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A strategic framework to expand South Africa's services trade

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ABSTRACT
The South African government acknowledges that services could become a major driver of economic growth and has called for the development of a comprehensive strategic framework and action plan for the export development and promotion of South Africa's service sectors. This article contributes to this goal by proposing a broad strategic framework to help leverage the power of services, particularly services exports. Based on a study of South Africa's services trade and the nature of the services economy in the country, the article offers policy advice for the key stakeholders in the country's services network. It also offers insights for other developing countries that are grappling with the challenge of developing their services sector as a way of diversifying their economies and finding new forms of competitive advantage.

KEYWORDS
South Africa; services; trade in services; services liberalisation; services trade policy; strategic framework

Introduction

Services have become increasingly important to the global economy. The period 1980–2015 saw exponential growth in the share of services output and services trade, mainly due to the relative decline in industrial output in developed economies and agricultural output in developing economies. Other factors contributing to this growth were developments in information and communication technologies, economic liberalisation and globalisation, and falling transport and travel costs.

According to the UN Conference on Trade and Development (UNCTAD),[1] in 1980, services contributed 61% to gross domestic product (GDP) in developed countries and approximately 42% in developing countries. Today, services contribute 76% to GDP in developed countries and approximately 55% in developing countries. The contribution of services to employment has also grown, and for many economies the services sector is now the largest employer. For example, services represent as much as 75% of total employment in developed countries and 44% in developing countries.[2]

Services are also known for having the fastest-growing share of world trade and today account for nearly 25% of global exports. The proportion of services exports to total global exports (goods plus services) increased from 17% in 1980 to more than 24% in

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2016, while services' export share of world GDP increased from 3.7% to 6.5% over the same period.[3]

In South Africa, the decline in employment in manufacturing and mining has helped to transform the economy into a 'service-orientated economy'.[4] According to World Bank data for 2018,[5] the services sector contributes 61% to GDP and 71.5% to employment, and it employs over 5.5 million people.[6] Those service sectors that contribute the most to GDP are: finance and insurance, real estate and business services (22.39%); general government services (16.74%); wholesale and retail trade, catering and accommodation (15.10%); transport, storage and communication (9.55%); and personal services (5.96%).[7]

Recent studies by Visagie and Turok[8] and Bhorat et al[9] emphasise the highly diverse nature of South Africa's services sector. It accommodates large numbers of public and private, and domestic and foreign, institutions, which provide a comprehensive range of services with different capital, technology and skill intensities. The services sector has also undergone a transformation – from once being dominated by a handful of traditional services involving mostly low-tech activities (with lower-level skills requirements) that were mainly supplied domestically – expanding into more high-tech services (with higher-level skills requirements) with significant potential to boost cross-border services trade.[10] Traditional services usually include trade, hotels and restaurants, education, transport and health, while high-tech services include computer and information services, financial and business services, government services and communication.

Bhorat et al[11] find that the services that have created the most jobs in South Africa in recent years are high-productivity services such as finance, insurance and business services (or non-temporary employment services),[12] relatively high-productivity government services, low-productivity wholesale and retail trade, and temporary employment services in the business services sector.[13] However, according to research findings, these sectors in themselves will not be able to 'sustainably' drive structural transformation and economic growth in the coming years because each sector has its own constraints. The only way out of this situation is for South Africa to prioritise its services exports.[14]

In recent years, a number of policy documents[15] have been published in South Africa which propose utilising the services sector as part of a restructured growth and development strategy. One such document is the Integrated National Export Strategy (INES),[16] which calls for a 'comprehensive strategic framework and action plan for the export development and promotion of South Africa's service sectors'. This article reflects one response to this call. Specific questions that this article addresses are: Why should South Africa develop and promote its services exports? And, what are the most important building blocks that South Africa needs to put in place and the steps it should take to ensure that its services export potential is effectively tapped?

The study's contribution to the development of a strategic framework for South Africa's services sector is significant because of the role that such a framework could play in leveraging the potential of the country's services sector and expanding its services exports. The article also draws lessons for South Africa from selected countries' successful practices while at the same time provides suggestions for other countries grappling with the challenge of building a stronger services sector and mobilising higher levels of services exports through various export promotion activities.

The rest of the article is organised as follows. The next section provides a literature overview that highlights the importance of services trade to an economy and why trade policy plays a pivotal role in the creation of a sustainable services sector. The subsequent section provides an overview of South Africa's services trade and the final section proposes a strategic framework to drive South Africa's services trade forward.

The importance of services and services trade liberalisation

The increased tradability of services

In recent years, services have become increasingly tradable, mainly because of the unprecedented increase in business transactions brought about by advances in digital technologies. Many studies have found that greater internet penetration is associated with higher levels of trade in services because the internet helps reduce the traditional 'proximity burden' under which service providers are unable to expand their market reach due to geographical limitations.[17]

Another factor contributing to more robust services trade is the 'servicification of manufacturing'. This is the increased reliance on services in manufacturing, either as inputs (activities within firms) or outputs (sold with goods), or a greater share of services in production[18] which has seen exponential growth in recent years. The servicification of manufacturing has also resulted in services playing a more prominent role in value-added manufacturing and exports as well as in global value chains.[19] Improved economic governance, regional integration and economic policy reforms,[20] the increased mobility of people and the falling costs of travel have also enhanced the tradability of services.

To harness the rich potential of services trade, many countries have prioritised the liberalisation of services. However, what does liberalisation entail and what are the advantages and disadvantages?

The benefits of services trade liberalisation

The liberalisation of services trade refers to any actions that promote or facilitate the free flow of services across borders, reduce barriers to services trade and/or reduce discriminatory practices against foreign service providers.[21] Foreign service providers are thus subject to regulations that are no less favourable than those applying to domestic service providers.

Since the mid-1980s, extensive research has focused on the trade in services[22] and the importance of services for economic growth,[23] employment,[24] economic transformation[25] and overall trade performance in various parts of the world, including Africa.[26] On the one hand, Cali et al[27] argue that services imports can enhance the productivity, competitiveness and performance of local service firms, thereby inducing lower prices, better quality and wider consumer choice. Such exposure can also encourage international best practices, skills and technology transfer, more rapid innovation, private-sector development and much-needed foreign direct investment. On the other hand, authors like Francois and Hoekman[28] argue that services exports can improve economic performance and create new export opportunities, particularly for countries that are relatively detached from global goods markets and wish to expand and diversify their exports.[29]

The advantages of services trade liberalisation have been empirically verified,[30] but the literature on this topic has attracted much criticism.[31] The criticism stems from the perceived limitations of the empirical studies and the need to further refine the data, the methodology and analysis, the 'services component' of the computable general equilibrium (CGE) model and the approaches used to quantify the barriers to services trade. The empirics show that welfare gains are more likely to accrue to markets with lower services trade barriers[32] and with the most restrictive regulatory regimes.[33]

The removal of trade barriers should also encourage the development of a country's domestic service sectors, which in turn should lead to more services exports. According to Crump and Maswood,[34] it is important to remember that the greatest gains are made not through the removal of barriers to exports or establishment in foreign markets, but through domestic reform that allows the removal of impediments to entry by all firms (both foreign and domestic).

In Africa, services have an important role to play in the continent's structural transformation efforts, both directly as exports and indirectly as inputs in production processes or as the means to participate in global value chains. Moreover, any policy that aims to drive or support tradable services should prioritise trade openness and regional integration across Africa.[35] Regional trade agreements should do more than merely reduce tariff barriers; they also need to stimulate consumer demand and improve access to capital, technology and scarce skills and expertise.

The reluctance of developing countries to open up their services markets

Despite all the studies highlighting the benefits of services trade liberalisation, developing countries have long voiced their concerns about liberalising their services sectors.

One of the most frequently cited concerns is that domestic service industries 'are insufficiently developed to withstand the foreign competition'.[36] This is because developing economies often have only a few competitive service sectors.[37] If not controlled, foreign service providers might dominate the market and replace domestic service providers and/or target the most profitable customers.[38] They might also decide to leave the country at the first sign of financial difficulty, thereby contributing to instability in the sector.[39]

For developing countries to realise the benefits of services trade liberalisation, their services trade liberalisation strategy needs to be accompanied by a sound regulatory environment, complementary domestic policies and effective governance.[40] However, developing countries' regulatory environments are often perceived as 'unsophisticated'[41] and ill-prepared for the additional complexities that international competition brings. Regulatory reform is therefore often needed.[42]

The most difficult hurdle that developing countries need to clear is 'how to balance the benefits that could arise from effective market opening with the prerogatives of national governments to implement necessary regulatory measures in support of public policy objectives'.[43] It is often also those countries that have higher per capita incomes, are active in global markets and have a greater capacity to compete that are likely to negotiate more liberalised services trade agreements.[44]

Services in contemporary trade policy and the need for services-driven strategies

Services trade policy[45] has received relatively little attention in the literature because it remains 'one of the most complex, challenging, and, sometimes, controversial issues in contemporary trade policy'.[46] Services trade policy is important for a number of reasons: it can play a central role in the performance of the domestic services sector, it can promote trade openness or restrictiveness and it can strongly impact services trade flows (in gross or value-added terms).[47] While the quality of the services trade policy is 'decisive in harnessing the pro-development benefits of services sector development',[48] the kind of policy that is rolled out is most crucial because this can fundamentally impact a country's ability to connect to the global economy.[49]

In the light of the above discussion, it is critical that governments 'design and implement services-driven development strategies'[50] if they wish to develop their services sectors and have enough capacity to export. It has been shown that countries that have successfully grown their services trade have well-formulated strategies guiding their efforts.[51] One study concluded that services trade liberalisation is not, however, necessarily the best way to improve services sector efficiency and leverage its potential; the formulation of 'an effective services trade policy' is much more important.[52]

If a relatively underdeveloped sector can make such a significant contribution to the economy, then a more established and capable one (with a strategy in place) will surely be able to contribute much more.[53] Yet because the services sector is complex and multi-faceted, with a wide range of participants from both the public and private sectors, the formulation and implementation of an effective services strategy has proved challenging for many countries.[54] Developing a strategic framework – as a forerunner to a strategy for the services sector in South Africa – will help to address this problem.

The liberalisation of services trade in South Africa

Relatively little research has been conducted on services trade both in a generic sense and from a South African perspective.[55] Although South Africa made a number of commitments under the General Agreement on Trade in Services (GATS) – both in the number of sectors it would liberalise and the depth of some commitments[56] – the country has always adopted a cautious approach to the liberalisation of key services under GATS. This is because of 'deep and justified concerns relating to unemployment, poverty alleviation and universal access to basic services'.[57] If one considers South Africa's GATS commitments across all sectors as well as modes of supply, the country has committed to liberalise only 45.63% of its entire services sector – a relatively high percentage for an African country but low compared to other developing countries or regions.[58]

In addition to GATS, South Africa has participated in the negotiation of the SADC Protocol on Trade in Services, which aims to progressively liberalise communication services, transport, tourism, financial services, construction, energy and energy-related services,[59] and will participate in the services negotiations for the Tripartite Free Trade Area and the African Continental Free Trade Area agreements.[60] Some bilateral trade agreements provide for the inclusion of services at a later stage[61] but South Africa has not acted on these opportunities and has also not shown any interest in other agreements, like the plurilateral Trade in Services Agreement.[62]

How open is South Africa's services sector to trade? According to the World Bank's Services Trade Restrictions Index,[63] South Africa's average score (for all sectors) is around 0.22.[64] This is lower than the world median and indicates relative openness. According to the Services Trade Restrictiveness Index of the OECD,[65] South Africa's most open service sectors are road freight/transport, and legal and accounting services, while the least open are commercial banking, logistics, cargo-handling and broadcasting.[66]

Overview of South Africa's services trade

There are several concerns relating to South Africa's services trade and its potential to act as a driver of growth and transformation in the years ahead, and these should be highlighted. One is that South Africa has seen a decline in its total services trade since 2010, whereas most of its emerging-market peers have seen their total services trade grow in the same period. To illustrate, South Africa's services imports declined from $19.5 billion in 2010 to $16.4 billion in 2018, while services exports declined from $16 billion in 2010 to $15.9 billion in 2018.[67] In the same period, total developing-country services imports increased from $1.4 trillion to $2.2 trillion, while total services exports increased from $1.2 trillion to $1.9 trillion. Compared to its developing-country peers, South Africa was the 25th largest importer of services and the 23rd largest exporter of services in 2018. China, India, Singapore, South Korea, Russia, Saudi Arabia and Hong Kong China are together responsible for more than half the world's services trade.

While the decline in services exports is disappointing, the country is also locked into a cycle of importing more services than it is exporting, leading to ongoing deficits on the services account.[68] In 2018, South Africa's services imports contributed only 12.6% to total imports, while mining contributed 20.5%, manufacturing 62.4% and agriculture 3.6%.[69] Services exports, in turn, contributed only 13.8% to total exports, while mining contributed 46%, manufacturing 32.7% and agriculture 5.7%.[70]

If we consider South Africa's bilateral services trade profile,[71] import and export market concentration is also a concern. Some 60% of South Africa's services imports are supplied by Europe and the US, followed by 5.5% by Africa (mainly Egypt and Angola), 4% by India, 3.98% by China, 2.2% by Australia, 2.16% by Singapore and the rest by other markets.[72] The strong market presence and dominance of the major service suppliers to South Africa will make it difficult for other countries to compete, even if their services are more competitive. Turning to services exports, 46% of South Africa's services exports are destined for only two markets, namely Europe and the US.[73] After that, 10.6% of its services exports go to Africa (mostly to Angola, Nigeria and eSwatini), 10% to China, 4.3% to India, 2.8% to Singapore, 2.75% to Australia and the rest to various other markets. This high market concentration means that relatively few export opportunities are being tapped.

Another concern is that South Africa's share of services exports to developed markets (over time) has declined compared to its share to developing countries. And, while South Africa's exports to developing countries have become more sophisticated, there is still much room for improvement.[74] South Africa has not made a distinct shift away from traditional services exports towards more modern, high-technology services exports, as have some of its emerging-market peers.[75] Traditional services include trade, hotels and restaurants, education, and transport and health; modern services typically include computer and information services, financial and business services, government services and communication. Without a concentrated effort to become a more competitive exporter of services, South Africa runs the risk of being left behind.

South Africa's services trade also remains heavily concentrated in only a few sectors. The country's three major service imports (transport, travel and other business services[76]) account for around 75% of the country's total services imports and its three major service exports (travel, transport and other business services) account for almost 80% of the country's total services exports. Greater export diversification is clearly needed.

Compared to developed countries and other, large developing countries like China, India and Russia, South Africa has always had a limited trade advantage when it comes to services exports. If we use Balassa's revealed comparative advantage (RCA) index[77] (see Figure 1) to determine those service sectors in which South Africa does have a comparative export advantage, they would be: transport; tourism-related travel; personal, cultural and recreational services; and government services. In other sectors, such as other business services and financial services (including insurance and pension services), South Africa does not have a comparative export advantage at present, but there is potential for such advantage should these sectors be properly developed.[78]

South Africa's value-added services exports have the potential to contribute much more to its total exports, but for this to happen the country will have to address its low integration capacity and relatively weak competitive position in global and regional value chains.[79]

Among the reasons for South Africa's limited services export advantages are: the country is far removed from other international services markets, which raises trade costs and makes services more expensive; South African service providers often lack the capacity to supply foreign services;[80] South Africa has trailed behind emerging-market peers in exporting modern, high-technology services; and the number of small and medium-sized service providers in South Africa has declined significantly in recent years.[81]

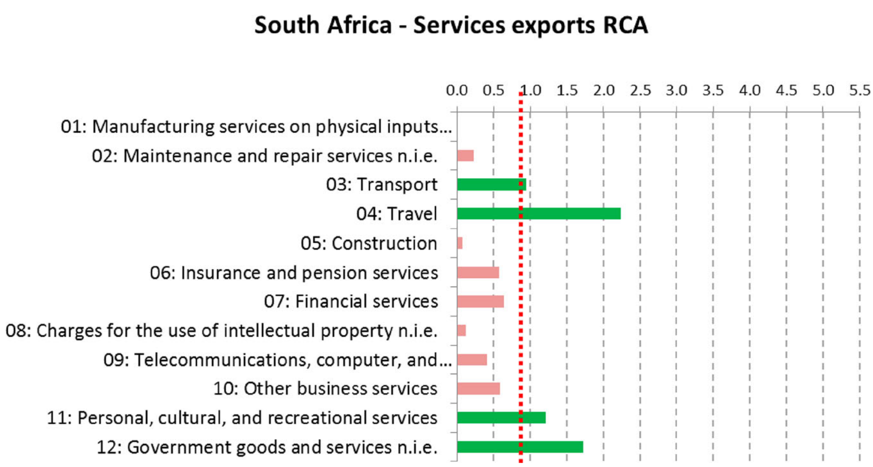

Figure 1. South Africa's RCA in services exports.

Source: Authors' own calculations using ITC Trade Map data.

Note: The 5-year weighted average was calculated using export data from 2010 to 2015. In this five-year weighted average, the most recent year weighs the most, with each preceding year weighing approximately half the one that follows it. Therefore, if the latest year is indicated as year *t*, then year *t* weighs 51.61%, year *t*-1 weighs 25.81%, year *t*-2 weighs 12.9%, year *t*-3 weighs 6.45% and year *t*-4 weighs 3.23%. The sum of weights over the period equals 1.

It is important to note that the services trade data mentioned above do not include commercial presence (Mode 3).[82] In the South African context, this might distort the country's 'advantages' in sectors like telecommunications, retail and banking; for instance, foreign direct investment (FDI) is very important to South Africa because, when it is taken into account (or used as a proxy for Mode 3), total services trade escalates substantially. In 2018, inward FDI flows totalled $5.3 billion while outward FDI flows totalled $4.5 billion.[83] South Africa is Africa's fifth largest FDI investor.[84] Research into the contribution of South African FDI in service industries in the rest of Africa showed that the most attractive export destinations were Ghana, Nigeria, Kenya, Zambia, Namibia and Tanzania, while the most attractive service sectors were financial services, communication, business services, transport, real estate and ICT.[85]

Considerations for a strategic framework to drive South Africa's services trade

In developing a strategic framework to further develop South Africa's services trade, it is important to consider the key challenges that the country faces. These include:

(1) how to assist those service providers with a comparative export advantage (in value-added terms[86]) to retain or build on their advantage and expand their exports;
(2) how to assist service providers to develop greater capacity so that they can pursue export opportunities in foreign markets, particularly those linked to global value chains;
(3) how to bring down trade costs for service providers so that they can be more competitive and make more sustainable inroads into global value chains and/or foreign markets;
(4) how to encourage the diversification of services exports and markets so that the country is less vulnerable to downturns in traditional export sectors.

The only way to ensure that services will 'sustainably' drive growth is through a well-performing services sector. It is accepted that international trade is a key driver of growth and development and should be a major consideration when engaging in strategic planning for the services sector. However, a country cannot export what it cannot efficiently and effectively supply at the domestic level. Therefore, South Africa should give priority to the development of its domestic services sector as the foundation stone of its services trade. Consequently, the envisaged framework provides solutions from the bottom up, advocating that structures and initiatives be put in place to address domestic or supply-side issues, which will then serve to strengthen the country's services trade efforts.

It should be emphasised that the proposed strategic framework is not intended as a trade strategy, trade liberalisation strategy, trade negotiation strategy or export promotion strategy for services – although it contains elements of each. The approach is rather to recommend critical foundational steps for creating a more competitive environment for all service providers (both foreign and domestic) to enhance South Africa's domestic – and ultimately its export – capacity.

While other developing countries might assemble their building blocks in different ways depending on their specific priorities, the suggested framework for South Africa can offer useful insights on how to progress beyond broad policy statements to actual development and implementation.

The strategic framework: Recommended action steps for expanding South Africa's services trade

The proposed strategic framework entails nine components, beginning with the establishment of a 'champion' for services trade and including the following.

Establish a dedicated services directorate

A key reason why certain developing countries have successfully grown their services trade is that they have established a unit within government to focus specifically on services. Brazil, for instance, established the Secretariat of Commerce and Services (SCS),[87] India the Services Export Promotion Council (SEPC)[88] and China the Department of Trade in Services and Commercial Services.[89] Most of these entities fall under the trade and industry ministry in the countries concerned. The units work closely with other parts of government and offer a platform for interaction between policymakers and service providers. Their core mandate is to oversee the development, coordination, implementation and evaluation of policies and programmes aimed at developing their country's services trade and providing comprehensive and ongoing research (and analysis) on domestic and cross-border services.

The need for a champion is frequently referred to in the literature. The World Bank states:[90]

> Any attempt to devise a service-sector road map or strategic blueprint must start with setting up a cross-sectoral, multi-issue steering committee and designating the coordinating function to a specific ministry, secretariat, agency or personality within the government that will be empowered to identify key elements of a services road map and oversee its implementation.

Thus, our first recommendation is for South Africa to establish a dedicated services directorate within the Department of Trade and Industry and Competition (the DTI), with a mandate to drive the services trade agenda (with an emphasis on exports).

Clarify roles and harmonise the work programmes of role players in the services network

Developing countries' services networks often comprise an uncoordinated array of government ministries and departments, other government authorities (like export promotion organisations), sector-specific regulators, private-sector firms and others, all with different roles, agendas and policy positions.[91] What complicates matters is that the different role players often work in silos. Yet the clarification and harmonisation of roles in the services network is fundamental to the effective implementation of a services strategy, whether it has a domestic or international focus.

Coordination among the different role players in South Africa's services network has been observed to be quite weak.[92] For example, Trade and Investment South Africa, which is the division in the DTI that is responsible for the promotion of services exports, has (in the view of the authors) not always been aware of the latest developments in multilateral or regional services negotiations, most likely because these are handled by another division – International Trade and Economic Development (ITED). This lack of coordination in the policy and regulatory space dilutes the efforts of the entities involved. There is also often duplication of work and unnecessary costs.[93]

Tackle the data-limitation challenge

The quality of services trade data in world data sets still does not compare with that of merchandise goods trade[94] and there is a need for statistics on services to be 'more detailed, more comparable and more comprehensive'.[95] The lack of meaningful services trade data can be attributed to the fact that border duties cannot be applied, which results in much weaker and less accurate compilation practices.[96] Exacerbating the problem is the lack of technical skills and capacity needed to collect and analyse services data.[97]

Although various international organisations have services trade databases, inherent shortcomings in the data persist. For example, data are generally sourced from balance of payments statistics, which simply record actual service payments (imports) and service receipts (exports) across borders. Details of services trade by category, mode of supply or trade partner are not available.[98] As mentioned earlier, another problem is the absence of reliable trade data on Mode 3 (commercial presence).

South Africa can learn from some of the countries that have successfully cleared the data-limitation hurdle. Brazil, for example, has made it compulsory for any legal entity or individual to declare their international service transactions on a computer database called 'Siscoserv'.[99] An advantage of detailed transactional reporting is that it provides additional intelligence for the government, including key role players in the market and the optimal services export markets for the country concerned.

The South African Reserve Bank has begun to address the country's services data limitations, but it might still take a number of years before the effectiveness of this becomes evident.[100] Once the necessary system is in place to obtain the data, the services directorate should work closely with the Reserve Bank and other role players to assemble, analyse and disseminate the data. The UN Statistical Commission has devoted much time and attention to improving the compilation and reporting of international trade in services statistics, and also provides training and capacity-building incentives to better-equipped countries to enhance the quality of their statistics.[101]

South Africa should familiarise itself with the work of international organisations in this regard and the government should take advantage of the training and capacity-building incentives on offer.

Develop a national (domestic) services strategy

It has become critically important for governments 'to design and implement national policies and regulations to strengthen the productive and export capacities of services'.[102] While providing clear direction, a strategy must also consider the broader environment, including the many factors that inform decision-making and the role players that help to steer a country's development process.

As with goods trade, successful services trade relies on a solid foundation of domestic skills and capacity. Where there are supply-side constraints at the domestic level, such as erratic power supply, high-cost telecommunications or opaque investment rules, these will inevitably also find their way into services intended for international markets and be a stumbling block to competitiveness.

In recent years, UNCTAD has conducted 'Services Policy Reviews' (SPRs) for a number of developing countries. These reviews systematically analyse the economic, regulatory and institutional frameworks that impact a country's services sector and make recommendations to policymakers on how to better harness the development benefits of the services sector and services trade.[103] Other international organisations have helped various countries – for instance, Barbados[104] and Vietnam[105] – with the development and implementation of similar strategies.

Most of these reviews have yielded recommendations focused on strengthening the capacity and competitiveness of the sectors in question. Drawing on a number of the recommendations from these reviews, this article suggests that Pretoria:

- Investigate the domestic services sector and sub-sectors, including their importance, current status and contribution to the economy; their relative competitiveness; and the evident capabilities, opportunities, strengths, weaknesses and challenges affecting the sector and sub-sectors;
- Formulate recommendations on how to overcome the weaknesses and leverage the strengths and opportunities to optimally develop and promote the domestic services sector;
- Assess existing policies and strategies and determine how they can be better aligned in the interests of expanded and more rapid development, trade and investment, and employment;
- Identify ways to enhance the capacity of service firms, increase domestic supply and demand for services and expand services exports;
- Propose policy instruments and programmes that will enhance competitiveness and support export development in the services sector; and
- Design and implement a comprehensive training system aimed at developing and maintaining high-level skills to drive entrepreneurship and employment in the services arena. Understanding the skills profile of the service sectors with potential will help to reveal which sector(s) will be drivers of growth in South Africa.

Among the critical aspects that the national services strategy needs to address are how to build South Africa's comparative trade advantages and export competitiveness, how to improve the capacity of service firms, and how to drive demand for services in domestic and export markets. The International Trade Centre (ITC) offers a range of initiatives that are aimed at building export competitiveness in services in developing countries. One of these is the 'Services Sector Export Competitiveness Roadmap'.[106] South Africa might consider developing something similar or adapting the ITC's current offering.

Develop a services trade strategy

A key pillar of the suggested strategic framework for South Africa is an effective services trade strategy, which should have two main goals: (1) opening up South Africa's domestic services market to foreign competition; and (2) expanding the country's services export reach into foreign markets.[107] These are explained below.

- Opening up the country's domestic services market to foreign competition

According to the literature, for a country to realise the benefits of services sector liberalisation, it must concentrate on appropriate domestic regulation and domestic policy. Because the degree of openness of different service sectors in South Africa varies widely, different policy and regulatory reforms and different levels of intervention are needed to open up certain markets.

In this regard, the authors propose that the services directorate undertake sectoral or industry-level research to identify the domestic barriers to entry and determine the likely impact of the removal of these barriers on the domestic market. Furthermore, more effort is required in sharing this information with the broad network of stakeholders so that everyone will understand the impact of a less-restricted services market. According to the literature, a common threat to effective regulation is that regulators often have a very sector-specific frame of reference and overlook the potential benefits and risks, both social and economic, of increased competition and trade.[108]

- Expanding the country's services export reach into foreign markets

A trade strategy for services should focus on the expansion (and promotion) of South Africa's services exports and/or the opening up of foreign markets of interest, including the removal of barriers to trade with those markets. In this regard, South Africa can learn from the strategies adopted by other developing countries. India,[109] Pakistan[110] and Uganda[111] have developed trade or export strategies exclusively for services, while other countries have focused only on those sectors with recognisable potential, such as Liberia's Tourism Sector Strategy and Mauritius's Financial Services Sector Strategy.[112] While their approaches may differ, these countries usually concentrate both on existing and potential export markets, priority service sectors and sub-sectors, trade barriers and ways to circumvent or minimise their impact, as well as techniques for enhancing various services' foreign market appeal.[113]

According to the ITC,[114] most export promotion strategies prioritise only the sectors that enjoy a comparative export advantage. However, if attention is given only to those sectors and markets with the highest potential, less-developed or unexploited sectors and markets will not be prioritised and the sectors will be deprived of the opportunity to become competitive. Another consideration is that service sectors generating lower returns might have other inherent benefits, such as positive spill-over effects into manufacturing, significant growth and/or employment potential, or an ability to contribute positively to regional value chains.[115] It is important to promote both the 'low-hanging fruit' (services with a comparative trade advantage and potential for liberalisation immediately or in the short term) and the 'harder-to-reach' fruit (services that are likely to depend on strategic, multi-disciplinary negotiations for liberalisation at a later stage).[116]

An effective export promotion strategy also needs to consider the trade barriers that South African service firms will face. The best approach would be for the services directorate to undertake or commission country-specific and export sector-specific studies. For example, if Kenya were identified as a high-potential services export market, the barriers to entry for South African firms should be investigated. Once the barriers are revealed or better understood, the South African government could facilitate business-to-business linkages between South African and Kenyan firms (ie, importers). This should pave the way for a more effective export promotion drive for selected services and possibly garner support from the Kenyan government as well.

The design of effective export promotion instruments for services differs markedly from that for tangible goods.[117] Various countries and institutions have designed highly effective export-promotion instruments for services that facilitate quicker and more certain market entry.[118] China, for instance, has had much success in promoting its services exports, using interventions such as trade fairs that focus exclusively on services.[119]

South Africa's Export Promotion and Marketing Directorate, the body responsible for the promotion of the country's services exports, will need to work closely with the recommended new services directorate in formulating the optimal export promotion approach and designing suitable export promotion instruments for services.

Strengthen the regulatory framework through sector-specific guidance

Domestic laws and/or regulations have a dual impact on the trade in services because they could be both a necessary requirement and also a barrier to trade. They are a necessary requirement when they are designed in the public interest, aimed at protecting consumers and the environment, lowering costs, and stimulating local competition or protecting the domestic industry from excessive foreign competition (as the case may be). They constitute a barrier to trade when they are discriminatory, such as in prohibiting market entry or placing an undue burden on service providers.[120]

The challenge that policymakers face when it comes to the regulation of services is how to arrive at the correct 'policy mix' that will ensure the realisation of sound regulatory objectives and at the same time the expansion of services trade. Therefore, a core issue that the services strategy must address is how South Africa can work with its trading partners in formulating and implementing rules designed to reduce the barriers to trade in services without infringing the sovereign rights of the government to regulate services in the most prudent manner.

Furthermore, if South Africa is to truly reap the benefits of more liberalised services trade, it is essential that the country improves its own regulatory regime and dismantles the regulatory barriers that restrict services trade at home. As mentioned, South Africa's services sector is relatively open, subject only to minor restrictions. However, the regulatory and legal frameworks affecting certain service sectors are still more restrictive than others. As mentioned earlier, South Africa's most open service sectors are road freight/transport, and legal and accounting services, while the least open are commercial banking, logistics, cargo-handling and broadcasting. These anomalies should be addressed. An analysis of the regulations affecting the different service sectors in South Africa, whether they act as barriers to trade and how regulations may be optimised could be the subject of future research.

Enhance the services trade-negotiation capacity for services

If South Africa is to engage in services sector negotiations in a meaningful way, a key priority should be to address the capacity constraints that hamper its services trade negotiation efforts. Developing countries are often weighed down by weak administrative, regulatory and implementation capacities, and these place a burden on the whole negotiation process.[121] In addition, services negotiations remain 'novel and highly complex'.[122] Developing countries also often lack teams of experts capable of addressing the wide range of issues that the process demands.[123] For years, South Africa has had only about three or four negotiators with the necessary experience, knowledge and skills to effectively negotiate services.[124] To add to the problem, South Africa's trade negotiation activities have expanded significantly over the last few years, stretching negotiator resources thin; South Africa is not always properly represented at these negotiations. Moreover, in the face of South Africa's widening budget deficit,[125] it has been difficult to increase negotiating capacity through training and mentoring.

A number of developed countries have established services-only negotiating committees.[126] We therefore recommend that a government negotiating team be formed, exclusively for services. To ensure the effectiveness of such a body, regular technical assistance and capacity-building programmes are proposed, particularly as trade-related capacity-building is recognised as a prerequisite for trade-driven growth.[127]

Leverage ICT opportunities to expand services trade

The digital economy, which in its simplest form refers to the worldwide network of economic activities enabled by information and communication technologies (ICTs),[128] has significantly boosted developing countries' cross-border services trade.[129] However, the widening digital divide in many developing countries can prevent them from effectively harnessing the opportunities that digital trade offers.[130]

This is particularly true in the case of South Africa, where various barriers (from infrastructural and skills shortages to an uncertain policy environment) limit the ability of service providers to fully exploit digitally powered commercial opportunities.[131] We propose that South Africa's DTI invest in a research team (which would liaise regularly with the services directorate) to investigate the synergies between the digital economy and trade in services and how South Africa can best leverage ICT opportunities to expand its service offerings internationally.

Attract FDI to underpin the services trade strategy

FDI[132] helps firms to make the transition from focusing purely on the domestic market to building the skills and capacity to pursue services export opportunities. Countries like China and India, for example, have all seen the positive impact of FDI on their services export sectors.[133] For South Africa, it is proposed that export promotion officials at the national and provincial government levels work more closely with officials responsible for investment promotion in order to devise strategies for attracting and harnessing FDI for services, and services exports in particular. At the same time, export promotion officials should study the interrelationships between FDI, trade and technology to inform strategies for further development.

To summarise, the strategic priorities presented in this article, comprising structural and operational aspects of both a short and longer term nature, are:

- Establish a dedicated services directorate;
- Clarify roles and harmonise the work programmes of role players in the services network;
- Tackle the data-limitation challenge and facilitate effective and continuous research and analysis;
- Develop a national (domestic) services strategy;
- Develop a services trade strategy;
- Strengthen the regulatory framework through sector-specific guidance;
- Enhance the trade-negotiating capacity for services;
- Leverage ICT opportunities to expand services trade; and
- Attract FDI to underpin the services trade strategy.

Figure 2 provides an illustration of this strategic framework. It is our view that the establishment of a dedicated services directorate should be the centrepiece of South Africa's services trade strategy, with the mandate to coordinate different stakeholders' activities, monitor progress against an overarching implementation plan, and provide ongoing strategic guidance. The other strategic priorities listed above are also critical links in the chain – without which the process would produce weaker and more uncertain results.

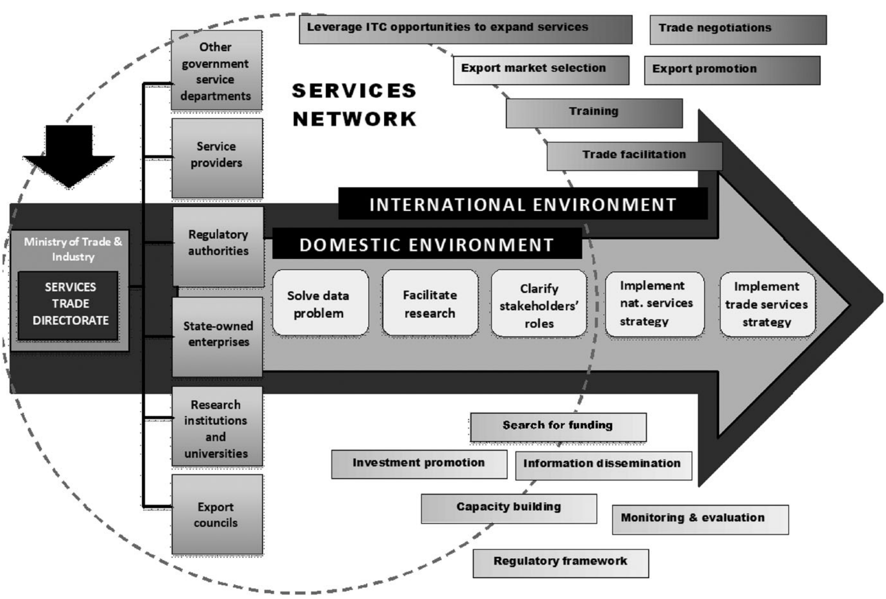

Figure 2. Recommended strategic framework, including action steps, for expanding South Africa's services trade.

Conclusion

It is difficult, from a literature perspective and in a single article, to do justice to the opportunities and challenges facing South Africa's services sector and services trade, and what other countries have done to optimise their services sectors. This article has focused on what the authors considered to be the most fundamental and immediate challenges which, once seriously addressed with the help of more in-depth research, would help South Africa to develop and expand the sector.

Services will continue to dominate the global economic landscape, particularly as technological advances permeate more and more economic activity. Relatively little attention has been given to the services sector in South Africa – both as the focus of empirical research and also as one of the pillars of a more robust export diversification drive. It was within this context that this article has proposed a strategic framework for taking the first steps towards unlocking the potential of South Africa's services sector and services trade.

Although the framework is geared towards South Africa's circumstances, the suggested approach should resonate with other developing countries which are grappling with many of the same concerns and impediments regarding their services sectors and are looking for a more structured approach to exploiting their services trade potential. While most of the elements in the framework are generic, differences in countries' levels of economic development and service environments will necessitate tailoring of the framework.

Over and above the recommendations provided in this article, further research on the service sector in South Africa, at both the macro and firm level, is urgently needed. This will shed more light on which sectors have the greatest trade potential and the types of intervention needed to turn recognised potential into practical benefits for the country as a whole.

Notes

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9. See Bhorat et al., 'Understanding and Characterising the Services Sector.'
10. See Bhorat et al., 'Understanding and Characterising the Services Sector.'
11. Bhorat et al., 'Understanding and Characterising the Services Sector.'
12. Temporary employment services (TES) or labour brokering is a form of outsourcing in which companies contract labour brokers to provide them with casual labour or temporary work (an employment situation where the working arrangement is limited to a certain period of time).
13. However, particular care should be taken when characterising services sub-sectors as high-skill or low-skill because these sub-sectors often cover a diverse range of activities which include both low- and high-skill activities.
14. Bhorat et al., 'Understanding and Characterising the Services Sector,' 2018, 65. One constraint to developing high-productivity services is the schooling system in South Africa, which is unable to produce enough skilled individuals. Moreover, government services cannot act as an engine of growth because the public sector is bloated and fiscally unsustainable and will therefore not be able to make a positive contribution to long-run economic development. Wholesale and retail services, in turn, are very unlikely to act as a driver of high-productivity growth because of their largely informal nature.
15. The Industrial Policy Action Plan (IPAP) identifies services as an important value-added sector with great employment opportunities; the Trade Policy and Strategy Framework (TPSF) stresses the need for thorough research to identify the development and export potential of certain *key* service sectors, and the 'Economic Transformation, Inclusive Growth, and Competitiveness: Towards an Economic Strategy for South Africa' calls for the prioritisation of labour-intensive growth in services. See Department of Trade and Industry, *Industrial Policy Action Plan (IPAP)* (Pretoria: DTI, 2020); Department of Trade and Industry, *Trade Policy and Strategy Framework (TPSF)* (Pretoria: DTI, 2014).
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67. Unless stated otherwise, the services data in this section of the article are obtained from the International Trade Centre's Trade Map database, https://www.trademap.org/Index.aspx.
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76. The services sectors mentioned here are in order of magnitude. The 'other business services' category contains three sub-categories, namely: research and development (R&D) services, professional and management consulting services, and technical, trade-related and other business services.
77. See Bela Balassa, 'Trade Liberalisation and "Revealed" Comparative Advantage,' *The Manchester School of Economic and Social Studies* 33 (1965): 99–123. The RCA = (Eij/Eit)/(Enj/Ent), where E is exports, *i* is the country in question, *n* is a set of countries, *j* is the services sector, and *t* is a set of services. An RCA value of 0 indicates that the country exports very little of that service, while an RCA larger than or equal to 1 means that the country is relatively specialised in the export of that service.
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120. See Ramesh Chaitoo, 'Services Liberalization and Domestic Regulation: Why is it important?' (paper presented at the CUTS/FICCI Conference on Global Partnership for Development: Where do we stand and where to go? 12–13 August, 2008, New Delhi, India).
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131. Ali Parry, Wilma Viviers, and Susara J. Jansen van Rensburg, *Southern Africa and the Digital Challenge: How the G20 Can Influence a Digital Turnaround in the Region*. In *How the G20 Can Help Sustainably Reshape the Global Trade System: A Compilation of Analysis* (Geneva: ICTSD, 2018).
132. Both inward and outward FDI have numerous benefits. Inward FDI helps to generate more outputs and create jobs in the recipient country. It can also help to finance current account deficits and ensure that the local population benefits from foreign multinationals' knowledge and expertise. Investment from abroad might also lead to better wages and improved working conditions. Outward investment, on the other hand, can increase a

country's investment competitiveness and enable domestic firms to enter new markets and import intermediate products at a lower cost. It also facilitates access to foreign technology.

133. See Fan, *Services Policy Reform* and NJ Saleena, 'Impact of FDI on Services Export: Evidence from India,' *Journal of Business Management & Social Sciences Research* 2 no. 11 (2013): 34–8.

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