

# **SERVICES TRADE IN AFRICA: UNILATERAL REFORMS, REGIONALISM, MULTILATERAL COMMITMENTS AND ECONOMIC GROWTH**

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## **Abstract**

This paper examines the various unilateral reforms, multilateral commitments, and regional integration arrangements embarked upon by African countries over the years and their implications for trade in services and economic growth. The paper further identifies and reviews phases of growth in Africa since the 1970s. The paper argues that for African countries to be significant players and reap optimal benefits from services trade, it is required that the financial sector be well developed and supported to finance and facilitate services trade; transportation and related infrastructure be well-developed to ease the flow of goods and services and business development programs that ensure the development of business that provide services are put in place. The paper cautions against African countries entering into arbitrary services trade agreements and commitments with the advanced economies as they have the tendency to be unwholesome and irreversible. The paper concludes that regionalism in the context of intra-African regional cooperation and integration offers better strategy for national development and integration into the global economy as it involves partners in the same geographical region, similar economic characteristics and level of economic development.

Keywords: Reforms, Regionalism, Multilateralism, Services Trade, Growth  
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## SERVICES TRADE IN AFRICA: UNILATERAL REFORMS, REGIONALISM, MULTILATERAL COMMITMENTS AND ECONOMIC GROWTH

### 1. Introduction

Historically and traditionally, international services trade has been mainly to facilitate international trade in goods—the financing and transportation of goods. However, over the last four decades or so, the focus and scope of international trade in services have expanded significantly. A major factor responsible for this shift in focus is the rapid development and integration of telecommunications and computer technologies which has now made virtually all services tradable across national geographical boundaries. Thus, in the presence of more liberal investment policies and other reforms, the world has seen trade in services growing faster than trade in goods or even global production. It is increasingly taking on a larger proportion in international trade as well as greater share of flow of foreign direct investment (FDI). Given this rising importance of trade in services in world trade and also given the fact that, excepting agriculture, trade in services are subject to most trade barriers, they have featured prominently in multilateral and regional trade discussions and negotiations.

With these developments, the concept of services trade moved significantly away from the traditional concept of ‘invisible/intangible trade’ listed in the current accounts of the balance of payments (which is based on residency) to the broader issue of nationality. Why this is so is that a prominent characteristic of trade in services is the issue of ‘immediacy’ of the relationship between supplier and consumer. In other words, many services require the physical proximity of the supplier and the consumer because they are non-transportable. For example, providing haircut services require the physical presence of the customer while hotel services have to be provided where the customer wants to lodge. Thus, for there to be transactions of such services, either the consumer must go to the supplier or vice versa.

It should be pointed out that to define what now constitute services is not a straight forward issue, thus defining international services is not that simple. Two popular sources of definition have been the “*Manual on Statistics of international trade in services, 2002 (SITS)*”, a joint product of United Nations (UN), European Commission (EC), International Monetary Fund (IMF), Organization for Economic Co-operation and Development (OECD), United Nations Conference on Trade and Development (UNCTAD), World Trade Organization (WTO) and the “*International investment position and Balance of payments manual, sixth edition; (IMF)*”

The possibility of a supplier going to deliver services at the residence of a consumer directly or using affiliates that have been established in the consumer’s place of residence is now widely recognized and now international trade agreements with regards to services, in particular those entrenched in the General Agreement on Trade in Services (GATS), make provision for agreement on suppliers moving to the country of the consumer. Thus, to take care of such situations, the definition of international trade in services has been extended to include value of services provided through foreign affiliates established abroad, which is termed foreign affiliates trade in services (FATS).

The definition of services trade under the GATT is in four dimensions which depends on the territorial presence of the supplier and consumer at the time the transaction is taking place (Article I:2) The four dimensions are as follows:<sup>1</sup>

1. from the territory of one Member into the territory of any other Member (Mode 1 — Cross border trade);
2. in the territory of one Member to the service consumer of any other Member (Mode 2 — Consumption abroad);

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<sup>1</sup> Source: [http://www.wto.org/english/tratop\\_e/serv\\_e/cbt\\_course\\_e/c1s3p1\\_e.htm](http://www.wto.org/english/tratop_e/serv_e/cbt_course_e/c1s3p1_e.htm)

3. by a service supplier of one Member, through commercial presence, in the territory of any other Member (Mode 3 — Commercial presence); and
4. 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 these various dimensions (from the perspective of an importing country A) are presented in Box 1.

**Box 1: Examples of the four Modes of Supply (from the perspective of an “importing” country A)**

**Mode 1: Cross-border**

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**

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

**Mode 3: Commercial presence**

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**

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, etc).

Source: [http://www.wto.org/english/tratop\\_e/serv\\_e/cbt\\_course\\_e/c1s3p1\\_e.htm](http://www.wto.org/english/tratop_e/serv_e/cbt_course_e/c1s3p1_e.htm)

Box 1 indicates that international trade in services can come in different ways depending on the territorial presence of the supplier and the consumer. It is obvious that the various modes have implications for the growth of a country. For example, all things being equal, mode 3 is expected to be growth enhancing for country A, while mode 2 is expected to be growth dampening for country A. However, in reality, all modes take place at the same time, are not mutually exclusive, and the net benefit to country A will depend, amongst other things, on the kinds and outcomes of socio-political and economic reforms it had and it's embarking on; its level of integration into the regional/global economy; the various bi-lateral and multilateral commitments it is facing; and so on.

Thus, in the above context, this paper seeks to examine the implications of the several unilateral reforms, regionalism, and various multilateral commitments of sub-Saharan African (SSA) countries on international services trade and thus, economic growth of the sub-continent. Specifically, we ask and attempt to provide answers to the following questions:

- a. What unilateral services trade reforms were embarked upon by SSA countries and how have they impacted (and expected to impact) on flows, volume, and directions of international services trade?
- b. What are the models of regionalism embarked upon by SSA countries and how have they impacted (and expected to impact) on flows, volume, and directions of international services trade?
- c. What are the common multilateral commitments undertaken by SSA countries and how have they impacted (and expected to impact) on flows, volume, and directions of international services trade?
- d. What are the implications of (a)-(c) for the growth prospect of SSA countries?

The remaining sections of the paper are organized as follows. Section 2 discusses the nature of the unilateral reforms embarked upon by African states over the past two decades, the design and implementation of regionalism in Africa and the various multilateral commitments undertaken. Section 3 reviews Africa's growth profile and interrogates the role of trade in services in this growth process. It further examines the growth profile in relations to the various reforms and commitments. Section 4 discusses some challenges African countries are facing and likely to face in relation to services trade, regionalism and multilateral commitments and proffers some practical long-term policy options. Section 5 presents some tentative conclusions..

## **2. Unilateral Reforms, Regionalism, and Multilateral Commitments in Africa.**

### *2.1 Services Trade-Related Unilateral Reforms in Sub Saharan Africa*

Generally, economic reforms in SSA countries, which commenced in the 1980s, is within the broader framework of the so-called 'Structural Adjustment Programs' (SAPs) which are basically economic policies that countries must follow in order to qualify for new World Bank and International Monetary Fund (IMF) loans and help them make debt repayments on the older debts owed to commercial banks, governments and the World Bank.<sup>2</sup> They are policy instruments designed for individual countries but with common guiding principles and features which include export-led growth; privatization and liberalization; and the efficiency of the free market. Part of the major policy direction includes devalue of national currencies against the dollar; lifting import and export restrictions; balancing of national budgets and prevention of overspending; and removal of price controls and state subsidies (World Bank, 1994; Mosley *et al.*, 1995 and Lensink, 1996).

The observed high socio-political cost of the reform package made the World Bank and IMF to launch a new initiative, the Poverty Reduction Strategy Initiative, and make countries develop Poverty Reduction Strategy Papers (PRSP). Though the PRSP is essentially targeted at poverty reduction, observers are quick to point out that the World Bank is still forcing countries to adopt the same types of policies as contained in the SAPs (see footnote 2).

As Laird (2000) observes, under the SAPs and as part of the unilateral trade reforms and commitments in the Uruguay Round, African countries have shifted the emphasis from non-Tariff measures (NTMs) to tariffs, which was actually in line with international trend. Furthermore, less emphasis was placed on foreign exchange controls and import restrictions for balance of payments purposes as greater emphasis has come to be placed on macro-economic policies to solve what is essentially observed to be a macro-economic problem.

Of major interest to us in this study are those reform measures which are directly related to international services trade—privatization and liberalization; devaluation; and removal of price controls and subsidies. In general, SSA countries commenced liberalization in the late 1980s with countries such as Ghana and the Gambia being early starters.

In order to eliminate fiscal subventions to inefficient public enterprises; free them from bureaucratic bottlenecks and corruption; enhance productivity and efficiency; improve service delivery; and reduce the role of the state in the economy, SAP recommends that such public enterprises be privatized. Furthermore, to reduce state monopoly and enhance competition, it is recommended that all 'entry and exit' restrictions be eliminated, that is there should be liberalization in the various sectors. The financial sector and the telecommunication sub-sector became two services areas that benefited significantly from this policy shift induced by privatization and liberalization. In countries like Kenya, Uganda Tanzania, and South Africa, tourism also benefited significantly. The key policy directions of services sector (particularly financial and telecommunication) privatization and liberalization in SSA countries are as follows:

- ✓ Divest public sector ownership,

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<sup>2</sup> <http://www.whirledbank.org/development/sap.html>

- ✓ Eliminate fiscal subvention/subsidies,
- ✓ Acquisition by domestic and/or foreign investors,
- ✓ Eliminate or reduce entry barriers,
- ✓ Eliminate input and output prices controls,
- ✓ Deregulation of interest rates,
- ✓ Abolition of administrative controls on credit expansion and allocation,
- ✓ Establishment and expansion of securities and equity markets and other non-bank sources of credit,
- ✓ Eliminate or reduce international capital accounts restrictions.
- ✓ Market-determined currency regime.

Two major compelling reasons account for why the services sector (particularly financial and telecommunication) became the main target of privatization and liberalization. First is the enormous revenue potential of both sectors and, second is the rapidly changing technology in both sectors. It is believed that privatization allows for faster introduction of advanced technologies which will provide benefits to the economy in general. Other reasons include attracting (foreign) investment into the domestic economy; to meet infrastructure needs of new market-based economies; need to modernize aging and technologically obsolete communications infrastructures; need to provide greater overall reliability and better service in telephony and data transmission; and need to meet the standards necessary to join international organizations such as the World Trade Organization (WTO). However, beyond unilateral reforms, SSA countries also pursued some regional agenda.

## 2.2 *Regionalism in Africa*

In general, Lee, (2002:1) defined regionalism in terms of “efforts by a group of nations to enhance their economic, political, social, or cultural interaction. Such efforts can take on different forms, including regional cooperation, market integration, development integration, and regional integration.” (Grant and Söderbaum 2003:7) defines regionalism to “represents the body of ideas, values and concrete objectives that are aimed at transforming a geographical area into a clearly identified regional space.”

The pan-African agenda of political unity and enhancing growth and development have been the two principal drivers of regionalism in Africa. Thus, irrespective of the forms and strategies of regionalism in Africa, market integration remains a permanent and abiding component as a means of enhancing intra-regional trade. Before the commencement of the SAP in the late 1980s, regionalism in Africa made little or no appreciable progress. According to Lee (2002:9) “The earlier attempts at implementing market integration were inward-looking and relied on import substitution industrialization (ISI). Trade regimes were highly protected and high priced inefficient products proved to be no substitute for cheaper, efficient products from the capitalist core. Protectionism, in many cases, prevented countries from importing into their countries inputs needed for enhanced industrialization. Increased intra-regional trade, the major objective of market integration, was, for the most part, not realized, partially because member countries produced similar products and therefore they did not have comparative advantages. Another problem was the maintenance of tariff and nontariff barriers to trade.”

In reviewing past attempts at regionalism in Africa and thus, examining the reasons for the grim failure of regionalism in Africa, Goldstein (2002:11) posits that “Africa started integration at a low level of intra-regional trade and very high dependence on similar export crops; marked differences in income and industrialisation levels prevented intra-industry specialisation; the lack of political congeniality in foreign affairs meant that neighbouring countries were often on opposite sides of the Cold War divide; and fiscal weakness reduced the capability and willingness to provide compensation payments. Only to compound these structural deficiencies, the continent has barely grown over the last quarter of the 20th century.”

The era of the SAPs saw the liberalization of the various economies in different ways. However, the various measures were mainly unilateral and not informed by any regional integration agenda. Again, the multilateral lending institutions financing the SAPs vehemently opposed regional integration among African countries and preferred African countries to unilaterally integrate into the global economic system (despite the fact that there was the Lagos Plan of Action in Place). As Lee (2009:9) argues “Market integration in Africa was seen as being counterproductive to the neo-liberal orthodoxy that promoted the ability of the capitalist core to have unlimited ability to export to the African periphery in the name of efficiency and competition.” In explaining the inability of regionalism to improve intra-African trade, particularly in the case of the ECOWAS (Economic Community of West African States), Ojo (1999) is of the opinion that the negative impact of unilateral liberalization on member states, coupled to the massive de-industrialization witnessed in the sub-region due to their inability to compete with foreign imported goods, there was little or no incentive among member states to further liberalize the external sector. Ojo (1999: 122) argues that “... governments, already losing revenue from the SAP-imposed liberalisation of external trade, have been in no mood to implement free trade further even at the regional level...”

However, Goldstein (2001) points out that the resurgence of interest in regionalism in Africa (what is sometimes referred to as new regionalism) can be traced to several factors. These include the smallness of individual domestic markets; growing marginalization of the continent in the presence of dominating powerful trading blocs; and cost of unilateral liberalization in the presence of restricted access to markets in developed economies in sectors where Africa can feasibly compete. Thus, regional integration is now seen as a viable alternative to unilateral trade liberalization. Goldstein (2002) notes that this renewed interest in regionalism should be seen in the broader context of the structural reforms African countries have been implementing since the late 1980s. These reforms include significant opening of the domestic financial markets, substantial progress in trade reforms, and widespread adoption of value-added tax (VAT). In general, it is observed that there was widespread policy convergence in the above areas of reforms. Goldstein (2002) noted that, however, there is much less convergence and more variation in the case of privatization and international financial liberalization.

Given that the services sector is relatively underdeveloped in SSA countries, regionalism could do nothing or little to promote services trade amongst member states. The structure of the services sector (particularly Banking and Telecommunication) in SSA countries is such that the major players are enterprises from outside the regions or the continent. Thus, any appreciable increases in services trade are not among member states but between Africa and the advanced economies.

However, it should be observed that the development of services trade, particularly in the areas of tourism, construction, ports and logistics services relating to road and rail transport could offer important export potential for many African countries and further deepen regional integration. According to UNCTAD’s *Economic Development in Africa 2009* report, given that ‘producer’ services such as professional and transport services, telecommunications, banking and insurance serves as inputs into other economic activities, they can either facilitate or hinder trade and production in other economic sectors, depending on the efficiency with which they are delivered to the end users. Thus, efficient production and trade of services is as important as that of goods. The report suggests that most African countries are unable to provide domestically the quantity or quality of producer services demanded by local producers and exporters, which has negatively affected competitiveness. Thus creating an efficient services sector would enhance intra-African trade and also deepen regional integration.

In sum, among other factors, the implementation of unilateral reforms in the name of SAPs has been seen by observers to be counterproductive to the regional integration agenda. At best, unilateral reforms seem to have increased the flow of trade (services and goods) from the North to the South rather than increase South-South trade. However, the bitter experiences recent global events have taught African countries have increased the call for effective regionalism and less

integration into the global financial system. African countries have come to realize how current global integration system can make them highly vulnerable to and victims of events that are exogenous to their environments.<sup>3</sup>

### 2.3 *Multilateral Market Access Commitments*

In broad terms, SSA countries embarked upon multilateral commitments—different levels of market access commitments undertaken by countries under the GATT\WTO framework—in order to increase their attractiveness for business and investment. In principle the idea of multilateralism is to ensure and achieve greater openness in the multilateral trading system. In 1995, the General Agreement on Trade in Services (GATS) was created and more than 100 GATT Parties then agreed on a comprehensive set of rules to regulate world trade in services. Historically, the idea was that of the USA and its advanced economy allies, which saw strong initial opposition from less developed countries, however many less developed countries have come to embrace it when they were able to significantly influence its liberalization modalities.

Drawing from different approaches in political economy and international relations to build theoretical propositions which were then empirically tested, Roy (2009:3) points out that there are at least four statistically significant reasons why governments undertake different levels of market access commitments under the GATS. These are presented in Box 2.

#### **Box 2: Reasons Why Governments Undertake Market Access Commitments**

- **Democracy.** The study finds that democratic states are more familiar with the legal implications of undertaking international commitments and see it as a way of avoiding the more costly option of allowing for discretion and rent-seeking since it represent a kind of locking-in mechanism.
- **Relative Power.** The study finds that the more a state becomes powerful, the higher is the likelihood to undertake international commitments. The author argues that “this is consistent with the argument that relative gains concerns in the international system induces Members to try to ensure that those that yield the greatest capabilities contribute their 'share' and do not free ride.”
- **Relative Endowment.** The study observes that state that are relatively more human capital-abundant are likely to make more GATS commitments due to the fact that they will have more comparative advantage in services. Thus service firms are likely to lobby their governments to ensure liberal and predictable market access conditions abroad which will obviously benefit them.
- **Negotiation Process.** The study observes that states that had to go through the WTO accession process undertake more services commitments because they have to negotiate their entry in a non-reciprocal context with the whole WTO membership.

Source: Roy (2009)

If it is argued that GATS commitments are aimed at ensuring increased liberal services trade regimes in the multilateral trading system and the observed four reasons for commitments cannot be considered to be in Africa’s favour, then one can rationally question the expected benefits of multilateralism to SSA countries. It should be noted that the two key obligations of the GATS are in terms of market access and National treatment of services. Market access commitment (Article

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<sup>3</sup> See Busari and Babatunde (2009) for detailed discussion of these and related issues.

XVI) prevents countries from imposing six types of restrictions which are largely quantitative<sup>4</sup> while National treatment commitment (Article XVII) ensures that countries do not discriminate between domestic and foreign services and service suppliers. Under GATS, these commitments are negotiable hence; they apply to countries differently, depending on commitments that countries undertake in their schedule of specific commitments. Other provisions include issues on transparency, good governance, transfers, most-favoured-nation treatment, and so on.

Of importance here is the relationship between regional integration efforts and multilateral market access commitments. It should be pointed out that market access and national treatment only apply to the sectors that each Member includes in its schedule. This implies that Members are allowed to exclude some sectors from the schedule leaving them totally unbounded with the implication that any type of measure and restrictions inconsistent with market access or national treatment can be imposed when the Member deemed appropriate. This is totally inconsistent with the approach to regionalism in Africa. Thus, how this can deepen regionalism is doubtful. Furthermore, the commitment allows Members to attach conditions and other restrictions in relation to the sectors that are included in the schedule. This implies that the level of treatment bound in schedules are likely and do differ across sectors and modes of supply. Members are allowed to make 'full commitments', 'partial commitments' or even refrain from making commitments. With these kinds of arrangements, and with most African countries being Members, it would be difficult to speed up the process of integration unless Africa countries agree to 'full commitments'—thus, guaranteeing that they will fully comply with the national treatment and/or market access obligations without exceptions. Again, 'full commitments' or what is denoted as 'none' in schedules, means that other countries outside the regional bloc would and should be treated like countries in the regional bloc. The whole essence of regionalism would have been defeated. Roy (2009:4) posits that “Unlike some regional agreements with disciplines on services and investment, commitments scheduled under the GATS do not necessarily reflect the applied level of openness.”

It should be noted that the levels of commitments under GATS differs from one country to another particularly in terms of sector coverage of Schedules and binding levels of treatment. In general, direct tariffs are usually not applied to services trade (though there are consumption taxes which one can interpret as a form of tariff), the main forms of intervention have usually been prohibitions, quantitative restrictions (QRs) and discriminatory practices affecting cross-border supplies, foreign commercial presence and movements of individual suppliers; which can also be accompanied by domestic regulatory barriers in individual markets (Laird, 2000).

### **3 Growth Profile of Sub Saharan African Countries.**

Since the 1970s, the growth profile of SSA countries can be broadly defined along three distinct phases.

#### *Phase I*

It can be observed that, in general, the first phase correspond to an era of positive but declining growth. This is the period from 1970 to around 1977. The minor recession witnessed in the advanced market economies, rising international interest rates, declining terms of trade, poor export performance, and poor macroeconomic policy framework were largely responsible for this decline in growth rates (Collier and Gunning, 1999a; 1999b). The poor export performance then could also be attributed to unfavorable weather condition, such as drought, faced then by many countries leading to poor harvest.

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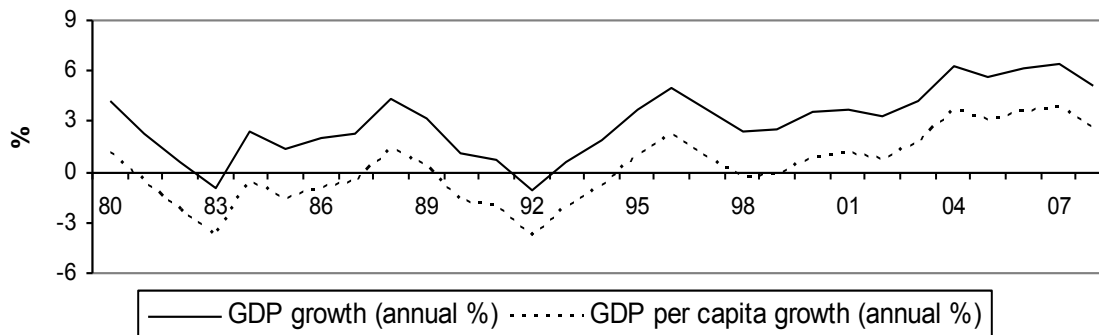
<sup>4</sup> [http://www.wto.org/english/docs\\_e/legal\\_e/26-gats\\_01\\_e.htm](http://www.wto.org/english/docs_e/legal_e/26-gats_01_e.htm)



As the external trade balance of many SSA countries deteriorated, many SSA countries resorted to foreign borrowing to finance their external gaps.

**Figure 1**

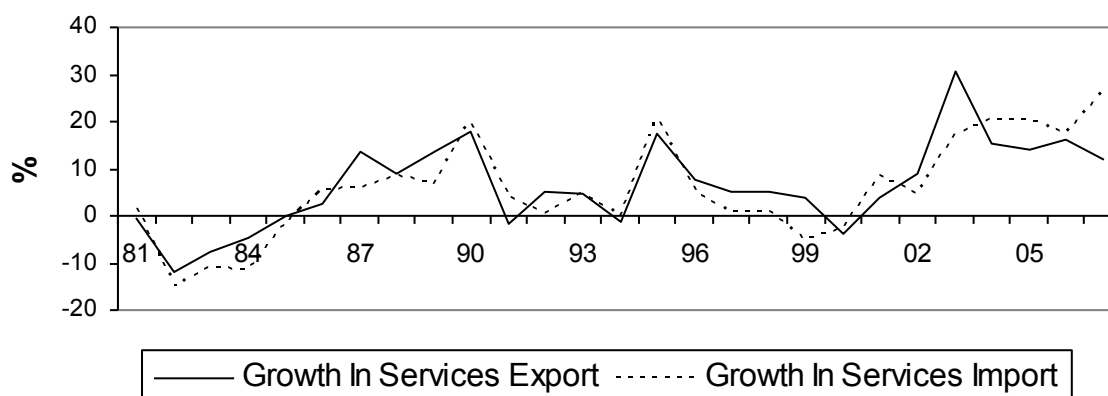
### Growth Profile of SSA



Source: World Bank African Development Indicators (Online)

**Figure 2**

### Growth In Services Trade In SSA



Source: World Bank African Development Indicators (Online)

During this phase, most SSA countries were implementing Import Substitution Industrialization (ISI) strategy which saw the imposition of several tariff and quantitative barriers on international trade. In general, unilateral reforms were generally absent or at best limited as most countries had in place controlled exchange rate regimes. Interest rates were also administratively determined while there were controls on international capital movements. Various commodities marketing boards were in place and so were various forms of subsidies to the agricultural sector and many state-owned enterprises. Experience with regionalism was not particularly successful. The East Africa Community (EAC) collapsed in 1977 (just 10 years into its formation in 1967) due to several factors relating to sharing of gains from trade. Largely, monetary cooperation could be observed among the former French colonies of West and Central Africa. Trades in services were generally low, particularly among SSA countries. Poor infrastructure, poor (information and communications) technologies; underdeveloped financial sector, and strong affiliation to former colonial powers are part of the reasons for the low level of intra-African trade in services during these periods. Multilateral market access were generally absent as there were series of tariff

measures put in place to protect so-called infant industries and protect the domestic market from dumping. In sum, during this phase, unilateral reforms were generally absent; regionalism was not too successful (the Economic Community of West African States, ECOWAS, had just been formed); while market access commitments were non-existing.

### *Phase II*

With mounting foreign debt, rising international interest rates and collapse in international commodity prices, the stage was set for phase II of the growth profile. This is the era of negative growth rates. In general, this period correspond to the years from 1978 to around 1994 (See Figure 1). Though some positive growth rates were recorded in some years like 1981 and 1987, in general, the sub continent witnessed negative growth rates on the average over this period. The main reason for this dismal performance is not far fetched. It is the absence of effective macroeconomic policy response strategies to address the decline that had commenced in the first phase identified (Easterly and Levine, 1997; Sach and Warner, 1997; Temple 1998). Other reasons include corruption and share economic mismanagement which led to the rapid decline of the (rudimentary) real sectors in most SSA countries. SSA countries were unable to modernize and diversify their production and export bases. Thus, as international prices of major primary commodities became highly volatile, their economies were heavily but negatively impacted upon. All socio-demographic indicators show signs of worsening standard of living.

Justifiably or not, since the mid 1980s, SSA countries had to adopt some reform measures called SAPs (Structural Adjustment Programs). Amongst other things, they involve putting in place measures that will help close both fiscal and external gaps and also ensure the resumption of growth. Such measures include market deregulation, privatization, fiscal reforms, reduction in trade barriers and exchange rate reforms. There is a huge literature on the impact of SAP on growth and poverty reduction.<sup>5</sup> However, there is a broad consensus that the socio-economic costs of the reform are high. In fact, the connotation, SAP, became so unpopular that the World Bank and the IMF (International Monetary Fund) had to change to what is now called the PRSPs (Poverty Reduction Strategy Papers).

However, this phase ushered in the era of unilateral economic reforms and at the same time there were renewed interests in regionalism, sometimes referred to as new regionalism. The reforms or policy changes are actually conditions for obtaining new loans from the IMF or the World Bank, or for getting lower interest rates on existing loans. SAPs were designed to ensure that there are drastic reductions in borrowing countries' fiscal imbalances. Part of the policy thrust of SAPs is to ensure that economies of beneficiaries (developing countries) become more market oriented. As noted earlier, the economies of developing countries (of the South) are encouraged to integrate with those of developed countries (of the North) rather than pursue a South-South integration agenda. In sum, SAPs promotes globalization rather than regionalism.

Thus, while Africa countries were pursuing globalization through economic liberalization, they were also using the political front to promote regionalism. Hence, what was being advocated at the political level—regionalism—was at variant with what their neo-liberal economic policies was promoting—globalization. Some of the prominent policy thrust (or conditions/Conditionalities) of SAPs include embarking on what is known as austerity measure by making drastic cut to government expenditure; more focus on direct export of raw materials and resource extraction; devaluation of national currencies; extensive trade liberalization by lifting restrictions on import and export; increasing the stability of investment by supplementing foreign direct investment with the development and opening of domestic stock markets; ensure budget balance; removal of all forms of price control and government subsidies; privatization or divestiture of all or part of state-owned enterprises; ensuring that the right of foreign investors are guaranteed and enhanced vis-à-vis national laws; and improving governance by enhancing transparency, accountability and combating corruption.

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<sup>5</sup> See, for instance, Hicks and Brekk (1991), Adepoju (1993) and Dijkstra (1996) amongst several.

Again, from the 1980s, countries that want to benefit from aid packages of the advanced economies would have to accede to the implementation of far reaching trade and investment reforms in line with the conditions of the IMF and the World Bank. In general, these unilateral reforms were imposed on African countries that had no option due to their inability to meet their international debt obligations and even finance international trade. Due to some of the reform measures adopted by SSA countries, such as privatization and liberalization (particularly in the Banking and Telecommunications sectors), trade in services rose significantly when compared to the period of regulation. Growth rates in trade in services (both export and import) were generally positive during this phase (see Figure 2).

It should also be observed that since the early 1990s, there has been a proliferation of regional and bilateral free trade agreements (FTAs) or preferential trade agreements (PTAs) between developed and developing countries. Thus, this phase saw the re-emergence of various bilateral and multilateral trade and investments arrangements. It is important to note that this phase also witnessed the formation of more formal regional trading/integration blocs such as Southern African Development Coordination Conference (SADCC) which subsequently transformed to the Southern African Development Community (SADC); and the Common Market for Eastern and Southern Africa (COMESA). These regional integration blocs, with others like ECOWAS; Community of Sahel-Saharan States (CEN-SAD); East African Community (EAC); Economic Community of Central African States (ECCAS/CEEAC); and the Intergovernmental Authority on Development (IGAD), have come to be the main pillars of the African Economic Community (AEC). The Arab Maghreb Union (AMU/UMA) is not participating due to opposition from Morocco. Other regional blocs which are not participating in the AEC (but whose members can belong to blocs participating) include Greater Arab Free Trade Area (GAFTA) (which also includes most Middle Eastern states); Economic Community of the Great Lakes Countries (CEPGL); Indian Ocean Commission (COI); Liptako-Gourma Authority (LGA); and Mano River Union (MRU). Thus, this phase saw the active return of regionalism. It should be observed that as regionalism was being vigorously pursued, so were several unilateral reform measures.

Evidence show that SAPs may have been able to restore nominal (and sometimes real) GDP growth as can be seen from Figure 1. By 1994, per capita GDP has also become positive again while output growth is rising. However, observers are of the view that these growth profiles are based on unsustainable resource extraction and the exploitation of cheap labor (see Oringer and Welch, 1998). This new found growth ushered in the third phase.

### *Phase III*

However, after several years of reforms and structural adjustments, SSA countries entered the third phase of growth. This era started around 1995 when growth became positive and climbing. The main reason being the huge demand for primary commodities by countries such as China and India aimed at fueling their rapidly expanding economies. Thus, the prices of primary commodities rose again leading to renewed resource-fuelled growth in SSA countries. By 2008, the prices of these commodities have since plummeted leading to speculations that the renewed growth may not be long-lasting and the sub continent may enter yet another downward growth phase.

The global system continued to witness the formation of different free trade arrangements and preferential trade arrangements. A major change in the multilateral trading system at the beginning of this phase was the creation of the World Trade Organization (WTO) in 1995 as a replacement to the General Agreement on Tariffs and Trade (GATT) which subsequently led to the GATS treaty. The GATS is a treaty of the WTO that entered into force in January 1995 as a result of the Uruguay Round negotiations. The treaty was created to extend the multilateral trading system to service sector, in the same way the GATT provides such a system for merchandise trade. However, despite this broad framework for multilateral trading, countries have continued to embrace the formation of regional and bilateral FTAs or PTAs. The reasons include the desire to secure or increase market

access and obtain FDI from developed countries; need to obtain special concessions from advanced economies; need to remain competitive relative to other developing countries that have entered into such arrangements with major trading partners; and the observed, but frustrating, slow progress in multilateral trade negotiations.<sup>6</sup>

Furthermore, this phase witnessed significant development in information technologies and the internet which have combined to expand the range of internationally tradable service products to include a range of commercial activities such as medicine, distance learning, engineering, architecture, advertising, freight forwarding, and so on. Thus, with the significant developments in ICT, increasing liberal economic policies, and proliferation of RTAs and FTAs, trade in services has risen significantly in SSA countries. It is reported that despite the pessimism in global trade talks, trade in services in Africa is growing fast. African exports of commercial services increased by about 46 percent in two years (between 2003 and 2005).<sup>7</sup> Figure 2 indicates that on the average, African export of commercial services has been growing by about 20 percent since 2004. The Financial and Telecommunication sectors have been major beneficiaries of this policy shift toward a more liberal and open economic system. Also, the favorable price of crude oil led to significant build-up of foreign reserves by many oil exporting countries of the Middle East. Thus, there was the drive to seek investment outlets outside the domestic economy and outside the traditional destinations of North America and Europe. Given the improved business environment in many SSA countries, the sub continent was readily attractive to Arab investors.

Thus, in 2005, the Kuwaiti telecom giant, Zain, acquired Netherlands-based Celtel for about \$3.4 billion and has so far spent \$10 billion to quickly become Africa's third-largest mobile phone company with operations in 15 countries providing roaming-free services that it claims covers about 400 million potential customers in Africa. Zain's operations stretch across many parts of SSA. Also, Emirates Telecommunications Corp. (Etisalat), the second largest Arab telecom company, is set to inject some \$5 billion of new investment in its operation in Africa starting from 2008. The firm is set to commence operations in Tanzania, Sudan, Benin, and Nigeria. Furthermore, Sudatel, which is partly owned by Etisalat, has paid some \$300 million to launch mobile phone operators in Mauritania and Senegal. It is expected to commence services in full scale in 2009. Maroc Telecom, which is controlled by France's Vivendi, acquired 51 percent of Onatel Burkina Faso in December 2006 for 220 million euros and Gabon Telecom for 61 million euros in January 2007. Before that, in 2001, it has bought a controlling stake in Mauritanian operator Mauritel. It is interesting to note that the Libyan holding company—Libyan African Portfolio (LAP) Greencom—in 2007 acquired both Uganda Telecom and Rwandatel. The investment figures were reported not to be made public. In January 2008, The United Arab Emirates' Warid Telecom commenced operations in Congo as the third mobile phone operator, after spending \$79 million on launching a network which is seen as a major market challenge to Celtel, the market leader. In the telecommunications sector, Libya Arab Africa Investment Company (LAAICO) has investment in the Republic of Niger (SONITEL) and The Islamic Republic of Comoros (Comcell).

MTC's Kuwaiti, which has a presence in 15 African countries, has so far invested \$750 million into Tanzania alone. It is currently spending a similar amount boosting the capacity of its Nigerian subsidiary, and is looking for further expansion opportunities in Senegal, Ghana, Angola and Ethiopia. Thus, it is clear that since the liberalization of the telecommunications sector in SSA countries and the adoption of mobile telephony, Arab telecommunication firms have come to give traditional European firms major competitions and are poised, not only to improve on their market shares, but also to dominate the market and provide world class services. Since SSA countries are perceived as risk-high countries in terms of investment, the inflow of Arab firms suggests that Arab firms are more 'risk-tolerant' than firms from Europe and North America.<sup>8</sup>

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<sup>6</sup> <http://www.unctad.org/templates/Page.asp?intItemID=4329&lang=1>

<sup>7</sup> Source: [http://www.tradeforum.org/news/categoryfront.php/id/822/Trade\\_in\\_Services\\_in\\_Africa.html](http://www.tradeforum.org/news/categoryfront.php/id/822/Trade_in_Services_in_Africa.html)

<sup>8</sup> <http://www.middle-east-online.com/english/kuwait/?id=24817>

Due to the liberal economic system that emanated from the reform measures, firms from the Middle East (and North Africa) have also shown interest in the banking system of SSA countries. In 2007, Morocco's Attijariwafabank commenced services in Senegal which led to the creation of the biggest bank in the West African monetary zone. BMCE of Morocco has also commenced efforts to invest in SSA countries. Furthermore, Millennium Finance—a unit of Dubai Islamic Bank—is the major consultant to Ivory Coast's Groupe Atlantique with respect to the negotiations relating to the sale of a stake in its Banque Atlantique unit and Atlantique Telecom. It is widely reported that Arab firms are chasing these assets. Also, Millennium Finance is setting up a \$1 billion fund in compliance with Islamic investment principles to focus on industries in Africa, including telecoms, real estate and mining. It is also reported that there are plans for six more similar funds which will focus on investment in Africa and the Middle East. Based on the emergence of some vibrant stock markets in Africa like South Africa, Nigeria, and Ghana, Pan African Investment Partners II—a private equity fund, led by Prince Alwaleed bin Talal of Saudi Arabia—has concluded efforts to raise and invest \$500 million in various projects across Africa. Similar trends can be found in tourism, transportation and infrastructure.

Thus, since the liberalization of the Banking and telecommunications sectors and the adoption of mobile telephony, trade in services have grown tremendously in Africa and has contributed in significant ways to economic growth. Thus, given the economic slowdown which started in late 2008, the increasing interest of Arab financial firms in African financial sector is a sign that there is strong confidence in the African financial sector. Stock markets, though rudimentary, are less volatile and profitability is high.

However, despite these positive signs, observers are of the opinion that Africa is not growing rapidly enough to substantially reduce income poverty and ensure the achievement of the MDGs. The recent improvements are making only slow inroads in reducing poverty and reversing the prolonged divergence between SSA and other regions of the world. Despite the recent up tick, investment measured as a share of GDP is no higher than it was in the early 1990s. Foreign direct investment in SSA countries, other than in oil-exporting countries and South Africa, is still low, although South Africa has become a growing source of inward investment flows to other parts of SSA, and investment from China and India is picking up. Private sector development in SSA continues to be deterred not only by the costs of doing business, which range from administrative complexities to corruption and cumbersome legal systems, but also by the expense of such critical business services as energy (Jerome et. al, 2007).

#### **4. Challenges and Long Term-Policy Options<sup>9</sup>**

The fact that unilateral reforms, multilateralism and regionalism are being undertaken simultaneously definitely poses some policy and growth challenges for SSA countries. For example, all these measures require that SSA countries reduce, and in some cases eliminate, tariffs on industrial goods. This easily exposes domestic manufacturers to overwhelming foreign competition, thus impairing on the development of the domestic industrial sectors. Evidence abound that many textile firms in SSA countries have closed shops due to vicious competition from China and India. Africa's new found trade relations with China and India is definitely coming at a great cost to industrial development in Africa. With poor infrastructure and rising cost of operations, African firms can hardly compete with firms from Asia, who are again heavily supported by their governments, while Africa is being advised to stop all forms of direct government support to enterprises. If one understands that most of what Africa actually exports to China are primary (extractive) commodities, the trade relation may not favor Africa in the long run in terms of industrial development. Again, given that it can be difficult or cumbersome to impose direct tariff on trade in services, the revenue loss to SSA countries can be enormous and, if care is not taken, can lead to severe (but unnoticed) capital flight out of Africa.

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<sup>9</sup> This section benefits significantly from <http://www.unctad.org/templates/Page.asp?intItemID=4329&lang=1>

Also, some of these agreements and commitments can severely limit the ability of SSA governments to control the flow and direction of FDI. For example, FDI flows into the agricultural sector have come to be regarded as ‘land grabbing’ which observers view as detrimental to long term growth in Africa. Many countries from the Middle East and Asia are now engaged in large scale agricultural practice in Africa with the sole purpose of exporting it back to their home country. The long term benefit to African countries is questionable. Thus, international agreements and commitments are capable of eroding the ability of governments to regulate the flow and direction of FDI. As it is currently being witnessed with trade in goods, it can happen with trade in services. This implies that FDI is likely to flow to the most profitable and not necessarily the appropriate and required sectors. Furthermore, it is usually the case that special and differential treatment for developing countries is replaced by the policy of ‘full reciprocity’ rather than ‘relative reciprocity.’ Obviously, many African countries are not in the position to trade with the advanced countries based on equal terms. Full reciprocity usually implies lowering of import duties and other trade barriers between advanced economies and African countries. However, experience has shown that there are several non-tariff barriers (such as standards, packaging, rules of origin, sanitary and phyto-sanitary conditions, complex regulatory environment, etc.) that the advanced economies can use to restrict flow of goods and services from developing countries. Since most of these agreements and commitments have a so-called ‘ratchet effect,’ African countries can find themselves locked into irreversible poorly-negotiated agreements.

Also, it should be noted that most of the multilateral agreements and commitments usually include provisions that go beyond WTO rules in vital development issues such as investment, intellectual property rights, services liberalization, competition policy, government procurement, and so on. Sometimes they cover areas that have been excluded from trade negotiations. This has the effect of reducing, if not eliminating, the policy space of developing countries when it comes to issue like industrialization and even policy and actions for structural transformation of the various economies.

Evidence suggest that trade in services is growing in Africa. However, when compared to other parts of the world, Africa still lags behind. Again, due to the policy of privatization and liberalization, many of the firms delivering international services in Africa are not (fully) owned by Africans. Foreign equity flows have been used to buy into these enterprises and as such, though the enterprises are in Africa, they are not African firms. Many top hotels in various tourist destinations have been bough over by non-African investors. Most airlines have also been bought over by other airlines or investors outside Africa. Thus, with liberal international capital accounts, the net benefit could be negative. Also, there are several structural factors that may not allow SSA countries to enjoy the benefits of PTAs/RTAs between it and the advanced economies. Such constraints include the limited supply and marketing capacities of Africa countries, low level of competitiveness, continued provision of subsidies to critical sectors in the advanced economies, and so on. Thus, with continued multilateralism, the ability of SSA countries to be significant players in trade in services is undermined by these constraints. Thus, PTAs/RTAs between SSA countries would be a better arrangement that multilateralism in a wider or global context.

Thus, if SSA countries are to be major players in services trade they need to be able to identify, develop and market their national advantages—geography, language and culture, business-friendly environment, sector-specific advantages, global/regional market access and connectivity, etc.—which will represents areas of competitive advantages. Based on these National advantages, governments would be able to easily identify which services to promote. It should be noted that it is sometimes difficult to identify which services to promote. However, when national competitive advantages are identified and developed, it becomes easier to identify services to promote. Also, evidence abound that shows that most enterprises trading in services have less than ten employees. This suggests that SSA countries should put in place measures and programs that promote and support small and medium scale enterprises (SMEs). Small Business Development and Support Programs and Units should be readily and easily accessible to potential investors and entrepreneurs.

## **5. Tentative Conclusions**

Since the early 1980s when many SSA countries commenced series of reform measures, the global economic landscaped have changes a lot. Countries have become increasingly open to international trade and investment; there has been an increase in FTAs/PTAs; barriers to merchandise trade have come down significantly; there have been significant developments in ICT and share of trade in services in total trade has increased significantly. Thus, policymakers and trade negotiators have increasingly focused attention on trade in services and trade-related regulatory issues. Also, over this period there have been significant developments in the continent in terms of regionalism. As cooperation between African countries is strengthened so is the cooperation between African countries and the advanced economies of the North, with different commitments and agreements entered into. With the renewed growth observed in the continent since the later 1990s and the significant increase in services trade in Africa, one can tentatively conclude that with adequate and proper regulation, services trade liberalization can be a significant source of growth in Africa. Eliminating barriers to competition has the potential of reducing price, improving quality and even leading to increased product variety. These, definitely, are welfare-improving.

However, it is important to note that African enterprises are not the main beneficiaries or players in services trade liberalization. Furthermore, the various North-South trade and preferential agreements are capable of reducing the policy options and instruments available to developing countries in their legitimate pursuit of long-term growth and development. It is generally observed that gains for developing countries from improved market access are far from guaranteed, whereas the loss of policy space is certain. As African countries pursue the objective of regional integration, it should be noted that regional agreements in services can have the tendency to create complex structures of rules and commitments which can sometimes be at variant with their agreements and commitments with the advanced economies. For African countries to reap optimal benefits from regionalism and services trade liberalization, it is important that African enterprises become major providers of services (through Modes 1 and 3). This would require that the financial sector be developed and supported to finance and facilitate services trade; transportation and related infrastructure be well-developed to easy the flow of goods and services and business development programs that ensure the development of business that provide services are put in place. Regionalism in the context of African regional cooperation and integration offers better strategy for national development and integration into the global economy as it involves partners in the same geographical region, similar economic characteristics and level of economic development.

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