



# AFRICAN CONTINENTAL FREE TRADE AREA-TRADE IN SERVICE OPPORTUNITIES AND CHALLENGES

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# Introduction

- ▶ Launched on 15th June 2015 at the 25th Ordinary Summit of the African Union Heads of State and Government, the texts of the AfCFTA Agreement and its protocols on Trade in Goods, Trade in Services and Dispute Settlement were concluded in less than 3 years — in March 2018, when the Agreement was signed by 44 member-states at the 10th Extraordinary Summit.
- ▶ The Africa Continental Free Trade Area (AfCFTA) came into force on 30th May 2019, a month after the required minimum deposit of 22 instruments of ratifications was attained as outlined in the Framework Agreement.
- ▶ Zambia signed the Framework Agreement establishing the AfCFTA on 10th February 2019 in Addis Ababa, Ethiopia. Cabinet approved ratification of the AfCFTA Framework Agreement on 26th October 2020 and Zambia signed the instrument of ratification on 21st January 2021. Zambia became the 36th State Party to have ratified the Agreement on 5th February 2021.

# Structure of the AfCFTA Framework Agreement

The AfCFTA agreement has three layers.

- ❑ First is a framework agreement that defines, in general terms, the purposes and intentions of the agreement, establishes its primary definitions and outlines its scope.
- ❑ The second layer comprises the protocols to the agreement, which cover Trade in Goods, Trade in Services, Rules and Procedures on the Settlement of Disputes, Investment, Competition Policy and Intellectual Property Rights. The protocols constitute the main substantive and operative components of the agreement, including its obligations, intentions, objectives, exceptions and institutional provisions.
- ❑ The third layer contains the annexes, guidelines, lists and schedules to the protocols. These articulate the provisions of the protocols in detail.

For example, Annex 1 details the exact schedules to be used for the tariff liberalization called for in Articles 7 and 8 of the Protocol on Trade in Goods.

# Signatures and Ratification

The signatures, ratifications and deposits of the instruments of ratification of the Agreement Establishing the AfCFTA have been generally positive.

- ❑ On signatures, the State of Eritrea still remains the only member of the AU that has not signed the Agreement Establishing the AfCFTA out of the 54 Member States.
- ❑ Urgently, the number of ratifications stands at 42 with 39 of these being State Parties of the AfCFTA prior to their respective deposits of instruments of ratification to the AUC

# Phases of Negotiations

► The AfCFTA Framework Agreement comprises three Phases of the negotiations. The three phases are:-

1. Phase I focusing on Trade in Goods, Trade in Services and the mechanism on Dispute Settlement;
2. Phase II focusing on Investment, Intellectual Property and Competition Policy;
3. Phase III focusing on the Protocol on Digital Trade and E- Commerce.

# Phase I Negotiations

## Trade in Services

The African Continental Free Trade Area (AfCFTA) negotiations have reached a critical phase. Member states are currently engaged in negotiations on issues that are essential for trade in goods and services

To consolidate the work on Trade in Services, the Council of Ministers at their 4<sup>th</sup> Meeting approved the establishment of five (5) sub-Committees and an intensive Work Programme that will facilitate their work and ensure the completion of outstanding issues under negotiation.

In accordance with paragraph 53 of the guidelines on trade in services, the Committee on trade in Services coordinates the verification of schedule of specific commitments of state parities and recommend them to the AfCFTA Council of Ministers responsible for trade

# Trade in Services Negotiations – AfCFTA

The trade in services agenda is a particularly important one for the continent. Services are inputs into all economic activities. Services are essential to facilitate trade across borders, they are essential for competitiveness in all economic activities and are fundamental to structural economic transformation

First meeting of the Committee on Trade in Services which is the highest technical meeting on services was held in January 2021 in Accra Ghana adopted the TORs for the Committee on Trade in Services and directed the AfCFTA Secretariat to develop the TORs for the Sub-Committee on specific Commitments, regulatory Cooperation Framework, Mutual Recognition of professional Qualifications and Trade in Services

# Priority sectors for negotiations at the AfCFTA

- ▶ In the context of the AfCFTA negotiations on trade in services, state parties agreed to start negotiations with five priority sectors namely:
  - i. **Business Services**
  - ii. **Communication services**
  - iii. **Financial services**
  - iv. **Tourism services**
  - v. **Transport services.**
- ▶ In their offers, state parties are required to indicate any existing regulatory restrictions and restrictive business practices and any trends in development and use of disruptive technologies in the sector.
- ▶ Zambia has made offers in modes 1,2 & 3 expect for Mode 4



# Services offers at the AfCFTA

- ▶ The starting point for AfCFTA negotiations are the GATS commitments of the State Parties that are members of the WTO and the State Parties that are not members of the WTO need to start with the commitments that they have offered autonomously.
- ▶ Most state parties at the AfCFTA have made commitments in banking services more than in insurance services.
- ▶ Zambia has made an offer in banking services and is yet to make an offer in insurance services at COMESA, SADC and AfCFTA
- ▶ The lack of offer for Zambia was mainly due to the regulatory reform process that was being undertaken in the sub-sector until it was finalised.
- ▶ Due to the regulatory reform that was being undertaken, Zambia withdrew her insurance offer at SADC and COMESA and requested for time to finalise the regulation process.

# Financial Services

- ▶ Financial services sector was selected as a priority for negotiations at the AfCFTA which reflected the importance of the sector for economic development in AU Member states
- ▶ well-functioning financial sector is essential for development and poverty alleviation especially in a developing country situation such as Zambia.
- ▶ Developing countries such as Zambia need to conduct reforms according to the development needs of the country without rushing in these negotiations.
- ▶ South Africa constitutes the highest exporter of financial services among the SADC countries, with total exports across the years hovering around \$800 million, while the overall average was about \$840 million over the last ten years.

# Insurance services

- ▶ Regulations in insurance is important because it ensures that the interest of policy holders are protected and promote the stability and robustness of the insurance market.
- ▶ Liberation of the insurance sector is important because it offers an opportunity to promote development of local market and enhance exports in the continent.
- ▶ Promote diversification of insurance services through Foreign Direct Investment that are attracted to the country.
- ▶ The AfCFTA is a great opportunity for Zambia to strategize on market penetration and ensure that Zambia maximises on its exports at the continental level

# MARKETS



Approximately 450 million people  
Real GDP US\$ 561 billion  
<http://www.comesa.int>



Approximately 342 million people Real  
GDP US\$ 689.3 billion  
Source: <http://www.sadc.int>



55 countries with Over 1.2 billion people  
GDP US\$ 2.5 trillion (Nominal)  
<http://www.auc.int>

# Challenges of trade in services under the AFCTA

## 1. **limited data under trade in service to support policy decision**

Although global services trade has expanded significantly in recent years, intra-Africa trade in services is still low. We do have to note that there may well be notable informal trade in services in Africa, for which data is still meagre. But such trade is very important from a development perspective

## 2. **Poor financial investment to growing the trade in service industry**

Limited investment in both soft and hard infrastructure has had a diverse effect on the growth of the trade in service sector. Particularly the enhancement of effective and efficient trade facilitation is key for the growth of the communication, insurance and transport services. For example, ICT infrastructure, and introducing competition in the ICT-related industries that are critical to achieve universal access to services are essential for Africa's development and to address the challenges of a growing digital divide

## 3. **The growth of the digital economy**

The 21st century economy is a digital economy and more broadly, a services-intensive economy which requires all the stakeholders in particular the women and youth traders to align themselves to the changing needs of the global economy.

# Challenges of trade in services under the AFCFTA

## **4. Limited knowledge of the barriers to trade in services**

Firms need to know what the opportunities are in other African countries; and they will also know what the barriers are there to accessing those opportunities. This information is essential to make the request and offer process of negotiations for sector commitments deliver real outcomes

## **5. Application of Modes vs Regulatory developments**

It is also important to consider the fact that domestic regulatory developments may well have advanced well beyond both the GATS and REC-level commitments. This will be very important, for example, as regards Mode 3 (commercial presence by foreign firms) in many African countries.

A particularly sensitive part of the negotiations may well concern Mode 4 (presence of natural persons to supply services in another member state ) is often closely linked to Mode 3; as firms establish a commercial presence in another member state and require experts from the home base to assist with that establishment. Domestic immigration regulations will inform the commitments that are made – often across services sectors, but exclusively so, in the AfCFTA negotiations Movement of persons across borders remains a very sensitive issue and is linked often to the challenges of unemployment in all African countries, leading in some cases to very tragic xenophobic responses

# ESSENTIAL OPPORTUNITY AREAS FOR TRADE IN SERVICES IN THE AFCFTA

## 1. AFRICA'S YOUTHFUL POPULATION AND EDUCATION

Africa's youthful population presents a powerful opportunity for accelerated economic growth and innovation.

## 2. HUMAN RESOURCE TRAINING

The benefits of investment in human capital are enormous as it makes Africa the workforce for the world, by exchanging services for revenue. With the Key skill sets required such as entrepreneurship skills and with the right investments made into human capital development using education as the tool, Zambia can improve both the supply and quality of skills needed for competitiveness and job creation

## 3. PROMOTION OF ENTREPRENEURSHIP AND INNOVATION

Promoting entrepreneurship and innovation among the African youth cannot be overemphasized. This can lead to the Promotion of investor confidence and enhance Partnership of existing well-established manufacturing companies with start-ups will provide a great advantage for them to upscale, expand production, access to market and network.

## 4. HUGE POTENTIAL FOR INDUSTRIALIZATION

Growth opportunities. From the abundance of agriculture, about 60% of arable land and mineral resources. The fast-growing population and markets, which present important opportunities for industrialization

# ESSENTIAL OPPORTUNITY AREAS FOR TRADE IN SERVICES IN THE AFCFTA

## **5. PROCESSING AND VALUE CHAIN**

There is also a need to increase local production to reduce our import bill as a continent. Even in these uncertain times with the impact of COVID-19 affecting global trade,

## **6. INFRASTRUCTURE AND URBANIZATION**

However, while Africa's infrastructure still lags behind, there is still opportunity for Africa to make significant progress, for instance. Governments and entrepreneurs must capitalize on the infrastructure gap in order to create jobs and retain capital in Africa .

## **7. CONSTRUCTION AND TECHNOLOGY**

In Construction and Manufacturing sphere, governments needs to support industrialization massively across Africa by funding for rail network projects in South Africa and development of port facilities in Mozambique, to cite a few.

## **8. INVESTMENT OPPORTUNITIES IN THE FINANCIAL SECTOR**

Governments need to support establishment of financial institutions



# Opportunities under trade in services

## 1. Develop frameworks for regulatory cooperation

Member states have also agreed to develop frameworks for regulatory cooperation. Recognising that services are regulatory-intensive, this is a particularly important development. Formally commit to liberalizing service imports under the terms of the General Agreement on Trade in Services (GATS)

## 2. Data collection strategies

There is need to apply appropriate data collection strategies to generate proper estimates . These include use of administrative data sources and when not available use of the survey data.

## 3. Policy Environment

The African Union (AU) is determined to create single liberalised services market to boost intra-African trade . Therefore, AfCFTA Protocol on Trade in Services, among other things, seeks to create a single liberalised market for trade in services for the continent. If carefully negotiated and implemented, the AfCFTA legal framework for trade in services can significantly enhance continental market access to services contribute to the achievement of economies of scale, reduce business costs, improve the allocation of resources, spur (domestic and foreign) investment and promote regional value chains.

# Consolidating Zambia's interest in the AfCFTA Market

- ▶ In view of consolidating Zambia's interest in the AfCFTA market, the Ministry launched the National Strategy for implementation of the AfCFTA on 27<sup>th</sup> July, 2021. The Strategy will provide guidance on how Zambia will embrace this new market opportunity for Zambian entrepreneurs in each year of implementation.
- ▶ The Strategy serves as a guide for the Zambia's engagement with countries that are members of the AfCFTA.
- ▶ It highlights interventions on all the pillars of the AfCFTA Agreement, this will enable the country to implement activities aimed at improving the country's productive capacity as well as realise the full benefits from the continental bloc.
- ▶ The Strategy also recognises that the MSME sector is one of the key sectors which contributes to poverty reduction, wealth and job creation.
- ▶ Through the Strategy Government will endeavour to facilitate MSMEs as well as Cooperatives integration in the AfCFTA markets by providing capacity for the sector to participate in regional and global value chains and promote skills development
- ▶ The Implementation Strategy further provides for the establishment of a National Committee, and various sectoral Sub Committees that will oversee implementation of the Strategy

# NEXT STEPS

- ▶ Zambia has now finalized the regulatory reform of the Insurance Act that has been undertaken for over eight years now.
- ▶ Stakeholders from insurance sector to consider convening a workshop to review all the insurance offer and draft Zambia's offer to the AfCFTA and develop requests to countries of export interest to Zambia.
- ▶ In line with the guidelines, Zambia needs to finalize its insurance offer by end of December 2021.
- ▶ Effective implementation of the Agreement requires that liberalisation commitments be followed through, and that national strategies be put in place to mitigate any costs, and leverage the benefits, arising from the AfCFTA.

# Conclusion

- ▶ AfCFTA brings us a step closer to historic vision of an integrated market in Africa and is the basis for increasing intra-African trade.
- ▶ This alone is not enough: it needs to complement and consolidate parallel AU work on infrastructure development in communication services and financial services for viable supply capacity to the African market.
- ▶ Opportunity to have an Africa-wide approach to trade deals with other trading partners
- ▶ As a State Party the Agreement will benefit the Country by providing legal certainty and predictability of markets;
- ▶ It will encourage a rules-based trading system; establish a fair and impartial dispute resolution mechanism; and boost intra-Africa trade.
- ▶ With all 55 African Union Member-States signing and ratifying the AfCFTA Agreement, the continent will move as one bloc and realise the vision of creating One Africa Market as envisaged by the Abuja Treaty of 1994.



Thank you for your attention!