Report on:
Coordinated African Programme of Assistance on Services (CAPAS) Regional Meeting 27-29 November 1997

1. Background and Opening Remarks

Trevor Abrahams (DTI), Thierry Noyelle (UN-DDSMS) and Marcel Namfua (UNCTAD)

1.1 Background

A regional meeting to launch the work programme of CAPAS Phase III was held at Helderfontein Estate in Johannesburg on 27-29 November 1997. The meeting was organised jointly by the Trade and Industrial Policy Secretariat (TIPS) and the Department of Trade and Industry (DTI) of South Africa with support from the United Nations Conference on Trade and Development (UNCTAD) and other UN organizations, which are sponsors of the CAPAS project. The meeting was part of the larger CAPAS programme which is financed by the Carnegie Corporation of New York, the International Development Research Council (IDRC) of Canada, the French Government and cost-sharing contributions from the ITU. The CAPAS programme was launched in 1992 and provides technical assistance that focuses on building national policy-making capacity in Africa in the area of services. This includes providing the tools needed to strengthen the relationship and coherence between national policies and regional and international trade policies in services - in particular the requirements of the General Agreement on Trade in Services (GATS).

Nine sub-Saharan African countries participate in CAPAS III: Burkina Faso, Cameroon, Ivory Coast, Lesotho, Madagascar, Mali, Namibia, South Africa and Zambia. They were each represented at the meeting by the national co-ordinator of the country's Inter-institutional Working Group (IWG) and the leader of the National Research Team (NRT). In addition, a selected group of public and private sector decision makers and researchers from South Africa were invited to participate in the first day of the meeting.

The purpose of the regional meeting was several-fold:

- to discuss the experience of South Africa in the area of international trade in services,
- to review the framework of the General Agreement on Trade in Services negotiated during the Uruguay round, discuss the state of current negotiations on services, and examine some of the implications of the Agreement for Africa,
- to discuss detailed methodologies for the preparation of three national case studies by each participating countries, including case studies of the role of trade in services in the national economy, the role of international trade in financial services, and the role of international trade in telecommunication services,
- to discuss other sectoral areas where useful work could be carried out and the modalities for such work, and
- to agree on the timetable for the implementation of the country-level programme of work

1.2 Opening Remarks

Trade in services is increasingly being put on the international trade agenda. Up until this point the agenda has been dominated by industrial country concerns whilst developing countries have often failed to react at all through the tabling of commitments. The reason for this is a lack of awareness of the role of services in their economies, the contribution of services to growth and the process of GATS negotiations. The purpose of this regional meeting and of CAPAS I and CAPAS II before it, is to put in place the mechanisms to respond to negotiations and hopefully not just to react to them but also to shape their agenda. This is achieved through providing expertise and co-ordination to the group of countries in establishing a work programme to prepare them for negotiations.

2. Services in the Economy of South Africa

Presenter - James Hodge (DPRU); Discussant - Thierry Noyelle (UN-DDSMS)

2.1 Paper Presentation

Historically the services sector has been under-researched because of poor data and difficulty in analysis. This paper represents a starting point for looking at South Africa.

Characteristics of Services

Services comprise of 63% of world output spanning 4 Standard Industrial Classification (SIC) categories. Services can be split into consumer (final demand), producer (intermediate) and community/social services. Consumer services tend to be low skill, income inelastic, labour intensive. Producer services tend to be high skill, income elastic, capital intensive. These are also a key input influencing the competitiveness of manufacturing. Community/social services also tend to be high skill, capital intensive and income elastic.

Structure and Trends in World Services Trade

The nature of services means that they require some form of interaction and so trade is seen to involve the movement of either producer (consultants), consumer (tourist), or both (transport). However telematics developments mean that increasingly trade can be performed over space (e.g. financial). However, the preference for a physical market presence to get significant market share and local knowledge is demonstrated by the dominance of Foreign Direct Investment (FDI) over trade in services. In 1994 services trade was $1,100 billion and made up 21% of world trade. Tradability is still low at 6.6% of total production compared to 41% for goods. It has increased slightly in the last 15 years due to technological changes (IT), trade liberalisation (GATS & regional integration), the internationalisation of production (services follow Multi National Companies), increased goods trade (tied services like insurance & transport) and the high growth of tradable IT sectors.

Producer services make up 66.3% of trade (transport 22.8%, business services 43.5%), community services 4.5% and consumer services (tourism) 29.2%. Business services make up the fastest growing sectors followed by tourism. Trade patterns reflect an industrial country dominance. Traditional trade theory would suggest that they have a comparative advantage in the dominant traded item producer services due to its high skill and capital requirements. However, also important is a) their high proportion of world trade and investment, b) their close geographical proximity to major markets for services (i.e. each other) and c) their large share of physical stock of factors. Asia has experienced an increasing share of world services trade while Africa has seen a decline in both exports and imports of services.

South African Trade in Services

The underlying trend in services trade in S.A. has been influenced to a large degree by the fluctuating fortunes of the economy. Exports experienced poor growth rates from 1980-94 and comprised 15% of total exports. Reasons for this poor performance include a) sanctions (directly and indirectly through a drop in trade and investment flows), b) the poverty of Southern Africa where S.A. has a locational advantage. Imports grew at rates close to world averages and comprised 20% of total imports. There has also been a declining market penetration during this period.

The product structure of exports is very different to world trends. There is a greater reliance on travel (45%) and transport (30%) while a much lower share of business services (20%). This distribution is in line with the country's factor endowments. Travel was the only sector to have a revealed comparative advantage (RCA) over 1. Although transport services make up a high share of exports, they account for almost the entire deficit on the services trade account. The low trade in business services is in line with other African countries. The product structure of imports is also different to world trends with the largest item being transportation (44%) followed by travel (34%) and a small share for business services (18%).

The regional structure of S.A. trade in services reveals strongly the influence of geographic proximity, trade and investment links and factor intensities. Travel is dominated by Africa which accounts for 74% of arrivals and 79% of departures. This is followed by Europe where strong business links exist. Freight transportation is dominated by Europe which dominates goods trade. Business services are dominated by Africa for service exports and Europe for service imports.

Policy Conclusions

A number of tentative policy conclusions can be drawn from the analysis. These are:

- *Service exports* - greater integration into the world economy should bring about increasing exports of services as a by-product - e.g. transport, business travel, communication, insurance. Yet the region is an important source of demand and the demand constraint of the region will mean Foreign Direct Investment (FDI) further afield is an important option to boost exports significantly.
- *Dominance of FDI* - although trade in services has become more significant, inherent low tradability and FDI as the preferred means of delivery for a large market like SA means that a different trade strategy is required. Traditionally trade departments opt for export promotion measures relating to goods yet with services one may need to promote FDI by local firms. Although these may not bring massive local employment, the gains are a) forex earnings, b) support for SA Multi National Companies (MNCs) abroad, c) sourcing of goods locally, and d) a small employment impact. On the import side, the preferred option of FDI by foreign service providers to service a large market like S.A. means that the country is likely to retain a significant local sector even in the face of increasing liberalisation. The major changes are likely to be in the ownership patterns but employment and output are more likely to increase.
- *Service imports* - imports are likely to increase as integration into the world economy continues. However beyond this natural flow of imports, S.A. is unlikely to get a major influx as there is little regional competition and competitors further afield are likely to opt for FDI. This may be different for small markets where it is not cost effective to have a physical presence and imports may increase from further abroad or from SA as the regional powerhouse.

2.2 Discussant

The paper presented demonstrates how far one can go with traditional desk research but also the limits of such an approach. There were three primary issues arising out of the paper - namely

- *Definition and Measurement of Services Trade* - the definition and measurement of services should go beyond the traditional definition of the International Monetary Fund (IMF) and adopt the broader definition that is being used in GATS and some regional agreements. This implies that one should include the remittances of migrant workers and also the returns on FDI. The problem with the latter is that there is no means of differentiating between manufacturing and services from IMF Balance of Payments (BoP) data. The narrow definition of the IMF and the fact that government institutions are not able to capture the trade activities of many business services, means that the contribution made by services to trade is underestimated. In fact, in many less developed countries (LDCs) services can dominate trade flows. For example, worker remittances in Lesotho and tourism, worker remittances and revenues from the Suez for Egypt.
- *Services in the Context of the National Economy* - historically the primary weakness of the African economies has been with producer services which serve as an input into other firms. This weakness raises interesting issues on how to handle the sector - for instance, does one protect the sector through limiting foreign access and allow the inefficiency to ripple through to other producers, or does one open up the sector possibly resulting in a dependency on imports and initiating BoP pressure. On the other side, consumer services are labour intensive and low skill which means that countries facing large unemployment levels should develop these services for employment and export purposes (e.g. tourism). Once unemployment is less of a problem, then try shifting emphasis to producer services in order to raise average wages and standards of living.
- *Policy Implications* - on the policy side, governments must weigh up the potential for export versus the impact on imports of increasing market access when analysing trade liberalisation in services. For exports, there is a need to understand what are the current barriers to enter countries (including FDI and the movement of persons) and to what extent can trade agreements open up these markets. In exchange for greater market access abroad, countries will most likely need to provide market access at home. The challenge therefore is to understand the domestic market better through some form of analysis of the strengths and weaknesses of the sector and how they are likely to react to competition. This must be weighed up against the inefficiency effects on other sectors and the political pressures surrounding any liberalisation.

2.3 General Discussion

A number of issues were raised by the participants. These included:

- *Definition* - how can one split services into consumer/producer when most often services were provided at both an intermediate and final demand level (e.g. financial services). This imperfection in classification cannot be avoided as long as services data is sparse and so general categories have to be used.
- *Government support measures* - it is relatively well-known the various policy tools to support manufacturing, but there is less understanding of what tools can be used to impact on the performance if the local service sector. It was felt that much of the same supply-side measures could be used because they impact on factor inputs and not the product outcomes. Therefore for each service sector the key factor inputs should be identified and strengthened. For instance, in telecommunications it may be capital access and technology; in tourism it may be human resource training and infrastructure development.
- *Second round effects* - any assessment of the impact of liberalisation must also take account of the efficiency benefits which could lead to increased exports (of goods and services) in the next round. This is especially true of producer services such as transportation which have had a serious impact on the export price of African products.
- *Reprosity in negotiations* - given the dominance of industrial countries in trade in services, what is the content and possibility for reprosity in negotiations. In the first round of GATS the industrial countries pushed for lowering the barriers in FDI whilst the Less Developed Countries (LDCs) concentrated on the movement of persons as a reciprocal measure. Also, the balance of comparative advantage is more complex in LDCs and countries like South Africa are finding export markets in engineering, construction work, financial services and retailing. Benin has made a niche for itself in harbour services for the region while India has become a major exporter of software services.
- *Employment and output impact of FDI* - a 1980s study of professional service multinationals found that the expatriate role in a foreign branch was high only at the beginning of establishment, but once established 98% of personnel were locals. This is because these service MNCs tend to clone their operations in other countries rather than maintain a single corporation world-wide. It is therefore expected that the employment impact of FDI is unlikely to be negative in the long run.

3. Co-ordinated African Programme of Assistance on Services (CAPAS)

Marcel Namfua (Unctad), Issa Mbaye (Senegal), William Okyere

3.1 Overview of CAPAS

Services are a key component of any economy and past studies into services in Africa reveal that they suffer inefficiencies due to poor technological capacity, low capital endowments and poor human resources skills. This has a negative effect on the rest of the economy. Governments should define the right policies to tackle these weaknesses and must do so within the context of ongoing multilateral negotiations around the liberalisation of services trade. The CAPAS programme was launched in 1992 and provides technical assistance that focuses on building national policy-making capacity in Africa in the area of services. This includes providing the tools needed to strengthen the relationship and coherence between national policies and regional and international trade policies in services - in particular the requirements of GATS.

CAPAS Phase I and II included Benin, Burundi, Ghana, Guinea, Kenya, Nigeria, Senegal, Tanzania, Uganda and Zimbabwe. The first phase concentrated on preparing national studies on services by each country - broad-ranging assessments of strengths and weaknesses of services in general. The second phase focused on preparing selected sectoral studies including studies of trade logistics, financial, telecommunication and labour services. The new CAPAS launched in 1997 has targeted a new group of African countries which will follow a similar process to CAPAS I and II. The countries are Burkina Faso, Cameroon, Cote d'Ivoire, Lesotho, Madagascar, Namibia, South Africa, Swaziland and Zambia. Implementation will entail organisation of national inter-institutional working groups (IWGs) headed by the Ministry of Trade and preparation of national sectoral studies on services by national research teams (NRTs) working with the IWGs and with guidance from Unctad and UN-DDMS, from the ITU for studies on telecommunications, and from a selected group of experts.

3.2 Senegalese Experience

Senegal has benefited from the CAPAS programme and has successfully made commitments in seven of the twelve services sectors included in GATS negotiations. Originally there were few structures in place to research and make policy in the area of services but through CAPAS they have successfully put these structures in place. There is also considerable interaction amongst the various players involved through the IWG that was set up. The lessons that it gained from this experience can be useful to the new countries entering the CAPAS programme. The primary lessons are:

- *Country IWGs* - there have to be functional structures in each country comprising of inter-institutional groups and researchers with some interface between these groups. The co-ordinator's job is very important and the person has to have a high level of administration experience and be able to make contacts. Active participation of the government is important in order to benefit in the GATS negotiations.
- *Sector choice* - as CAPAS is aimed at GATS negotiations, the twelve sectors defined by GATS should be the ones to concentrate on. Of these the most important should be isolated for study - namely financial, telecommunications, transport of merchandise and the movement of people.
- *Finance* - the overall funding from CAPAS is often not sufficient to complete all the studies but since this programme is for the benefit of the state, they should be the ones to make up the difference. Senegal managed with the help of key donors.
- *Inter-country interaction* - The results of the national studies can play an important role in guiding the studies of other CAPAS participants.
- *Output* - it should also be remembered that CAPAS is a process that involves capacity building in addition to the study outputs.

3.3 General Discussion

It was mentioned that there has been limited pressure on African countries to make commitments with regard to services since the Uruguay Round. The government cannot negotiate for services unless it knows what the policy objectives are and they cannot identify policy options unless we have a policy dialogue involving the government, the private sector and the researchers. Some countries made the mistake of tabling commitments without proper background research.

4. GATS General Overview

Mina Mashayekhi (Unctad), Rohinton Medhora (IDRC), Brahima Sanou (ITU), Thierry Noyelle (UN-DDMS)

4.1 General Agreement on Trade in Services

Overview

Services is not a new issue to multilateral negotiations and was first mentioned in the Tokyo Round. The USA first placed the item on the agenda for negotiations while Less Developed Countries (LDCs) have been quick to oppose its inclusion in GATS. The end result is that services negotiations were separated from GATS and a draft framework agreement was concluded in the Uruguay Round. The agreement also included some important concessions to LDCs in order to facilitate the development of their domestic services sector. The main items which worked in favour of LDCs were:

- the agreement provides universal coverage of services excluding government services - it therefore includes the movement of people in addition to commercial presence which is likely to benefit LDCs cheap labour. However, there were asymmetries in the commitments on movement of persons vs. commercial presence as the former contained limits such as economic means tests and time constraints.
- LDC option to condition foreign supply - for example, market access can be tied to training requirements; technology transfer requirements; build, operate and transfer provisions; etc. Other requirements to ensure macro stability could also be imposed such as prudential requirements in financial services.
- LDCs can further regulate their service sectors as they may not be fully regulated yet (an option unavailable to developed countries)
- LDCs can impose emergency safeguard measures which can be used to protect their local service sector if liberalisation leads to an excessive influx of imported services.

However, despite these gains by LDCs, they still need a positive agenda in order to influence the direction of future negotiations. The specific negotiations that took place in the key sectors are outlined below.

Financial Services in GATS

Financial services for the purposes of GATS includes insurance and related services, banking and other financial services. These services require the temporary movement of persons and a commercial presence. They are also income elastic and provide a strong comparative advantage to industrial nations. Negotiations reached a deadlock during the Uruguay Round and to complete that agreement an extension was given until July 1995 to submit commitments. In 1995 the USA withdrew their offer after complaints that the EU and SE Asia were not liberal enough. The current round of negotiations began in April 1997 and ended on 12 December with 43 countries improving their 1995 offer. The major issues in negotiations have been:

- *market opening* - easier entry and operation of foreign firms in markets
- *prudential regulations* - how prudential should prudential regulations be
- *dispute resolution* - how will this operate in this and other sectors

The key gains have been that the residency and needs-based test have been dropped and FDI has become easier. The key countries missing from the agreement are India, Brazil, Thailand, Indonesia and Malaysia. The African offers have tended to be more liberal in financial services than in other services and more liberal in banking than insurance. However, there is a need to ensure that African countries gain in other negotiation areas if they are willing to liberalise in this sector.

Telecommunications in GATS

Telecommunications services for the purposes of GATS includes not just basic telephony but also the range of new telecommunication services that are emerging. The telecommunications sector is already far more global than other sectors, being driven mostly by technological advances in the field. Telecommunication is also no stranger to multilateral negotiations with a range of agreements through the ITU (e.g. setting of standards and tariffs) in addition to numerous bilateral agreements. Trade in telecommunications is dominated by services which account for 75% of telecoms -based trade. The other outstanding feature of telecommunications is the high number of monopolies (92 currently exist in basic telecoms) yet changes in the technological and commercial arena are serving to reduce this.

Under GATS there were 38 offers from 48 governments (note that regions often put forward one offer for all countries). Similar to financial services, negotiations were extended beyond the 1993 deadline and an extended deadline of 1 January 1998 was set for other countries to put forward offers. As of February 1997, there were offers from 58 out of 64 countries. These represented 94% of all cellular phones, 93% of all receipts from telecoms services and 82% of all fixed lines. Only a few African countries made offers. However they do stand to gain much as part of the reason for low telephone densities on the continent are due to funding problems which FDI can bring.

Movement of Labour in GATS

LDCs have a comparative advantage in labour-intensive services and so the outcome of the negotiations on the movement of labour is an important issue to them. However, there is also another interest group split, that of the labour-importing vs. labour exporting countries. GATS does not deal with long term movement of labour or migration. For short term movements one can differentiate between the very short term which requires no change in residency (e.g. tourists or business visitors) and the short-to-medium term movements where temporary residency is required for a few months to a year for the purpose of providing services. The latter may include intra-company transfers of managerial personnel, investors, movement of professionals to provide services and even the movement of medium and low skill personnel (e.g. mines, construction, shipping).

During negotiations there was not much disagreement on the movement of business visitors and it was agreed not to bind their movement. The medium term movement issue is still on the negotiating table with the barrier being the fear from industrial countries that removing restrictions on movement may hinder their ability to control immigration. Therefore there is a desire to bind their movement and currently a range of bilateral agreements are in place which give substantial importing country control over such movement.

Professionals Services under GATS

Professional services is a particularly tricky area for negotiation because of the large range of diverse services involved. Negotiations on this matter have moved forward by focusing on accounting services only. The process has been to take this one profession and isolate the barriers to trade and identify how one can weaken these barriers. This hopefully lays out a framework for negotiating other multilateral agreements in professional services. What has emerged from these negotiations is that there are two main barriers to trade in professionals services, namely the licensing of professionals and the status of enterprises in foreign countries for liability purposes. The former is the most difficult to solve.

4.2 General Discussion

A number of issues were raised by the participants. These included:

- *Prudential methods* - there is heated debate as to what is prudential and what is discriminatory. For instance, many countries discriminate between short term and long term capital flows to avoid the instability that short term capital brings yet the USA feels that this is unnecessary prudentially.
- *Credit for unilateral liberalisation* - a number of African countries have undergone liberalisation of their economies under SAPs yet within the context of GATT they are not getting reciprocal benefits as these were unilateral.
- *Negotiation strategy* - African countries need to have a positive agenda and be proactive (e.g. pushing for another round of negotiations on the movement of labour). The problem until now is that many countries do not have the legal capacity or resources to engage effectively with industrial countries. A means of overcoming this constraint is to consider regional negotiation strategies. However, this need not just be through regional organisations as these may not always overlap with the interests of all countries involved. In fact, often an issues-based grouping of countries is more effective as there is greater likelihood of closer cooperation due to common interests. However, if done on a regional organisation basis then it can strengthen the regional integration effort and bring in line the liberalisation programs of all member countries. The WTO does not encourage regional agreements as it is worried about the impact on non-member countries.
- *Phasing of liberalisation* - often liberalising at a regional level first can help prepare firms for multilateral liberalisation. This initial liberalisation brings new producers into the trade arena which

may not be competitive on a global scale but which can reap some economies of scale and learning.

- *Status of the ITA* - the Information Technology products Agreement signed by numerous countries in Singapore is not binding under the WTO yet most WTO members are a part of it.
- *Government procurement and subsidies* - the area of government procurement and subsidies has not been moved on yet. There are three tracks running at the moment. The Government Procurement Agreement (GPA) exists but is cumbersome and not compulsory. There are moves to start looking at transparency of government procurement prior to any multilateral agreement. Lastly, for subsidies there is currently only an information gathering and education process happening looking at what should possibly be allowed and what should not.

5. Methodology for General Study on Role of Services in the National Economy

Thierry Noyelle (UN-DDMS)

5.1 Methodology

The purpose of such a case study is to prepare an overall evaluation of the contribution of the service sector and international trade in services to the national economy in order to equip policy-makers for multilateral negotiations. There are four major parts to the case study:

- contribution to national economy and trade - examine the numbers and explore the implications
- service imports - role in national economy and how regulation limits their role
- service exports - extent of participation in foreign markets and barriers faced
- policy implications

Contribution to national economy
This section should begin by providing a macro context for the analysis based on a literature review. The role in the national economy should take its cues from the South African paper by looking at the GNP and employment contribution as well as a sectoral breakdown into producer and consumer services. Data sources include the central banks and the World Bank. For the assessment of trade in services, one can either organise the data by the 12 major sectors of GATS if possible or split it into producer and consumer

services. Reporting on volumes or trade, growth rates and RCA measures are important. The IMF data is one good source yet there is a need to extend the IMF definition of service trade to include remittances and FDI income. These additions will be imperfect as they do not distinguish between long term and short term migrants, nor between royalties from FDI from goods or services. This data should be available from either the Central Bank or from the national statistics office. However, the limitations of the data and the collection method should be explored and reported.

Domestic services and imports
There should be a brief discussion of the market structure of each major service sector and the nature of competition in these markets. Identify where service imports are occurring and what the barriers to trade are. These barriers are likely to be non-tariff barriers such as regulation and so the way in which sectors are regulated needs to be mapped out along with their likely influence. The sectors should be organised along the 12 sectors used in GATS. For each sector tabulate a) structure, b) major regulations, c) operation and influence of regulations. A further table is necessary detailing a) any limits on FDI, b) any limits on the movement of foreign workers and c) any limits on BoP transactions.

Service exports
The first step is to map out the problems exporters face in foreign markets. Isolate those sectors where the country has a comparative advantage and perform selective interviews of enterprises. The next step is to explore how trade agreements may bring down barriers. This involves a survey of major trade agreements that the country is involved in and the openness of service trade in these agreements. If possible get direction of trade statistics to uncover key markets which can be opened up.

Policy Implications
The purpose of this section is to pinpoint sectoral areas of interest to the country. For exporters this may be which sectors to push for further opening. For importers, the sectors where market opening offers are easier to make. This may be either where there is a strong domestic industry or where extreme weakness may justify market opening to reduce inefficiencies. In addition there should be some discussion of which barriers should be weakened.

5.2 General Discussion

A number of issues were raised by the participants. These included:

- *Inter-institutional Working Group* - due to the limits of desk research in this field, the support from government and enterprises is especially important.
- *Services contribution to other sectors* - producer services serve as an important intermediate input into most sectors and so one needs to assess their contribution (or hindrance) to other sectors by looking at the variety, cost and quality of services provided. Often the gains from liberalisation are felt in other sectors through a reduction in cost, an increase in variety and an increase in quality of services occur. In Africa a major hindrance to trade is the inefficiency of support services to import and export (transport, customs clearing, port handling) which undermines competitiveness. A potential source of data for this exercise is input-output tables plus case studies of some large firms.
- *Informal sector* - the informal sector is large in all the participating countries and studies have shown that services tend to dominate the activities of the informal sector. For this reason it should be included in the analysis if possible
- *Coverage* - countries may need to prioritise sectors as the limited time frame and budget may exclude doing an exhaustive analysis of all 12 sectors as detailed by GATS. There should also be a balance between the depth of analysis in the overview paper compared to the sectoral studies.

6. Methodology for Sector Study on Financial Services

Rohinton Medhora (IDRC)

6.1 Methodology

A specific case study into financial services is important for a number of reasons. First, there exists specific negotiations on financial services and an analysis of this will enable participating countries to table a finance-specific commitment and use this to trade in negotiations. Second, the financial sector is very important for development while trade in financial services has numerous peculiarities around commercial presence and movement of skilled persons whose analysis can serve as foundations for other sector studies. Lastly, most countries have some knowledge of the sector already and much of the data is a available yet there is a dearth of academic analysis.

Another important issue is what are the potential benefits and costs of implementing binding financial sector reform under GATS. On the positive side, reform can a) increase the range of financial instruments available which can impact on competitiveness, b) diversify the risk of consumers, c) provide policy credibility enabling greater macro stability and facilitating FDI. On the down side, financial sector reform under GATS can a) not provide increased competition and efficiency due to oligopolisation of the sector, b) destroy a desirable local sector, c) generate macro instability if opened up under the wrong conditions.

Mapping of sector
The case study should begin by mapping out the financial services sector in a particular country. The large range of services included in this sector can be grouped into a few main categories - namely, commercial insurance, personal insurance, retail banking, other banking, other non-banking financial services (e.g. forex dealing, stockbroking). For each sector analysis a) whether they all exist, b) size, c) composition with respect to size and ownership.

Financial reform
The second step is to provide a narration of financial reform over the last 10 to 15 years. In addition, perform a mapping of the sector for 15 years ago and through the comparison to the current state of the industry one can hopefully track the impact of different financial reforms. It is important to differentiate between de jure and de facto reforms (i.e. other non-tariff barriers may change which are de facto reforms).

Consequences of reform
The study should assess the consequences of reform on competitiveness and efficiency, macro stability and any broader developmental concerns.

- *Competitiveness and efficiency* - there are a number of accepted ways of measuring the competitiveness of financial services. These include assessing the contestability of the market, the concentration ratios, the entry barriers (economic, legislative, cultural and institutional), and the price of services in comparison to the world price. The benchmark for the latter would usually be either the USA and would include the lending spread, commissions, fees for insurance, etc. The question to be asked is whether increased competition has led to increased efficiency (as measured by recovery rates, lending spreads, net profits, return on capital, etc.).
- *Macro stability* - the process here is to first estimate the likely impact on capital flows and then estimate the consequences of such flows. Again there are standard methods for assessment of the likelihood of macro instability and whether the country is likely to cope with it in the short term. First examine the current account deficit and how it is financed (short term capital vs. long term capital flows). Calculate the ratio of this deficit to GDP and the extent of the international reserves available. Next one needs to assess the direction of use of these capital flows - are they used for government deficit spending or private sector deficit spending. Lastly, assess the exchange rate - is it overvalued by more than 5-10%.
- *Developmental concerns* - most countries have other developmental concerns in which financial services can play a crucial role (e.g. credit to SMMEs, rural retail banking, etc.). One needs to assess whether these goals are concomitant with financial sector reform or not. How can one continue to provide targeted credit in a liberalised environment?

Conclusion
The final section of the study should draw on some policy conclusions. Specifically, it should attempt to answer some of the following questions:

- should the sector be opened up all at once or should reform be phased in over time? If the latter, then at what speed?

- should the country make an offer to liberalise or not? If yes, then to whom should the offer be made - GATS, WTO, regional grouping?
- what are the offers of neighbours and competitors and how does this influence the offer made by your country?

6.2 General Discussion

A number of issues were raised by the participants. These included:

- *Inter-institutional Working Group* - the research team should consist of 2 or 3 people of which one should be from the Central Bank or Ministry of Finance. The inclusion of experts is important in providing credibility to the study.
- *Conditionality in offer* - it is not GATS illegal to place developmental conditions or performance requirements on the entry of foreign firms including training and technology transfer. There can also be restrictions on products, geographical coverage and share equity bases. Of the offers made by thusfar, most used 5 limitations of GATS - total value of sales, value of operations, products, number of people, legal entity type.
- *Unprofitable market servicing* - often in developing countries there are missing markets for SMMEs or rural people. Banks typically ignore these markets as they are unprofitable. Liberalisation may not lead to these markets being serviced yet one needs to ask whether a GATS offer leaves the country worse off than before rather than will it fill these gaps. It may also help in filling some gaps by creating new markets such as venture capital where local expertise is lacking. Under GATS one can impose conditionality on foreign banks to enter unprofitable markets if the same applies to local firms. However there are other means to achieve these goals (such as subsidies) which should be considered.
- *Concentration ratios* - concentration ratios for banks may include the share of total deposits, share of number of clients, or share of national lending. For the stockbrokers it may be the share of the volume of trading or share of total commissions.
- *Informal financial systems* - in most countries there are informal financial systems operating for micro-finance. These should be mentioned in the study and some attempt to estimate their significance will be important. However, from a GATS perspective it is not a market where foreigners are active and therefore does not fall into negotiations.
- IMF SAP programs - the reforms of GATS are similar to liberalisation requirements under IMF SAPs yet the GATS offer is more binding and therefore may achieve a greater impact on the expectations of international financial institutions.

7. Methodology for Sector Study on Telecommunication Services

Brahima Sanou (ITU)

7.1 Methodology

The key problems facing Africa in telecommunications are the low telephone density and the large financing demands to raise the telephone density. The question that this study needs to ask is how can the country use the framework of GATS and the WTO to fulfil national and regional goals.

The study itself should follow the pattern laid down by the sectoral study into financial services. It should therefore contain the following components:

- the competitive performance and efficiency of the sector - data for this section is relatively easy to gather at a national level and the ITU is an alternative source. It should include all players including no-basic telephony.
- the impact of the telecommunications sector on other parts of the economy (positive or negative) and its contribution (or hindrance) to competitiveness of such sectors
- the regulatory structure of the industry - included is a need to assess whether legislation confirms to regional and GATS provisions committed to by the country

- the reforms that have happened thusfar in the industry
- the scope of planned future reforms
- the GATS offer - what are the advantages and disadvantages of liberalisation under GATS

As the deadline for the tabling of commitments was 1 January 1998, any work in this area is concerned with medium term planning.

8. Implementation of CAPAS III at the Country Level

Marcel Namfua (Unctad), Thierry Noyelle (UN-DDMS)

The discussion of methodologies gave way to a more general discussion covering implementation issues for the work program. The following general points were made by participants and presenters:

- *SAP vs. GATS offer* - the difference between reforms under SAP and GATS is that their is additional onus when binding under GATS as not reversible. However, there are opportunities for temporary backpeddling in times of crisis under GATS (e.g. BoP crisis)
- *Missing markets* - one reason for liberalising financial markets is to fill missing markets yet there is not a strong link between offers to GATS and filling missing markets to date.
- *Further sectoral studies* - the participants were asked which other sectors would be of interest to their countries to study and include either in this round or to have a regional study performed. Aside from the two sectors already put forward (financial and telecoms), there was strong support for transportation and tourism industries. The former because of its influence on the competitiveness of exports and its poor state in Africa, and the second because it held comparative advantages for LDCs. It was felt that the transport sector also lent itself to a regional approach. In terms of GATS, maritime transport and labour services are due to be reopened and so it may be useful for countries to begin studies in these sectors as preparation. The concern raised was that too many sectoral studies may stretch capacity too far thereby reducing the depth and value of research across the board. However, if governments were willing to put in their own resources then it would be possible.
- *Regional studies* - any regional study that may emerge should not be a substitute for country studies but should lay the ground for deeper country studies. The question also arises as to what constitutes the region. Is it a regional grouping, a natural geographic region (e.g. Southern Africa), a grouping of participating countries only, or would a study be better served by grouping of countries with a common interest (e.g. landlocked countries and transport).
- *Resources* - CAPAS provides resources in three areas - a) management and co-ordination of project along with experts on an ad hoc basis, b) financing of regional meetings, c) funding of national research teams (lumpsum fixed budget). The country itself must provide the organisation of a national dissemination seminar and the functioning of the IWG plus any interface with researchers.
- *Timing of project* - the proposal was to settle all contracts with the research team leader by the end of 1997. There would then be three months for the interim reports which would be available in April for the mid-term review missions by the team of experts. This represents a chance to take stock and arrange a meeting of the IWG to discuss initial findings. There will then be a further 4 months to complete the research in draft format. In August/September a CAPAS meeting will be held in which the draft final reports will be discussed. Once alterations have been made, dissemination seminars will be held in the last 3 months of 1998.
- *Composition of IWG* - the IWG should be a mixed group comprising of functional ministries, private sector representatives (employer associations) and the research team. This can also serve as an advisory and consultative forum for government for GATS negotiations anyway.
- *Composition of research team* - from experience it may be useful to have 2 researchers per case study - one economist and one person with a legal background to unravel the regulatory frameworks. It may also be useful if one of the researchers came from the sector under study (e.g. from the national telecom provider or the Central bank).

9. A Brief Assessment of a South African Agenda within CAPAS

James Hodge (DPRU)

The CAPAS III initiative incorporates nine sub-Saharan African countries and aims to build national research and policy-making capacity in the area of services within each participating country. This process should also strengthen each country's ability to participate positively in GATS negotiations and result in well-researched offers to GATS which are coherent with national development goals. To go some way to achieving this goal, each country will undertake the three studies outlined in the proceedings, namely the role of services in the national economy, financial services and telecommunications services. A detailed methodology has been provided for each and access to a team of experts is assured during the research process. If countries wish to undertake other sectoral studies then the CAPAS team of experts will develop a methodology to be used by the research teams.

South Africa has agreed to fund any participation in CAPAS itself through funds made available by the Trade and Industrial Policy Secretariat (TIPS). The question is to what extent will South Africa gain from CAPAS participation and if South Africa chooses to participate, then what should our agenda be. The reason this question needs to be posed is because South Africa has already put together GATS offers - some of which are extremely liberal (e.g. financial services). In addition, South Africa has been going through a major reform process in a number of service sectors which has entailed substantial research to date. This includes the partial privatisation and reform of state-owned telecommunications and transportation services. Given these developments, it may be argued that there is little additional benefit from participation in CAPAS III, especially as the case studies involved are financial services and telecommunication services.

Despite what has already been done in South Africa, the gains from CAPAS participation are numerous for the country. The following benefits can be identified in particular:

- *Creating a coherent strategy around services* - the Department of Trade and Industry does not have a coherent strategy around services despite their key role in the South African economy. Much of the expertise does lie in other ministries yet a common coherent strategy is necessary if economic and development goals are to be achieved and if the country is to benefit from trading concessions in the GATS. In addition, current work by other ministries in services is very inward looking and the DTI can play a key role in developing an export strategy for the services sectors. This is important due to the high potential of the South African service sector.
- *Assessment of current GATS offers* - although a set of offers from South Africa is already in place, there needs to be a proper economic and developmental assessment of their potential and actual impact on the service sector of the country. This will provide a good foundation and numerous lessons for assessing any future offers to be made by South Africa.
- *Developing medium-term GATS offers for services* - although South Africa has submitted GATS offers, a new round of negotiations will take place in the year 2000 for which South Africa needs to be well-prepared if they are to respond positively. South Africa needs to assess where they can improve on their current GATS offers and what demands they can place on other countries in the negotiation process. This will hopefully enable South Africa to benefit far more from the next round of negotiations than they did from this last round.
- *Creating a structure for future negotiations* - the structures that are set up within the country under CAPAS - namely, the inter-institutional working group (IWG) and the national research team (NRT) - are potentially important beyond the CAPAS programme as they can serve as the support institutions for future GATS negotiations. Getting these structures in place now may be an important spin-off.
- *Capacity building* - the Department of Trade and Industry does not have much service sector policy-making capacity currently while the research community has limited capacity in certain sectors only. The opportunity of interacting with an international team of experts and other researchers from the region will contribute significantly to capacity building.

It therefore seems as if South Africa has much to gain from the CAPAS III programme and should be involved. The outstanding question is therefore which studies should South Africa complete within the CAPAS framework. In the long term South Africa should commission studies on each of the 12 service sectors identified by GATS in order to develop a coherent service strategy and to adequately prepare for future negotiations. In the short term under the CAPAS programme only 3 or 4 studies can be done. One of these should be the overview of the role of services in the national economy. This will provide the valuable background and overview necessary for any strategic vision for the services sector by government. The choice is then for 2 or 3 sectoral studies. The 12 sectors listed under GATS include:

business services	communication services
construction and related engineering services	distribution services
educational services	environmental services
financial services	health related and social services
tourism and travel related services	recreational, cultural and sporting services
transport services	other services.

The suggested two case studies are financial services and telecommunications. These are important sectors to investigate due to their obvious importance in the economy and negotiations. Other sectors that may be considered important are transport services, construction and engineering services, and tourism services. Transport services have a major impact on trade competitiveness while the other two service sectors represent major opportunities for South African exports.

It is suggested that South Africa perform three sectoral studies and that these include financial services, transport services and construction and engineering services. It is felt that there is a wealth of research on telecommunications and tourism in South Africa and therefore less benefit may be derived from including these sectors.

“CAPAS”-ity Building

CAPAS -- or Co-ordinated African Programme of Assistance on Services -- is a programme of technical assistance that focuses on building national policy-making capacity in Africa in the area of services. The effort includes providing African policy-makers with the tools they need to strengthen the relationship and coherence between national policies and regional and international trade policies for services. The programme links issues of trade to those of national development by focusing, in particular, on the requirements of the new multilateral framework for trade in services, or General Agreement on trade in Services (GATS,) negotiated during the Uruguay Round.

Ten African countries have participated to the programme since it first became operational in 1992: Benin, Burundi, Ghana, Guinea, Kenya, Nigeria, Senegal, Tanzania, Uganda, and Zimbabwe. Under the *New* CAPAS, starting in early 1997, a new group of seven to ten African countries are targeted for national implementation of the project. the group is likely to include Zambia, Swaziland, Lesotho, Namibia, Madagascar, Burkina Faso, Cote d’Ivoire, Cameroon and South Africa. In addition, starting in 1998, a two-year region-wide effort focusing on all Sub-Saharan African countries will be launched to prepare governments from the region for the new round of service trade negotiations that is to begin in year 2000 under the auspices of the World Trade Organization.

The main activities of the programme are carried out by the participating countries through (1) an advisory group of public and private sector representatives drawn from government ministries, parastatals and private sector enterprises called the Interinstitutional Working Group or IWG, and (2) a National Research Team or NRT. The NRT prepares analytical studies under the guidance and with the support of the IWG which is the ultimate user of the work of the NRT. It is the responsibility of the IWG to push through the public policy machinery proposals for policy changes and reforms. The use of international experts is usually limited to providing methodological guidance to the NRTs and IWGs.

CAPAS is coordinated jointly by UNCTAD (Geneva) and UN-DDSMS (New York.) The two agencies coordinated the work programme implemented by participating countries, plan and organize regional meetings, provide methodological support when and where necessary, and raise funds. The IWGs and NRTs organize national seminars to disseminate the findings of their work to a broad domestic audience. To repeat, the substantive work is done locally by the advisory group and the national researchers and consultants.