

Services Trade in the East African Community

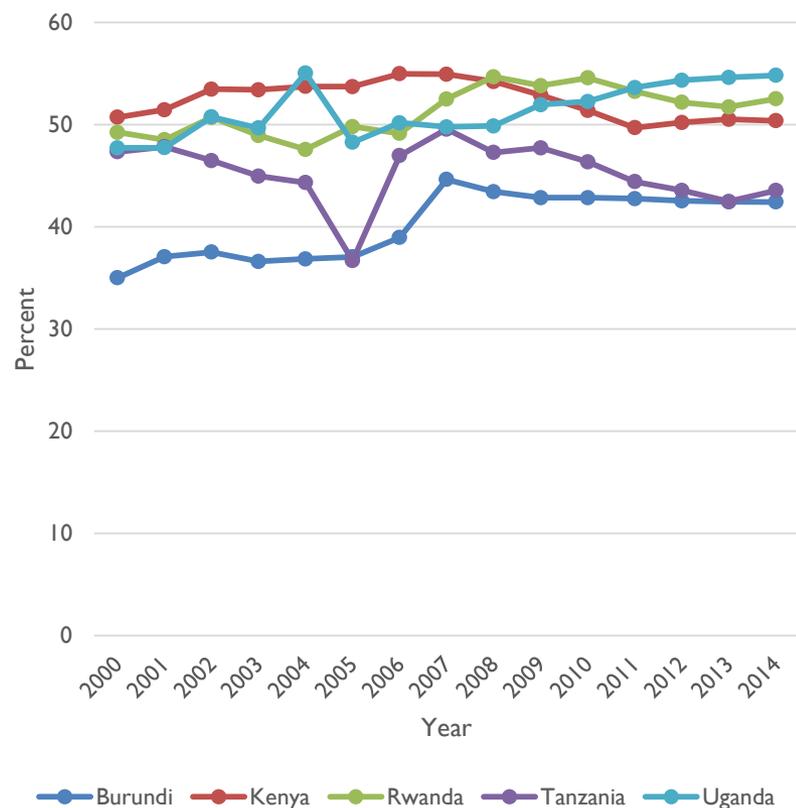
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Outline

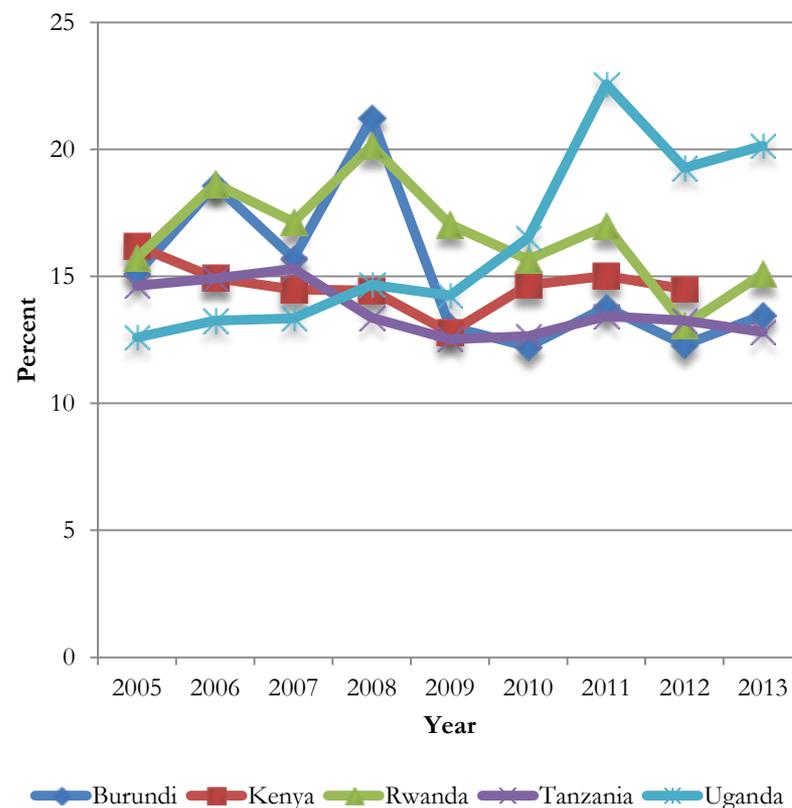
1. Services are a growing part of the economy, and trade integration is significant.
2. Policy reforms can boost manufacturing exports.
3. Reform efforts should focus on backbone sectors to increase GVC participation.
4. Conclusion.

1. Services are a growing part of the economy, and trade integration is significant.

Services VA % GDP

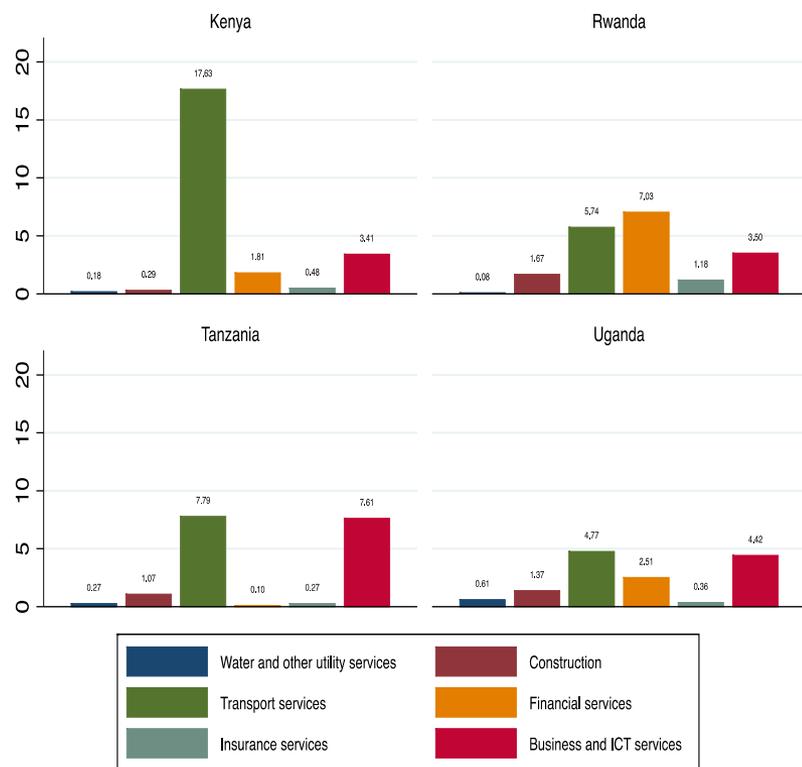


Services Trade (X+M) % GDP



1. Services are a growing part of the economy, and trade integration is significant.

Forward Linkages (%)



- ▶ Measures the proportion of services used as inputs into other countries' exports.
- ▶ Proxy for importance in value chains.
- ▶ Transport, finance, and business/IT stand out.
- ▶ Development of financial markets and institutions, and promotion of inclusion, in Rwanda contributes to the high level of importance of that sector.

2. Policy reforms can boost manufacturing exports.

▶ Firm level study:

- ▶ Construct firm-level measures of services input use.
- ▶ Estimate a two stage model:
 1. Relating local services productivity and manufacturing productivity.
 2. Relating productivity to manufacturing exports.

▶ Results show that

- ▶ 10% increase in the productivity of services firms → 0.4% increase in manufacturing productivity
 - ▶ Stronger effect for firms that use more services inputs.
- ▶ 10% increase in manufacturing productivity → 7% increase in exports
 - ▶ So the indirect linkage back to services can indeed promote exports.

2. Policy reforms can boost manufacturing exports.

- ▶ In the EAC contexts, results are country-specific, due to differences in the pattern of services input use.
- ▶ A 10% increase in services productivity leads to the following expected increases in manufacturing exports:
 - ▶ Burundi: 0.24%
 - ▶ Kenya: 0.30%
 - ▶ Rwanda: 0.25%
 - ▶ Tanzania: 0.50%
 - ▶ Uganda: 0.41%
- ▶ Scope for services reforms to boost manufacturing exports, but the estimated numbers are relatively small.

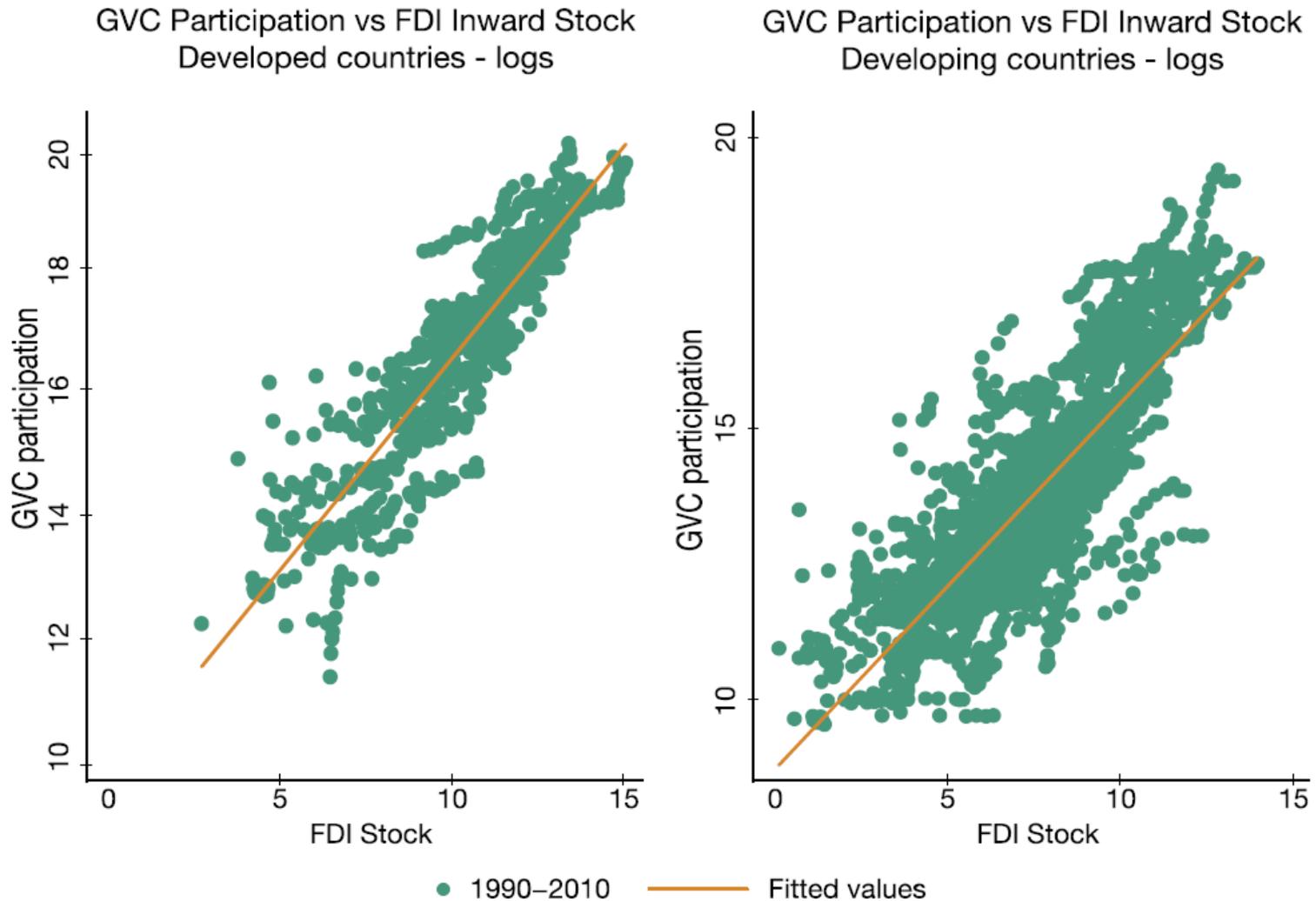
2. Policy reforms can boost manufacturing exports.

- ▶ Using macro-level data on bilateral trade flows produces much stronger results.
- ▶ A 10% decrease in a country's cross border Services Trade Restrictiveness Index score is associated with a 1.5% increase in manufactured exports.
- ▶ A 10% decrease in a country's investment Services Trade Restrictiveness Index score is associated with a 4.4% increase in manufactured exports.
- ▶ Country Services Trade Restrictiveness Index scores can be used to provide EAC impacts from reform to the level of the SSA leader (Ghana):
 - ▶ Burundi: 4.4% increase in manufactured exports
 - ▶ Kenya: 18.6% increase in manufactured exports
 - ▶ Rwanda: 13.0% increase in manufactured exports
 - ▶ Tanzania: 19.8% increase in manufactured exports
 - ▶ Uganda: 23.1% increase in manufactured exports

3. Reform efforts should focus on backbone sectors to increase GVC participation.

- ▶ Reforming services policies is not only good for the services economy: it is also good for manufacturing.
 - ▶ Rwanda is quite liberal on investment in most sectors, but some limits persist (e.g., license limitations).
- ▶ GVC context strengthens the point.
 - ▶ GVCs are interlinked networks of FDI and trade (goods and services).
- ▶ More research needed to link micro- and macro-level results
 - ▶ Indications that governance institutions and the business environment play important roles.

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- ▶ There is scope for strategic services policy reforms in EAC to reap significant gains.
- ▶ Focus should be on backbone sectors used most intensively in manufacturing GVCs:
 - ▶ Transport
 - ▶ Telecom and IT
 - ▶ Business and professional services
 - ▶ Finance
- ▶ Biggest effects come from investment policies in services sectors.

4. Conclusion

- ▶ Services are key inputs into manufacturing, including for export.
- ▶ All the more important in the GVC context.
- ▶ As a result, policy reforms that boost services productivity can have significant flow on effects to manufacturing productivity and exports.
- ▶ Macro-level results suggest that trade effects can be large, although it is likely that domestic governance institutions play an important mediating role.