

## Services Trade in the East African Community

Ben Shepherd, Principal, Developing Trade Consultants.

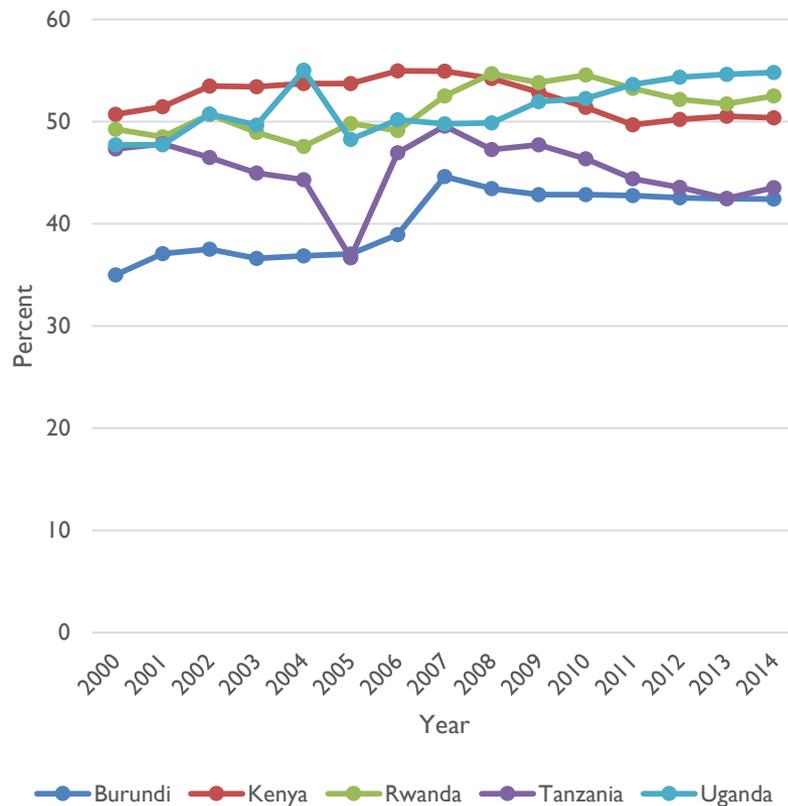
# Outline

---

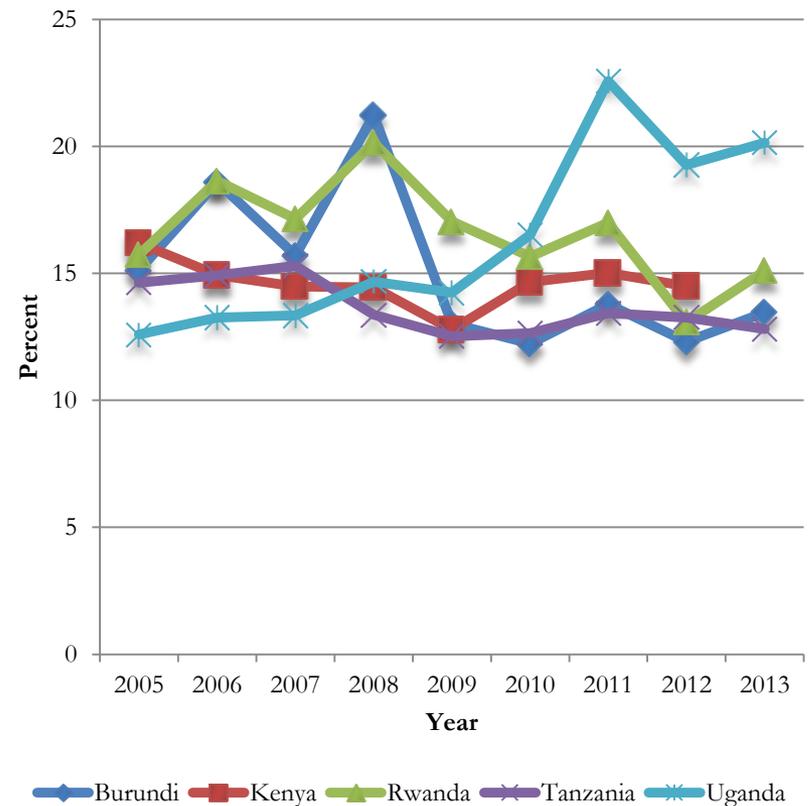
1. Services are a growing part of the economy, and trade integration is significant.
2. Policy reforms can boost manufacturing exports.
3. Reform efforts should focus on backbone sectors to increase GVC participation.
4. Conclusion.

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

## Services VA % GDP

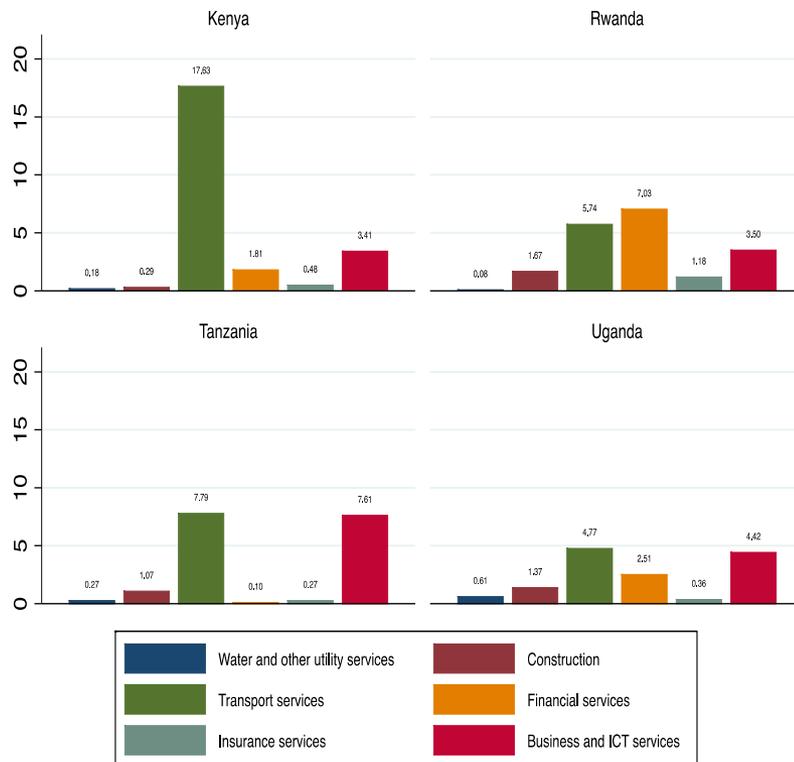


## Services Trade (X+M) % GDP



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

## Forward Linkages (%)



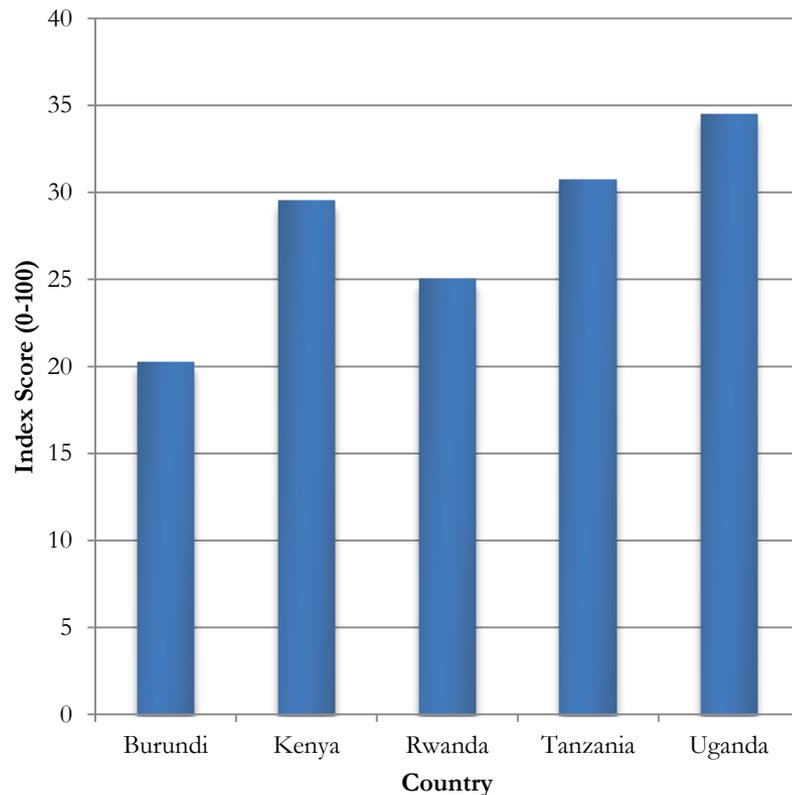
- ▶ Measures the proportion of services used as inputs into other countries' exports.
- ▶ Proxy for importance in value chains.
- ▶ Transport, finance, and business/IT stand out.



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

---

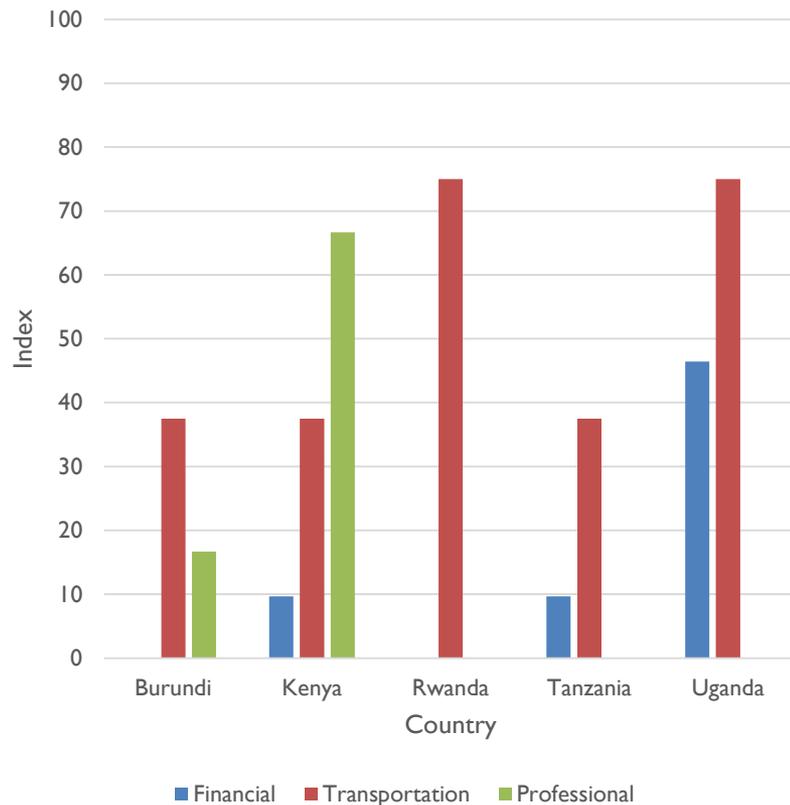
## STRI (Overall)



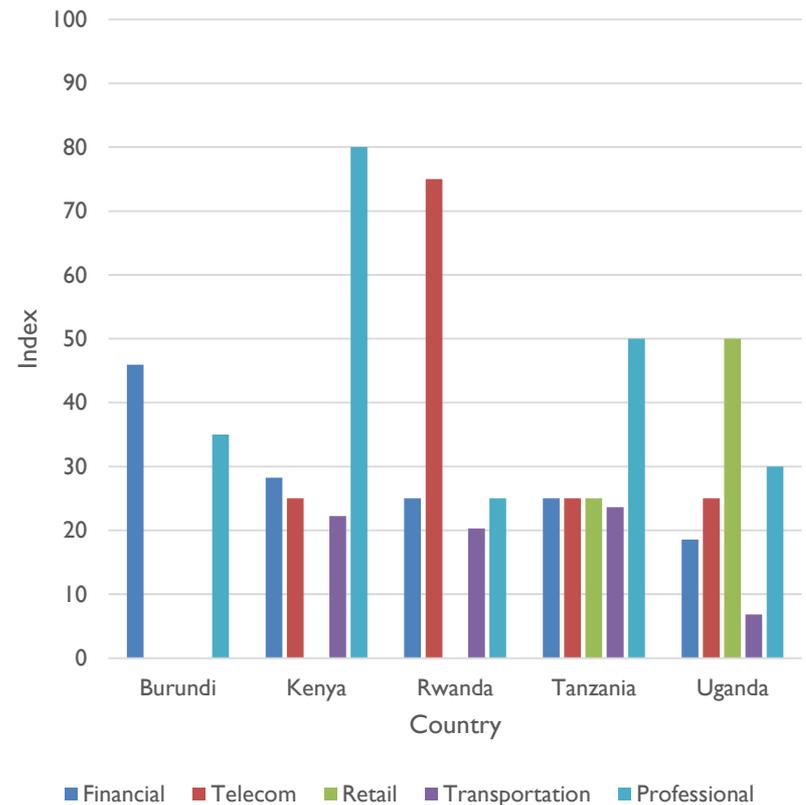
- ▶ Policies are not as restrictive as in some parts of the developing world.
- ▶ But significant variation across sectors.
- ▶ Scope to further leverage the services economy to develop broader competitiveness.

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

## Cross-Border Trade



## Investment



## 2. Policy reforms can boost manufacturing exports.

---

- ▶ Many services sectors provide crucial inputs to manufacturing firms, including exporters:
  - ▶ Finance
  - ▶ Transport
  - ▶ Telecommunications and IT
  - ▶ Business services
  - ▶ Professional services
- ▶ Increasing services productivity can reduce prices and increase quality, which acts like a technology improvement for manufacturers.
- ▶ Policy reforms that improve the performance of key services sectors can promote manufacturing exports, by increasing firm productivity.

## 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

- ▶ A 10% increase in the productivity of services firms translates into a 0.4% increase in manufacturing productivity, and that the number is higher for firms that use services inputs more intensively.
- ▶ If manufacturing productivity increases in 10%, exports increase by 7%--meaning that 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.

---

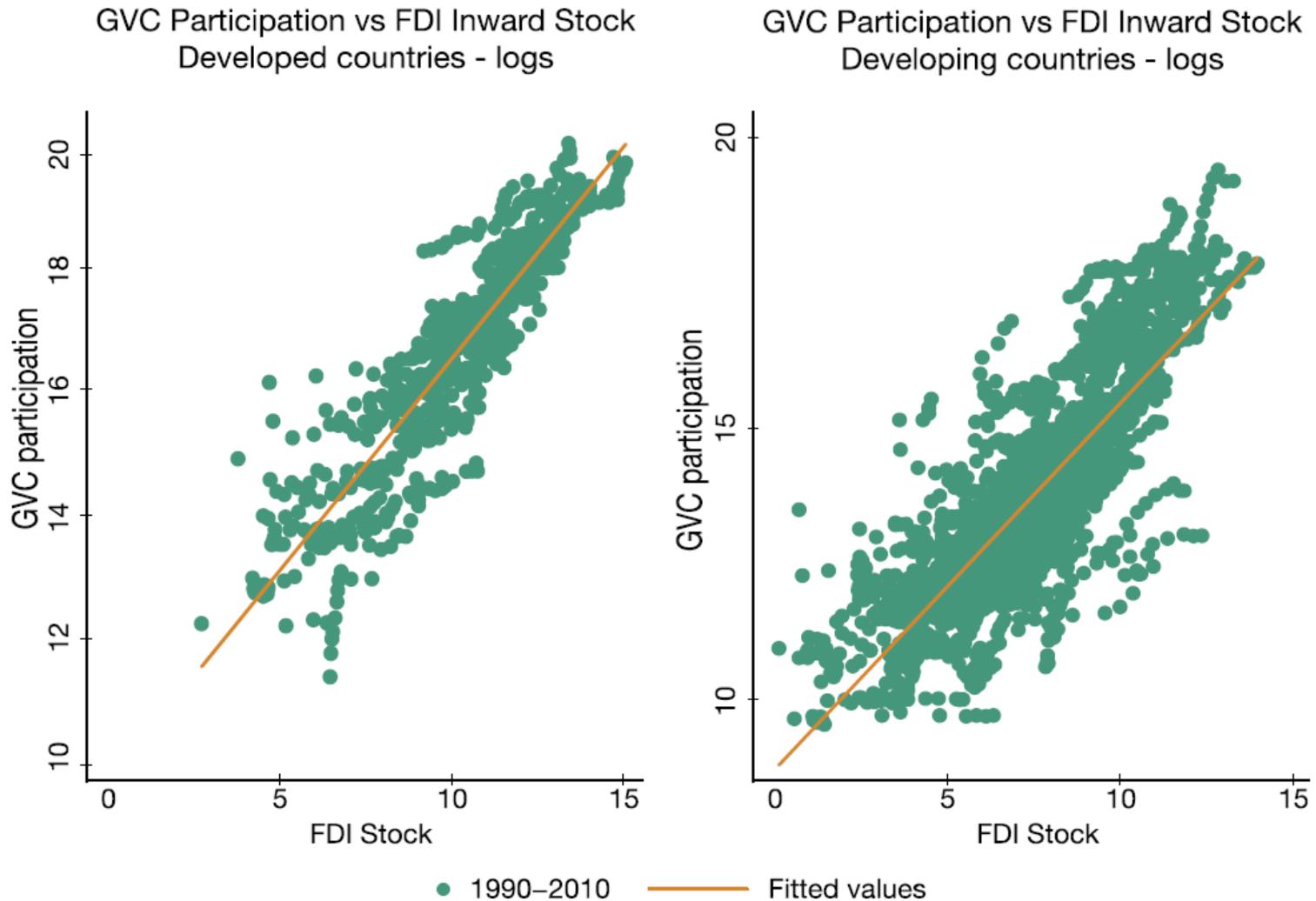
- ▶ Using macro-level data on bilateral trade flows produces much stronger results.
- ▶ A 10% decrease in a country's cross border Services Trade Restrictiveness Index score is associated with a 1.5% increase in manufactured exports.
- ▶ A 10% decrease in a country's investment Services Trade Restrictiveness 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.

---

- ▶ Key insight is that reforming services policies is not only good for the services economy: it is also good for manufacturing.
- ▶ All the more important in the context of GVCs, which are interlinked networks of FDI and trade (goods and services).
- ▶ More research is required to understand the difference between the micro- and macro-level results, but it is likely that governance institutions play an important mediating role, as does the business environment.

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



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

---

- ▶ Although EAC is not starting from a high baseline in terms of restrictiveness, there is scope for strategic policy reforms 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
- ▶ The biggest effects are likely from reforms of investment restrictions 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.