session of the Assembly of the African Union in February 2020. There is additionally a Protocol to the Treaty establishing the African Economic Community (Abuja Treaty) relating to the free movement of persons, right of residence, and right of establishment. This protocol was adopted by the 30th ordinary session of the Assembly of the African Union in January 2018. It has been signed so far by 32 countries but ratified by only 4 (Madagascar, Niger, Rwanda and Sao Tome and Principe). Once implemented, this protocol will allow African workers, students, researchers, and border residents to move freely between signatory states⁴ (UNECA et al.). It matters for the development of both the goods and services sector in Africa, given that mobility of qualified professionals and of labor of different skills types across the continent can address human capital and capacity constraints and support the socio-

² See "Assessing Regional Integration in Africa IX: Next Steps for the African Continental Free Trade Area". ECA, AU, AfDB and UNCTAD.

³ Eritrea is the only member state that has yet to sign the AfCFTA.

⁴ Taken from <https://www.integrate-africa.org/rankings/dimensions/free-movement-of-people/>.

economic development of many African countries. Besides, Mode 4 of trade in services relate to movement of natural persons. Box 1 provides further information on the four modes of supply under the General Agreement on Trade in Services (GATS).

Box 1: General Agreement on Trade in Services (GATS) and Modes of Supply.

The definition of services trade under the GATS is four-pronged, depending on the territorial presence of the supplier and the consumer at the time of the transaction. Pursuant to Article I:2, the GATS covers services supplied

- a. from the territory of one Member into the territory of any other Member (Mode 1 — Cross border trade);
- b. in the territory of one Member to the service consumer of any other Member (Mode 2 — Consumption abroad);
- c. by a service supplier of one Member, through commercial presence, in the territory of any other Member (Mode 3 — Commercial presence); and
- d. by a service supplier of one Member, through the presence of natural persons of a Member in the territory of any other Member (Mode 4 — Presence of natural persons).

Examples of the four Modes of Supply (from the perspective of an “importing” country A)

Mode 1: Cross-border

- e. A user in country A receives services from abroad through its telecommunications or postal infrastructure. Such supplies may include consultancy or market research reports, tele-medical advice, distance training, or architectural drawings.

Mode 2: Consumption abroad

- f. Nationals of A have moved abroad as tourists, students, or patients to consume the respective services.

Mode 3: Commercial presence

- g. The service is provided within A by a locally-established affiliate, subsidiary, or representative office of a foreign-owned and — controlled company (bank, hotel group, construction company, etc.).

Mode 4: Movement of natural persons

- h. A foreign national provides a service within A as an independent supplier (e.g., consultant, health worker) or employee of a service supplier (e.g. consultancy firm, hospital, construction company).

Source: World Trade Organization (WTO).

While substantial progress has been made on negotiations under the Protocol on Trade in Goods, negotiations are still ongoing under the Protocol on Trade in Services. The implementation of services liberalization commitments and regulatory reform will be critical to achieving the

objectives of the AfCFTA (tralac, 2019⁵). Schedules of specific commitments have to be negotiated for the 5 priority sectors of transport, communications, financial services, tourism, and business services. Article 22 of the Protocol on Trade in Services stipulates that each schedule of commitment should specify terms, limitations and conditions on market access; conditions and qualifications on national treatment; undertakings related to additional commitments and where appropriate the time-frame for implementation of such commitments, including their date of entry into force. Article 28 allows member states to develop Annexes for the implementation of the Protocol on Trade in Services, that in addition to schedules of commitments can include Most-Favored-Nation (MFN) exemptions, air transport services, list of priority sectors and a framework document on Regulatory Cooperation. A set of Guidelines for Negotiating the Schedules of Specific Commitments was approved by the 8th meeting of African Ministers of Trade (AMOT) in Cairo in December 2018 to serve as a guide for the trade in services negotiations⁶. The AMOT also guided negotiators on how to proceed with negotiations on schedules (Chaytor, 2019). Two critical dimensions relate to: a) substantial liberalization of sectors and sub-sectors on a reciprocal basis; and b) effective elimination of barriers to trade in services. The guidance given at the AMOT was for member states to engage in “substantial liberalization of sectors and sub-sectors on a reciprocal basis” and covering all modes of supply (cross border, consumption abroad, commercial presence, and the presence of natural persons). AU member states that are WTO members are expected to make deeper commitments than are currently scheduled under the GATS (“GATS plus”) as a starting point in their negotiations, while AU member states that are not members of the World Trade organization (WTO) should start with autonomous liberalization at the national level (Chaytor, 2019).

It will be timely and relevant at the AEGM of Southern Africa to provide member states with an update of the status of trade in services negotiations as well as stimulate discussions on contentious issues that may impede a swift finalization of such negotiations and on the type of institutional, regulatory and governance structures that should be put in place to promote intra-regional trade, investment and cooperation in the services sectors.

Trade in services is generally low in Africa, despite the fact that many African countries are services-oriented economies in the absence of a formal competitive, well-developed manufacturing sector. Services are crucial inputs for other sectors such as agriculture and manufacturing. However, the services sector for many countries are dominated by traditional services and remain low in value-added and productivity. The share of services in Gross Domestic Product, when averaged over the period 2015 to 2018, amounted to 62.5 per cent in Southern Africa, compared to 54.9 per cent in Sub-Saharan Africa and 53.4 per cent in Northern Africa (based on UNCTADstat). 28 African countries had an average share of services in GDP above 50 per cent, with 9 in Southern Africa (Malawi, 52.1 per cent; ESwatini, 54.8 per cent; Zambia, 58.3 per cent; Lesotho, 59.4 per cent; Namibia, 62.2 per cent; Botswana, 64.4 per cent; Zimbabwe, 66.9 per cent; South Africa, 68.3 per cent; and Mauritius at 75.9 per cent). The actual size of the services sector in African GDP is likely to be under-estimated. The sector is often not sufficiently included

⁵ See “The African Continental Free Trade Area: a tralac guide”. March 2019.

⁶ See <https://www.tralac.org/blog/article/14293-creating-a-single-african-market-on-trade-in-services-negotiating-the-schedules-of-specific-commitments-under-the-protocol-on-trade-in-services.html>.

in official statistics, not least because informality is much more widespread in services than in manufacturing.

Exports of services from Africa averaged US\$105.2 billion over the period 2015-2018, representing only about two per cent of global services exports. Only South Africa and Mauritius in Southern Africa were among the top 15 services exporters in Africa, with their total services exports world-wide amounting to US\$15.3 billion and US\$ 2.9 billion respectively when averaged over the period 2015-2018. Services exports in Africa tend to be dominated by travel and can be further diversified.

Data on intra-African services exports were not available from UNCTAD, pointing to important data deficiencies on the continent in relation to computing data on services trade and the lack of evidence-based policymaking on services development on the continent and in the region. It is recognized that intra-trade in services is low in Africa, with many sectors representing “low hanging fruits” for socio-economic development, including in tourism. Besides, there are significant inter-sectoral linkages between manufacturing, agriculture and services that remain to be harnessed as industrialization (including agro-processing) develops on the continent, boosted by an effective implementation of the AfCFTA.

How can Southern Africa seize the opportunities of the AfCFTA to promote its services sector as a competitive and efficient driver of exports, economic growth and decent job creation, and a driving force for reduced gender and income inequalities within a broader agenda of achieving the Sustainable Development Goals (SDGs)? This is the critical question that this proposed AEGM would address. Many services sectors are labor-intensive and if fully developed can represent a source of employment creation for Southern Africa’s bulging young labor force. Growth in the services sector can also be a potential growing source of employment for women, given that many services sectors such as tourism tend to be female-intensive in labor. The transition of the services sector in Southern Africa from a low value-added economic base to a high value-added economic catalyst is among the critical challenges to address, in addition to addressing issues in relation to informality. Additionally, the role of digitalization and 4IR technologies in facilitating such a transition and in boosting cross-border trade in services in Africa should be an area of increasing interest to policy makers.

The scope for boosting trade in services in Africa and in Southern Africa remains large, both regionally, continentally and the rest of the world. Trade in services from Africa to the world is dominated by travel (mostly tourism) and transport (UNECA, 2015)⁷. The AfCFTA should provide an opportunity for countries to develop their formal services sectors, accelerating a transition from the informal sector and for identifying and developing national, regional and continental services value-chains and opportunities for their enterprises to integrate in such value-chains.

2. Objectives of the AEGM.

The substantive areas to be covered in the presentations and discussions of the AEGM will include:

⁷ See UNECA (2015). Economic Report on Africa 2015: Industrializing through trade.

- The performance, strengths and weaknesses of the overall services sector and tradable services sectors in Southern Africa with a focus on the 5 priority services sectors under the AfCFTA (transport, communications, financial services, tourism, and business services) and services sectors that are critical for the achievement of SDGs, such as health and education;
- The major barriers in trade in services in Southern Africa, at national and regional level and its implications on cross-border and international trade in services in the region;
- Informality of the services sectors in Southern Africa and its implications for cross-border and international trade in services in the region;
- The challenges of developing competitive and high value-added tradable services sectors and services value-chains in the region and its national states;
- National and regional strategies for upgrading the tradable services sectors in the region and developing new tradable services sectors with a view to positioning the region as a potential supplier and exporter of services in Southern Africa and the rest of the continent.
- The policy, institutional, regulatory and governance reforms needed to allow the region to reap opportunities from the AfCFTA in trade in services;
- The potential of role of technology including digitalization and the private sector in the process;

The delegates and participants will discuss in particular:

1. The tradable services sector in Southern Africa – its characteristics, performance, strengths and weaknesses;
2. The challenges faced by the tradable services sectors and its sub-sectors in the region and the determinants of these challenges;
 - a. For example, the human capital, financing, institutional and regulatory challenges underlying the development of formal services sectors and cross-border trade in services in Southern Africa as well as;
 - b. the barriers in trade in services in Southern Africa;
3. Deficiencies in services data in the region;
4. The nature of informality in the services sectors of the region and its role in shaping cross-border trade in services in Southern Africa;
5. The potential opportunities that an effective implementation of the AfCFTA can represent for the services sector in Southern Africa, with attention to intra-regional trade and investment in services and the supporting role that the services sector can play in fostering inclusive industrialization and the development of regional value-chains in the region;
6. Examples of regional value-chains in services that can support the development of intra-regional trade and FDI in the services sector in Southern Africa;
7. The role that the free movement of persons can play in stimulating trade in services in the region and the development of competitive, efficient and high value-added services sectors;
8. The potential role of technology, digitalization and the private sector in this process;
9. The contents of the Protocol on Trade in Services and its relevance to fostering regional integration in Southern Africa;

10. The current state of finalization of services offers, under current AfCFTA Trade in Services negotiations, across SADC as well as the stumbling blocs/contentious issues behind finalization;
11. Potential feasible options to facilitate finalization of services offers by member states and for SADC;
12. How the Protocol on Trade in Services can support the emergence of a high value-added, formal, competitive and efficient tradable and overall services sector in Southern Africa;
13. The regulatory, institutional and governance issues that are pertinent to facilitate the implementation of the Protocol on Trade in Services in the region;
14. Share experiences and lessons learnt across countries.

Overall, the deliberations will provide recommendations in three major areas:

- Addressing the challenges faced by the tradable services sectors in the Southern African region and barriers to trade in services;
- Identifying opportunities for developing competitive, efficient, formal, high value-added services sectors in Southern Africa that can boost trade in services in the region and support the industrialization process, decent job creation and the achievement of the SDGs;
- Policy, institutional, regulatory and governance reforms needed to promote the development of trade in services in the region, including through the development of services value-chains;

Through the sharing of insights, and experiences on policies and strategies, member States will deepen their understanding on how Southern Africa as a region can benefit from the AfCFTA through the development of trade in services nationally and regionally.

3. Format

The AEGM will be held virtually and will comprise of presentations by international and regional experts in the field of services, trade in services and the AfCFTA. There will be four substantive sessions (each lasting approximately 1 hour and 30 minutes), Three sessions will consist of 4-5 substantive presentations (each lasting 10 minutes), followed by interactive discussions of 30-40 minutes.

The findings and recommendations of the study on, “*The African Continental Free Trade Area (AfCFTA) and Trade in Services: Opportunities and Strategies for Southern Africa*” will be presented for the consideration of delegates and participants.

The delegates and participants will also review, refine and adopt the recommendations of the Ad-hoc Expert Group Meeting to be presented at the 26th ICSOE on 28-29 October 2020.

4. Expected Outcomes

The expected outcomes of the AEGM will be: -

- Enhanced understanding of the challenges and opportunities faced by SRO-SA member states in developing competitive, efficient and high value-added tradable services sectors that can benefit from the AfCFTA; and
- Strengthened debate and dialogue on regional integration and a consensus on the actions needed to accelerate the pace of regional integration in Southern Africa and for member states to better take advantage of the AfCFTA to achieve their national development objectives and the SDGs.

5. Expected Outputs

The outcomes of the AEGM will comprise of the following:

- A summary report highlighting the substantive and policy issues discussed at the meeting.
- A list of recommendations on how Southern Africa can address challenges and harness opportunities from the AfCFTA to enhance trade in services as a lever for achieving economic development, inclusive industrialization, decent job creation and the SDGs.

6. Participants

The delegates and participants will comprise of Senior Government Officials and experts in regional integration, trade and services from the SADC member States of ECA SRO SA and the representatives of SADC Secretariat. Representatives from the African Union Commission, academic and research institutions, civil society, professional organisations, the UN family and other ECA Divisions and Sub-Regional offices will be invited to participate in the meeting.

7. Dates and Venue

Virtually Tuesday October 20th, 2020. An invitation with a link will be sent electronically to all participants on Friday, October 16 to attend the event virtually on Tuesday, October 20.

8. Contacts

Further information on the meeting and any other related matters should be addressed to:

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