

Enhancing Intra-african Trade: How will Nigeria's Service Sector Fare?

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Abstract

African Union's vision of integrating markets across Africa through the Continental Free Trade Area (CFTA) will soon become a reality if the current level of negotiation among the 54 African countries is sustained. The core objective of the agreement is to promote trade in goods and services within Africa. While services sector represents the largest contributor to aggregate output in the continent, its exports remain challenged with Nigeria being the least service exporter among the largest three economies in Africa. In this Policy Brief, we analysed the potential of Africa's trade in services and examined Nigeria's preparedness for gaining market access leveraging on its areas of strength. This report provided some recommendations such as the need for Nigeria to clearly define its proposition as we go into the CFTA agreement; the need for government to continuously engage the private sector to seek technical support and the urgent need for the National Bureau of Statistics (NBS) to gather data relating to the value of service trade in Nigeria to aid decision making.

Introduction

The negotiation to establish a Free Trade Area in Africa has commenced with Nigeria providing leadership in the trade agreement. The African Union seeks to create a Continental Free Trade Area (CFTA) to integrate markets across Africa and establish a mutually beneficial trade agreement. Expert put the focus areas of the CFTA to include: trade in goods, trade in services, investment, trade development, intellectual property rights, competition policy and movement of business persons.

The first phase of negotiations is ongoing with Nigeria requesting for flexibility that allows protection of the domestic economy from imports that may ensue as a result of the agreement. While this stance is rational, the final outcome of the negotiations, together with its impact on the economy, will depend largely on how aggressively Nigeria

negotiates for market access in the services sector, which has become very critical to the economy. Looking at the current mood, it appears that Nigeria's position on trade in services remains unclear to major stakeholders.

Getting the modalities for market access right entails negotiating conditions that support exports potentials of Nigeria's financial services, entertainment services and qualified professionals to African markets to improve Nigeria's foreign exchange receipt.

In trade agreements spanning several countries such as the CFTA, having a clear direction and proposition is crucial for a country like Nigeria, given its role in Africa. We believe that going into this trade agreement, Nigeria needs to be clear on its proposition for trade in services across Africa. Nigeria also

needs to articulate how it will take advantage of the opportunities that avail in the services sectors of African countries to boost foreign exchange earnings and become the driver of development of other countries.

In this policy brief, we seek to analyse Africa's trade in services, the potential for services exports and assessment of Nigeria's position in the CFTA.

Global trade in Services

Services account for 68.3% of the world's Gross Domestic Product (GDP) and over 50% jobs in the world. Over the years, the sector has become a catalyst for economic growth and development across countries. More so, services have become the most dynamic segment of international trade. Since 1980, world services trade has grown by leaps and bounds, albeit from a relatively modest basis, compared to trade in goods.

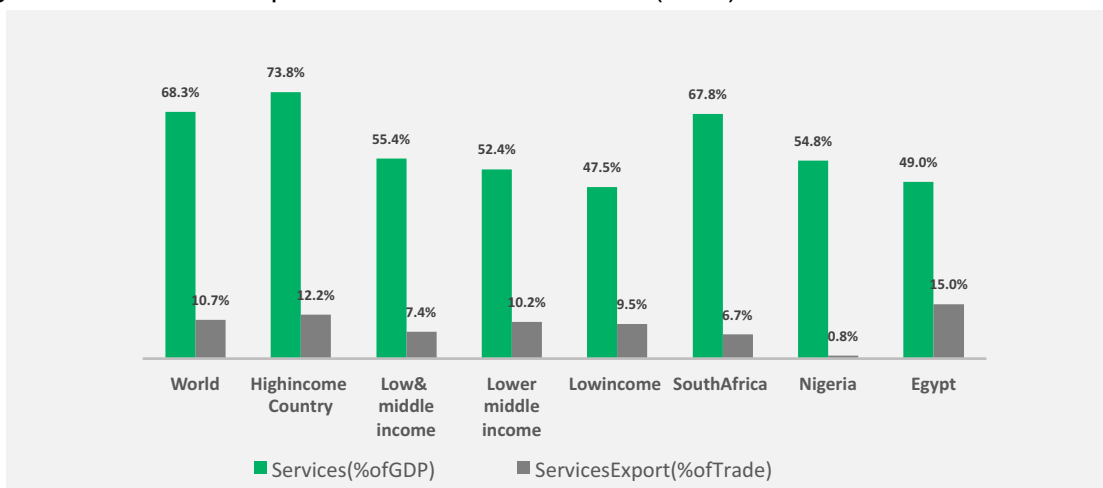
For instance, world services exports, which amounted to US\$389 billion in 1980 rose to US\$3.6 trillion in 2010 and US\$5.2 trillion in 2016. With this trend, trade in services is now as important as trade in merchandise. Though developed nations have been leading in the services trade revolution, developing countries have strongly participated.

Understanding services sector potentials, developed economies have leveraged on service activities to build a robust service ecosystem that assists manufacturing and agro-allied industries. For instance, with little mineral deposit, Singapore built a formidable service-led economy and has experienced growth of exportable services industries such as finance, insurance and wholesale trade. Even its manufacturing industry has progressively moved into knowledge- and skill-intensive activities. The Singaporean economy has become more services-oriented with services export contributing 25% to its external trade.

Africa's trade in Services, a reflection of unused potentials

Looking at African economies, most of which are largely agrarian with low industrial capacity, services contribution to GDP is quite impressive. However, services exports remain a reflection of unused potentials with Nigeria being a classic example. In Africa's biggest economy, services contribution to GDP increased from 22% in 2000 to 58.76% in 2015 but service exports remain challenged falling from 5% in 2000 to about 0.6% of GDP in 2015.

Figure 1: Economic Importance of Services Sector (2014)



Source: WTO, World Bank and IMF

Integrating Service Markets in Africa, A Path to Inclusive Growth and Wealth

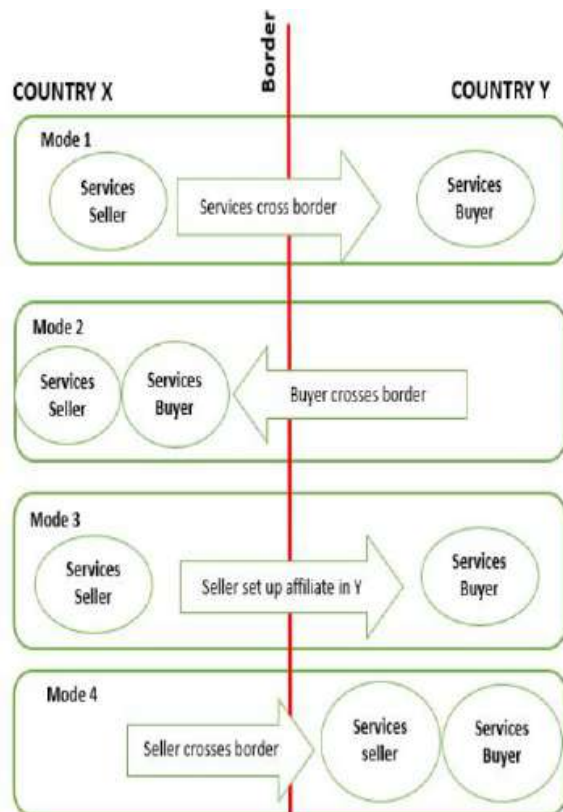
CFTA a vehicle for Africa's development

The Government of African Union (AU) agreed to establish a Continental Free Trade Area (CFTA) to increase trade among AU countries, reduce cost of production and create wealth in the continent. This is in line with Agenda 2063 and supported by the Abuja treaty. The rationale is that minimal barrier to movement of goods, services, capital and business persons will increase economic growth in Africa as well as improve welfare of its inhabitants.

In addition, liberalising tariff and non-tariff barriers to trade in services will enhance Africa's trade position in the global space. Based on the fluidity of trade in services, there is a universal framework that provides a guide to contracting parties. It is, therefore, crucial for negotiators to understand trade in services supply modes, as this will enable them properly classify trade barriers affecting market access and national treatment.

Figure 2: Services Modes of Supply as provided by General Agreement on Trade in Services (GATS)

For easy classification and uniformity, GATS defines four (4) supply modes for trade in Services



Source: WTO General Agreement on Trade in Services (GATS) & NESG Research

Mode 1 - Cross-Border Trade

Services from country X is supplied to another country. For example, users in country Y receive services from abroad through the telecommunications or postal network.

Mode 2 - Consumption Abroad

This is services in the territory of one member to the service consumer from another. In this case, nationals from country Y have moved abroad (country X) as tourists, students, or patients to consume the respective services.

Mode 3 - Commercial Presence

This is offered by a service supplier of one Member (say country X), through commercial presence, in the territory of any other Member (e.g country Y). The service is provided within country Y by a locally-established affiliate, subsidiary, or office of a foreign-owned and controlled company

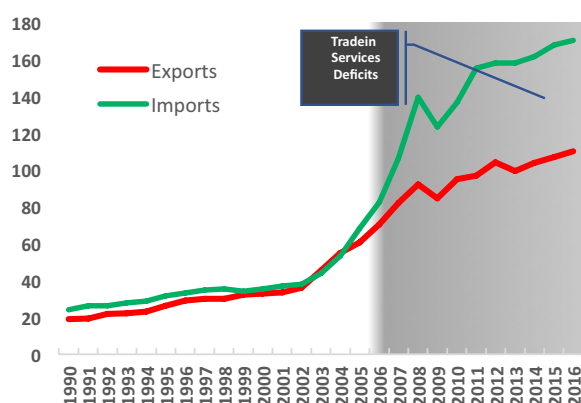
Mode 4 - Presence of natural persons

This mode involves service supplier of one member, through the presence of natural persons of a Member in the territory of any other member. A foreign national provides services within country Y as an employee of a foreign service firm.

Africa could reduce trade in Services deficit if barriers to intra-trade are removed

One justification of CFTA is that Africa needs to enhance intra-African trade. Looking at the trade in services profile for 2016, Africa exported about US\$110 billion worth of services and at same time imported US\$170 billion. This unfavourable trade position is a reflection of weak trading relations among the AU member countries. As important as transportation and logistics services are to trade in Africa, a substantial proportion is still supplied by non-African countries. Even when these services are locally available, African suppliers are constrained from penetrating other territories through barriers created by domestic laws.

Figure 3: Trade in Services in Africa (1990-2016)



Source: World Bank, IMF and NESG Research
**2015 & 2016 are Estimates

The CFTA should provide the basis for African countries to leverage on their respective strengths. From available statistics for instance, Ethiopia's strength lies in Air Transportation Services; Nigeria leads the continent in Financial/Banking Services. Senegal is the powerhouse of Business Process Offshoring (BPO) and Information-Communications Technology (ICT) Services; Burkina Faso has exportable Cultural Services; and Uganda is a top exporter of Education Services. These examples are

significant as they highlight least developed African countries with comparative advantage in certain service export markets. They also change the narrative of the widely-held perception that African countries at lower levels of development cannot export services. By removing barriers to trade in services under the CFTA, AU member nations will be empowered to maximise their potentials in services export.

Nigeria's Services import calls for sincere concerns

Among the three largest economies in Africa, namely Nigeria, South Africa and Kenya, Nigeria has the largest trade in services deficit to the tune of US\$22 billion in 2016 as against South Africa's deficit of US\$180 million. Egypt, however, recorded a surplus of US\$4 billion. Nigeria's common service imports are factor services, such as:

- Skilled labour to critical sectors
- ICT solution to businesses
- Personnel and logistics to transport (air transportation, aerospace, aeronautics and maritime)
- Expatriates, resources and tools to education and human resource
- Professionals in the health sector among others.

In terms of service exports, Nigeria is reputable for exporting banking services and financial products across the continent, but contribution to exports and accruable benefits to the economy at the moment is seemingly infinitesimal.

Considerations for Nigeria's Service sector under the CFTA

In line with experts' opinion and analysis, Nigerian negotiators need to go to the negotiation table with a clear understanding of the country's strength in the area of service exports. What areas do we have comparative

advantages in, vis-à-vis major African countries? How can we export certain services to neighbouring countries that need them? To what degree should we open our economy to trade in services? What commitments should we expect from other African countries during the negotiation process? As a leading country in the African continent, Nigeria should develop a clear position going into this agreement and the above questions should drive negotiations in the CFTA.

Furthermore, there is need to understand that comparative advantage alone is insufficient to wheel our national interest into existence. A more pragmatic and result-oriented lines of strategies to gain markets would do. This negotiation would require high technical wherewithal, clear understanding of other countries' comparative advantage and apt negotiating skills and experience. In scheduling sectors and sub-sectors for liberalisation and treatment, negotiators face serious uphill task to align with national interest and to conform with GATS principles.

Perhaps, one key area where Nigeria could advance its interest across Africa is in financial and entertainment services. Already, Nigerian banks are spread across the continent, however, there is more room for further improvement. With the level of financial service deficit across Africa, Nigeria is in a better position to offer banking services to a wide number of countries in the region. More so, growth of industrialisation across Africa will create new business lines that require financial products.

Nigeria could take a cue from Singapore to articulate its options for financial services. The financial services sector is very critical to Nigeria due to its size, growth and prominent impact, along with the presence of foreign services suppliers, and an export potential for financial services.

Nigeria also has a thriving entertainment industry, which is playing a crucial role in the African continent. From the movie industry (Nollywood) to the music industry, broadcasting among others, these sub-sectors are strategic and should be catered for in the CFTA by Nigerian negotiators.

There is every tendency for Nigerian negotiators to focus on trade in goods during negotiations. However, the service sector should also be given prominence, owing to the vast opportunities that exist within this space in Africa. Given Nigeria's experience with previous external agreements such as Structural Adjustment Programs (SAP) for instance, the consequences could be disastrous especially when such agreements are not well thought of, by local experts and the Nigerian government. Going into the CFTA, it therefore becomes important for the Nigerian government to engage with trade experts on a broader level to define a clear path for the service sector in relation to external trade and articulate Nigeria's position in future agreements.

Recommendations

The CFTA negotiations for trade in services have crossed the foundation stage with all members looking forward to finalising and signing of the agreement in order to meet the December, 2017 deadline. Nigeria, therefore, needs to do the required groundwork before further negotiating meetings. Based on compelling realities, all stakeholders in Nigeria must act on the following set of options:

Comprehensive review of Nigeria's areas of strength in services

Many countries view Nigeria as an economic powerhouse in Africa and this view must be reflected in our trade negotiations. Nigeria needs to go into the negotiation with a clear proposition taking into consideration its strengths as well as the short, medium and long-term benefits and costs of liberalizing certain service-related activities. With this, Nigeria would be able to make commitment that would not hurt domestic capacity.

Technical Support from Stakeholders is needed

The government cannot act alone. It must engage with the private sector to provide a clear position that is in the interest of the nation, especially given that any agreement reached will affect businesses operating in the country. Private sector stakeholders

must provide technical support that reflects overall national interest and business concern to negotiators. Subsequently, private services providers should sponsor delegates to meetings to represent them and put their interest on the table. NBS should commence the gathering of data on service trade

Currently, Nigeria does not have data on the value of services it exports and imports. This is a weak-link in the negotiation given the importance of such data in negotiating a fair deal for the country. The National Bureau of Statistics should expedite action in collecting data on the value of Nigeria's trade in service (imports and exports) as already being done for trade in goods. Quality data should inform national planning and strategy for trade in services.

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