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Q1: Respondent details

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Q2: Country or Customs territory

SWEDEN

Q3: Organization

Public sector

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Q4: Title of case story

Services Trade, Industrial Development and the African Continental Free Trade Area

Q5: Case story focus

Infrastructure upgrading and the development of related services markets, including through support for investment climate reforms.

Q6: Case story abstract

The Swedish Government has engaged with tralac – a capacity-building organisation developing trade-related capacity in Africa – since 2010 in order to promote, inter alia, regional economic integration. The African Continental Free Trade Area (CFTA) negotiations were launched in July 2015 and early on, tralac identified the need to engage proactively with the CFTA process to increase services trade capacity and to advance thinking about services trade for industrial development. Through numerous policy relevant studies and workshops, tralac have directed resources towards capacity development and thought leadership on trade in services. Key components have been the production of high-quality and timely research, interactions with many of the key stakeholders and presentation of the data in a non-technical manner. There has been a clear demand pull for further work and it is likely to contribute to an integration of CFTA provisions on services with strategies of investment generation, industrial development and regional integration.

Q7: Who provided funding?

Bilateral donor

Q8: Project/Programme type

Regional

Services Trade, Industrial Development and the African Continental Free Trade Area

Case story abstract (150 words)

The Swedish Government has engaged with tralac – a capacity-building organisation developing trade-related capacity in Africa – since 2010 in order to promote, inter alia, regional economic integration. The African Continental Free Trade Area (CFTA) negotiations were launched in July 2015 and early on, tralac identified the need to engage proactively with the CFTA process to increase services trade capacity and to advance thinking about services trade for industrial development. Through numerous policy relevant studies and workshops, tralac have directed resources towards capacity development and thought leadership on trade in services. Key components have been the production of high-quality and timely research, interactions with many of the key stakeholders and presentation of the data in a non-technical manner. There has been a clear demand pull for further work and it is likely to contribute to an integration of CFTA provisions on services with strategies of investment generation, industrial development and regional integration.

Text case story (3000 words)

1. Background

Industrial development in Africa has fallen behind both expectations and other continents. Looking at industrial employment as well as value addition in manufacturing, there have generally been static or downward trends in most countries. In parallel, Africa's regional integration record is not very positive. Intra-regional trade remains consistently low compared with Africa's inter-continental trade. This is true despite the fact that regional integration has for very long been a political priority among African leaders. Indeed, making it a political priority does make sense considering that the continent is characterised by many small countries, small economies and small markets. Many countries' landlockedness adds to the importance of functioning trading arrangements with their neighbours. The very large number of regional integration arrangements concluded has done little to change the situation, partly because of weak implementation and membership overlap. In addition, there have been clear signs of too much emphasis on a linear market integration marked by stepwise integration of goods, labour and capital markets, and eventually monetary and fiscal integration. This tends to focus on border measures such as the import tariff. In fact, supply-side constraints may be more important. A deeper integration agenda that includes services, investment, competition policy and other behind-the-border issues can address the national-level supply-side constraints far more effectively than an agenda which focuses almost exclusively on border measures.

Considering these two parallel challenges, the Swedish government (via Sida, the Swedish International Development Cooperation Agency) began working with tralac Trade Law Centre, based in South Africa, in 2010 in order to promote regional and international trade as well as economic integration. Tralac is a capacity-building organisation developing trade-related capacity in Africa. Adopting an inter-disciplinary approach, tralac aims to enhance the trade law and policy capacity in Africa and works with governments and non-state actors; these include private sector and civil society organisations.

2. The African Continental Free Trade Area (CFTA), services and industrial development

In July 2015, African Continental Free Trade Area (CFTA) negotiations were launched with an ambitious timeline. An agreement, the first phase covering both trade-in-goods and trade-in-services, is to be concluded by 2017.

Trade negotiations in Africa have generally been focussed on trade in goods. While some regional economic communities do include services agreements, negotiations for example on the services component of the Tripartite Free Trade Area have not yet begun and are secondary to goods negotiations. Similarly, Regional Economic Communities (RECS) tend to negotiate services after goods agreements are finalised and services are still considered in the goods paradigm. Many countries show capacity constraints to implement existing (such as WTO) services liberalisation commitments, unawareness of their commercial meaning; and, their effect on domestic policy.

3. Objective of tralac's Work on CFTA, Services and Industrial Development

To increase services trade capacity and to advance thinking on the continent about services trade, since the launch of negotiations, the aim of tralac has been to direct further efforts and resources towards capacity development and thought leadership on trade in services. Combined with the centre's existing work on industrial development and trade, this has enabled them to develop a strong base for several initiatives. A particular ambition of the analysis has been to present the data in a non-technical manner to be accessible to non-services experts.

4. Activities and Key Messages

Tralac supports the concurrent negotiation of trade in goods and services, and have undertaken studies and communicated these through various fora in order to inform the development of several key messages for trade policy makers, negotiators and other trade policy stakeholders on the continent.

4.1 Summary

First of all, following the decision by the African Union Assembly in January 2012 to expeditiously establish a Continental Free Trade Area (CFTA), tralac contacted the African Union Commission (AUC) and organized a one-day open discussion on the implications of this decision. This workshop took place in Addis, Ethiopia in April 2014. Subsequently, a series of papers were produced on aspects of the CFTA for Africa; these were distributed directly to the AUC in addition to the tralac network of subscribers across African countries and further afield, as well as more than 1500 twitter followers. Members of the AUC have been invited to the tralac Annual Conference since 2014. Requests for

further analysis, focusing on legal and institutional matters, on options for trade in services negotiations modalities followed in 2015, as did requests for tralac staff to contribute to training programmes on services and legal issues. Since then tralac participated in the preparation of a draft CFTA Agreement through workshops in May and September 2016.

4.2 Outputs and Key Messages

More specifically, what is the analytical work that has been produced? Firstly, a very comprehensive study of trade in services for African countries was done (available at <http://www.tralac.org/resources/our-resources/8406-trade-in-services-in-africa.html>). Other efforts include:

- Quantitative work on the economic impact of services trade restrictions
- Analytical work on services negotiations modalities
- Analytical work on specific services sectors including transport, tourism and financial services
- Analytical work on movement of persons

In summary, the key messages have been:

- New approaches, in line with current international practice, that are more cost-effective and efficient in terms of negotiating effort and more integration enhancing in terms of potential outcomes should be considered, in light of the appropriateness (or not) of approaches and modalities adopted by the WTO and the regional economic communities for the negotiation of trade in services agreements in this day and age on the continent.
- Private sector interests associated with international production networks increasingly require a new approach to trade negotiations away from the traditional focus on market access to measures affecting production behind the border, with emphasis on regulatory issues.
- Global value chains and digital connectivity mean that services cannot be considered alone – services must be considered with goods, and domestic regulation must be considered with services. Movement of people is also an essential consideration.
- It is through effective implementation of the market integration agenda that regional industrial development can be promoted particularly through better functioning of regional value chains.
- In the 21st century support services are an essential component of modern industrialisation; it is not possible to be competitive in manufacturing without competitive services inputs.
- Industrialisation in the 21st century is about complex economic linkages and relationships that transcend traditional policy, industry/sectoral and geo-political boundaries. African industrial development is occurring in a globalised environment and the inputs into that development will not be found solely inside the borders of any one country or continent.
- Africa's infrastructure development programme (Programme for Industrial Development of Africa – PIDA) has to be complemented and supported by a trade in services agenda that emphasises regulatory reform/harmonisation/cooperation; after all it is the services associated with infrastructure such as road/rail/fibre networks that are inputs to production processes, to support industrial development and diversification.

Tralac have engaged two expert volunteers on financial services and information communication and technology to deepen our capacity for both our training and our research. This has enabled tralac to refine our messages particularly on the importance of the regulation to trade and the development of core support services for industrial development.

For example, in the case of IT services, our observations and experiences indicate that Africa is facing significant challenges in providing ICT services and universal, affordable access. A unified approach towards a “digital single market” will not only assist in increased trade within Africa, but also strengthen Africa’s position in global trade.

How have these messages been delivered? Tralac have built capacity and refined and shared the policy conclusions through the delivery of various workshops and presentations on services trade policy and industrialisation in the 21st century in the context of the CFTA. For example, tralac:

- Co-hosted – with the African Union Commission – a workshop on trade in services modalities for the CFTA with around 35 participants in Cape Town in November 2015.
- Delivered Training Workshop on Trade in Services Negotiations for AU-CFTA Negotiators in Nairobi in 2015.
- Presented at a Workshop on Trade in Services for the African Union CFTA Negotiations in December 2015
- Presented at a Workshop on Services Sector Development at the African Union in September 2016
- Presented at an Experts Meeting on Trade-in-services at the UN in May 2016, as well as an Experts Meeting at the African Union Commission in September 2016.

Tralac have presented to a wide range of public and private forums, including in discussions with:

- Lesotho’s Departments of Trade and Finance
- Namibia’s Departments of Trade, Finance and ICT
- Regional economic communities including SADC and COMESA
- African Union Commission, UNCTAD, UNECA

In other words, tralac has early on and throughout the CFTA process identified a both economically and politically relevant research agenda. This engagement will continue as negotiations intensify.

5. Outcomes and Impact

Tralac proactively got involved in the policy agenda and early on made sure to ensure have an impact on the CFTA negotiation process by engaging with key stakeholders and delivering messages in a timely as well as non-technical manner. It is clear that the demand for high-quality, policy-relevant and accessible research led to a continuous interest in tralac’s work, likely to contribute to well-formulated CFTA provisions on services that work with countries’ strategies of investment generation, industrial development and regional integration.

The data demonstrated the important forward and backward linkages of services in value chains, linking the debate to the fundamental challenges of Africa’s industrialisation. For example, feedback from one Masters graduate was the following:

It is aligned to current global trade developments, such as global value chain, and the increasing importance of trade in services. It was on that basis that I believe my career has progressed fairly well in the recent past. For instance, I have found an edge in the Namibian economic and trade circle, and I do make several contributions to articles in the local media based on requests.

Negotiations for the CFTA are ongoing, so one is not yet able to gauge how the messages have influenced the negotiating agenda. However, it is safe to say that tralac have generated debate, stimulated further engagement and given workshop participants the tools and knowledge to engage with a 21st century services trade and industrial policy agenda.

Lessons learnt (500 words)

- For research to be relevant and have a policy impact, it is important to proactively identify existing knowledge gaps and new agendas. For example, the fact that tralac engaged with the AUC early on in the CFTA process improved prospects for influencing the policy discussions.
- Presentation of research is an often neglected part, yet critical for it to have an impact. This experience has showed us the importance of – when engaging with e.g. policy-makers and private sector actors – having non-technical language and communicable conclusions. Workshops need to attract the right participants capacity building efforts that build on such research need to be carefully calibrated to fit the needs and mandates of the target groups.
- Regional integration and regional value chains in Africa remains an untapped potential. Trade policy needs to be conducive to such dynamics, rather than – which has often been the case – a barrier.
- Services are key for effective industrial development. A thriving sector does not only bring benefits in terms of GDP growth and jobs, but can unlock a lot of constraints for the manufacturing sector – e.g. in terms of financial services, ICT and logistics– to flourish.
- It is more and more evident that there is a need to have a holistic view on trade policy covering not only goods but acknowledging the integral role of services in goods production. This also highlights the importance of integrating investment and competition policies into trade policy, considering modern-day trading practices.