SOUTH AFRICA'S FINANCIAL SERVICES TRADE AND TRADE POTENTIAL UNDER THE AFRICAN CONTINENTAL FREE TRADE AREA

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ABSTRACT

This study investigates the nature, importance and prospects for growth of South Africa's trade in financial services and trade potential under the African Continental Free Trade Area (AfCFTA) Agreement. It does so by identifying and measuring the share, growth performance and some of the characteristics of South Africa's financial services trade in the aggregate and with selected trading partners and regions. It also computes South Africa's trade potential in financial and finance-related services trade with selected African trading partners amid the ongoing AfCFTA services trade negotiations, using trade complementarity indices (TCIs). Finally, the study estimates the effect of regional trade agreement participation on bilateral financial services trade involving African economies using a gravity model.

The study employs the use of descriptive trade statistics to analyse the share and growth performance of South Africa's services trade in the aggregate and at the sub-sector level, based on balance of payments (BOP) data for the years 2005 to 2022 from the ITC, UNCTAD and WTO Trade in Services Database. Bilateral trade data from the OECD and WTO BaTIS Database is also used in the analysis of intra-African trade. In order to investigate trade through Mode 3, information on FDI statistics is sourced from recent reports. Through analysing trade complementarity indices (TCIs), the study finds that South Africa has significant potential to increase exports of financial and finance-related services to Mauritius, Ghana and the SADC and non-TFTA regions. South Africa has significant import TCIs with the COMESA and non-TFTA regions as well as Egypt, Tunisia and Kenya. The gravity model estimation reveals that membership in African regional groupings like the AfCFTA, SADC, COMESA and the EAC have no significant positive impact as yet on intra-African financial services trade.

KEYWORDS: Financial services trade; South Africa; trade potential; AfCFTA; gravity model

DECLARATION

I declare that the dissertation entitled "South Africa's financial services trade and trade potential under the African Continental Free Trade Area", which I hereby submit for the degree, Master of Commerce (Economics), at Rhodes University, is my own work. I also declare that this dissertation has not previously been submitted by me for a degree at this or any other tertiary institution and that all the sources that I have used or quoted have been indicated and acknowledged by means of complete references.

Mawuko Gyan

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Chapter 1: Introduction

1.1 Background and context of the research

Trade in services has reportedly grown faster than goods trade over the past three decades (Cattaneo, O. *et al*., 2010: 3; WTO, 2019: 7). Between 2005 and 2017, trade in services expanded by 5.4 percent each year on average amounting to a total value of 13.3 trillion US dollars in 2017, taking all modes of supply into account (WTO, 2019: 22). According to Roy and Sauvé (2023: 13), world exports of commercial services, as measured in the balance of payments (BOP) data, increased nearly threefold between 2005 and 2022. Services exported digitally almost quadrupled over this period, with a notable shift in the composition of services trade during the COVID-19 pandemic, as travel services exports and others involving face-to-face interaction contracted. Global services exports were 22 percent of total exports in 2022, down from a share of 25 percent in 2019 just before the pandemic (Roy and Sauvé, 2023: 21).

As reported by the WTO (2019: 25), distribution and financial services were the largest traded services sectors in 2017, accounting for 19.9 percent and 18.6 percent of total trade in services respectively. While telecommunications, computer and information services, together with other business services, have been the fastest growing components of services trade in recent years (Roy and Sauvé, 2023: 23), the financial services sector remains a notably growing traded sector. Financial services also play a big role in global value chains (GVCs) by being a key input for exports coming from the manufacturing sector (WTO, 2019: 46). Services overall play a key role in GVCs as they have become more tradable and outsourceable. Manufacturing has become so intertwined with different service sectors at different stages of production that it has become difficult to imagine a GVC operating without services (Grater, 2014: 280; WTO, 2019: 44). Therefore, it is important to examine the potential for developing countries to become suppliers of highly demanded services such as financial services, especially countries struggling to make significant and mutually beneficial input into these GVCs.

Services have been a somewhat neglected area in policy spaces in developing countries (Cattaneo, O. *et al*., 2010: 1; Jansen van Rensburg *et al*., 2020: 342-343). According to Cattaneo, O. *et al*. (2010: 1), past reasons for this have been the non-tradability of certain services as well as the technological gap that exists between advanced and developing countries. These factors have however changed in recent years, particularly with the growing

tradability of services and developments in information and communication technologies (ICTs). Services also account for a growing share of production and employment in many developing countries (Roy and Sauvé, 2023: 14-16; Visagie and Turok, 2021: 21). There is much debate about whether services could become the new engine of economic growth and development, particularly with the perceived fall in the overall influence of the manufacturing sector in propelling the advancement of economies (Cattaneo, O. *et al.*, 2010: 3) However, according to Cattaneo, O. *et al*. (2010: 1), it is imperative that the trade and development potential in different service sectors be assessed before developing countries set sights on pursuing growth in promising sectors.

Visagie and Turok (2021: 28) report that there has been a notable increase in services trade, specifically in exports, from African countries within the SADC region after relative stagnancy in this area in the years prior to the mid-2000s. Visagie and Turok (2021: 35) also find that the highest traded services by these SADC countries were imports of high-value services. These services were imported from Europe and North America leaving large trade deficits that could be seen as opportunities for increasing services trade within the region. While there appears to be little intra-African services trade at present in most sectors (Visagie and Turok, 2021: 34), services are also traded through commercial presence via the activities of multinational firms across the continent, which needs to be considered. Furthermore, the countries of the African Continental Free Trade Area (AfCFTA) have signed a services trade protocol and are engaging in services trade negotiations in a number of priority services sectors to increase services trade, including financial services, communications, transport, tourism and business services (Tralac, 2020: 2).

One problem that comes with promoting services trade is establishing the most accurate and comprehensive way of measuring it. Services trade is hard to measure and this difficulty stems from the way in which services are classified. In the General Agreement on Trade in Services (GATS), the WTO agreement governing services trade, services are classified by the way in which they are delivered, i.e. by mode of supply. The first mode of supply is known as cross border supply. This refers to services that are provided and consumed across borders without the producer or consumer having to cross borders to supply or consume the service (WTO, 2010: 10). This mode of supply is arguably the most relevant mode in the current era of digitalisation, where online presence and the rapid advancement of technology has allowed for previously non-tradable or locally bound services to become easily accessible to consumers

without requiring the physical movement of persons across borders. The WTO (2019: 14) refers to this as a delocalisation of previously localised services.

The second mode of supply is consumption abroad. This occurs where a consumer moves from their country to a foreign country and consumes services provided within that country (WTO, 2010: 10). This is another relevant mode of supply in the context of the AfCFTA since tourism has been designated as a priority sector in the services negotiations. Commercial presence is the third mode of supply of services and refers to the physical establishment of commercial entities (branches or affiliates of firms) in countries other than the home country (WTO, 2010: 10). This is particularly important in sectors like banking and insurance which are part of financial services, as well as in communications and various business services. According to the WTO (2019: 21), commercial presence accounted for 60 percent of trade in services in 2017 making this mode statistically the most dominant form of services trade. The fourth and last mode of supply is the presence of natural persons. This refers to the temporary movement of service providers to deliver or provide services to consumers in another country.

All four modes of supply present their own challenges in terms of measurement. Given the dynamic nature of the services sector, the lines between these modes of supply are becoming increasingly blurred, especially in the age of digitalisation. According to the WTO (2019: 4), digitalisation has influenced the way in which companies deliver services. What may have previously required person to person contact can now be delivered across borders via digital platforms. The complexity in measurement here could arise from the inability to measure the services trade activities that are delivered via more than one mode of supply accurately if they are not for instance adequately captured by the balance of payments (BOP).

Although the BOP is useful for measuring trade across all the supply modes, it falls short in many areas. Some inadequacies noted by the WTO (2019: 11) are the lack of separation between the modes of supply and the lack of differentiation between categories of services captured under Mode 2. For Mode 3, an additional statistical domain to the BOP data is the Foreign Affiliates Statistics (FATS). However, the statistics under FATS are often unavailable or inadequate in developing countries (WTO, 2019: 11). Foreign direct investment (FDI) statistics in the BOP therefore provide a supplementary indicator that is highly useful in measuring Mode 3 (WTO, 2010: 11). Financial services are provided through all the above modes of supply. Many financial services are traded via Mode 3 and measured through FDI.

According to Dobson (2008: 290), financial services include any services of a financial nature, such as "insurance, banking, financial trading, asset management, brokerages, settlement and clearing services, the provision of financial information and advisory services", so long as they are provided by non-state affiliated financial service suppliers. McMillan (2006: 14) argues that because financial services include various subsectors, their measurement can be complicated. Nonetheless, much useful information can be gathered from BOP data together with FDI statistics and information about financial services firms such as banks.

As is the case with goods trade liberalisation, there is much debate about services trade liberalisation in the developing country context. However, services trade liberalisation is much more complex than liberalisation of goods trade (Copeland and Mattoo, 2008: 84). One reason for this is because unlike goods trade, the barriers preventing the free trade of services are not easily removable. Barriers to services trade are often regulatory in nature (Hoekman, 2017: 14). For instance, trade in services that requires the free movement of people in order to be delivered and consumed (Modes 2 and 4) could face challenges where certain countries have laws restricting the movement and activities of persons. Different countries have differing regulatory regimes and it may be difficult to establish one harmonised environment in which all kinds of services trade can thrive even within regional trade agreements (Hoekman, 2017: 14).

According to Cattaneo, N. (2011: 16), developing countries are under pressure to become more open to services trade at the multilateral level and under 'North-South' regional trade agreements. Despite the pressure, the sequencing of liberalisation and the sectors under consideration need careful attention, particularly where regulatory systems are still developing and the macroeconomic consequences are uncertain. Opening up various sectors to trade in a developing country regional setting could allow for the development of the service sectors that have particular regional potential, such as transport, communications, distribution and financial services, within the region (Cattaneo, N., 2011: 16). The development of service sectors through learning-by-doing and the achievement of economies of scale could offset the initial high costs of service suppliers within the developing region.

McMillan (2006: 94) argues that South Africa has a strong and important financial services sector. This suggests a potential comparative advantage for South Africa in trade in services in this area which might make South Africa a leading supplier of financial services in the AfCFTA

region. The nature and growth of South Africa's financial services trade, as well as trade potential with countries on the continent, are therefore interesting areas for research.

1.2 Problem statement and goals of the research

Despite growing interest in Africa's trade in services against the background of the AfCFTA services trade negotiations, there are few studies on services trade potential and the determinants of services trade on the African continent at the sub-sector level. Existing studies in this area have mostly examined services trade at a more aggregated level, mainly due to poor services data availability. However, more quantitative and specifically econometric analysis is needed at the sub-sector level with a focus. Bilateral trade data analysis at the sub-sector level is particularly scarce, yet important to explore in the light of ongoing services trade negotiations on the continent. Furthermore, there are a limited number of empirical studies focusing on financial services trade and finance-related sub-sectoral services trade using balance of payments trade data.

Against this background, the primary objective of this thesis is to examine the nature, importance and prospects for growth of South Africa's trade in financial services in the context of the AfCFTA. To achieve this goal, the following sub-goals will be addressed.

- Firstly, the share, growth performance and some of the characteristics of South Africa's financial services trade in the aggregate and with selected partners and regions will be identified and measured, with a focus on financial services trade with the rest of Africa.
- Secondly, South Africa's trade potential in finance-related services trade in the context of the AfCFTA trade in services negotiations will be computed.
- Finally, the impact of membership of the AfCFTA and other regional groupings on financial services trade will be estimated using a gravity model.

1.3 Research approach, methods, procedures and techniques

The study adopts a quantitative research approach (Creswell and Creswell, 2018: 41) and employs a number of different quantitative research methods and techniques to address the research goals. These are outlined in detail in Chapter 4 along with the data sources but are briefly set out below.

The scope of the study is focused on financial and finance-related services trade as measured by the BOP data, based on the sixth edition of the IMF's Balance of Payments Manual (BPM6) and the twelve related main Extended Balance of Payments (EBOPS) 2010 services categories set out in the Manual on Statistics of International Trade in Services (MSITS) (UN *et al*., 2010). These are as follows:

- Manufacturing services on physical inputs owned by others
- Maintenance and repair services n.i.e.
- Transport services
- Travel services
- Construction services
- Insurance and pension services
- Financial services
- Charges for the use of intellectual property
- Telecommunications, computer, and information services
- Other business services
- Personal, cultural, and recreational services
- Government goods and services n.i.e.

Financial services thus have their own category, comprised of services delivered by banks and other financial institutions mostly involving financial instruments and the facilitation of financial transactions as well as charges relating to those transactions (UN *et al*., 2010: 63).

The first sub-goal of the study, on the share and growth performance of South Africa's financial services trade, is addressed using descriptive statistical techniques, including trends in average annual growth rates and the share of financial services trade in total services trade in the aggregate and with selected trading partners. BOP data for South Africa's services trade in the aggregate and by main sector with the world is sourced from the International Trade Centre (ITC), UNCTAD and WTO Trade in Services Database (ITC *et al*., 2023). Bilateral services trade data in the aggregate and by main sector is sourced from the OECD-WTO Balanced Trade in Services (BaTiS) Database (OECD and WTO, 2023). The period under study is from 2005 to 2022 for global services trade and 2005 to 2021 for the bilateral trade analysis, since these are the periods for which the relevant data are available in the latest versions of each dataset.

In addition to financial services trade flows as recorded in the BOP data, information on trade in financial services via Mode 3 (commercial presence) is briefly investigated under the first sub-goal. Due to the inadequate FATS data available on South Africa's Mode 3 financial services trade, FDI investment statistics and information on banks in Africa has been gathered from recent reports to analyse the extent of South Africa's investment on the continent.

To address the second sub-goal of the study, trade potential is computed using trade complementarity indices (TCIs). TCIs examine the structure of one country's exports to the world in comparison to the structure of another country's imports from the world, irrespective of whether the countries under investigation already engage in trade within that sector (Baccheta *et al*., 2012: 30; Tang *et al*., 2024: 1081-1082). This indicates areas in which both countries' trade overlaps and allows us to determine the African countries and regions with which South Africa has the most potential to trade within an identified cluster of financial and finance-related services sectors. The detailed method of calculation of the TCIs is described in Chapter 4. Data for the trade potential section of the study is sourced from the ITC, UNCTAD and WTO Trade in Services Database (ITC *et al*., 2023).

To examine the impact of membership of the AfCFTA and other regional groupings on bilateral trade in financial services (the final sub-goal), a gravity model is estimated. The gravity model considers the determinants of bilateral financial services trade to African countries. All importing countries in the sample are thus African countries, with the selection of countries guided by data availability. The exporting countries include both African and non-African trading partners. As explained in more detail in Chapter 4, a total of 48 importing nations from the continent were included, with the same 48 African economies plus 45 non-African countries (i.e. a total of 93) included as exporting nations. This yields a sample of 4416 bilateral trading relationships, i.e. 4416 observations of the dependent variable, namely bilateral financial services trade.

In order to estimate the gravity model, a unique dataset was compiled by the author for the variables required. The gravity model typically considers bilateral trade as a function of the GDP of the importing country, the GDP of the exporting country, whether or not they share a common border, whether or not they share a common official language, the distance between the countries and the bilateral trade or tariff costs between them (Baccheta *et al*., 2012: 103-109; Tang *et al*., 2024: 1084-1085). A number of estimation methods can be used for the gravity

model (Baccheta *et al*., 2012: 105-106; Shepherd *et al*., 2019: 46-50), but a log-linear model is most suitable for the present study. The specification of the gravity model and the data sources used in the study for the dependent and explanatory variables are explained fully in Chapter 4, together with the limitations of the data and methods employed.

1.4 Thesis Plan

The remainder of this study is structured as follows. Chapters 2 and 3 consider literature related to services trade theory and the empirical studies covering services trade and financial services trade in Africa. Chapter 2 provides a theoretical background for the study. Section 2.1 begins by introducing the chapter. Section 2.2 then looks at the application of the comparative advantage theory to services trade compared to goods trade whilst Section 2.3 looks at the new trade theory explanation of services trade. Section 2.4 discusses services and their role in global value chains and Section 2.5 discusses barriers that hinder services trade and the debate in the literature on services trade liberalisation. Section 2.6 focuses on the impact of regional and preferential agreements on services trade. Section 2.7 concludes the chapter.

Chapter 3 presents a review of empirical literature on trade in services and financial services with a focus in Africa. Section 3.2 sets the scene with respect to trade in services on the continent. Section 3.3 discusses the importance of the GATS and other trade agreements for financial services trade, while Section 3.4 gives an overview of the current state of AfCFTA negotiations on trade in services. Section 3.5 provides a review of recent empirical work done on Africa's trade in services and Section 3.6 reviews empirical studies on Africa's trade in financial services. Section 3.7 concludes.

In order to achieve the main goal of the study, Chapter 4 gives a breakdown of the methods, techniques and data sources used in the subsequent empirical chapters. Section 4.1 introduces the chapter whilst Section 4.2 delves into a discussion of the methods applied and the data sources used in Chapters 5 and 6. Section 4.2 is further divided into three sub-sections. Section 4.2.1 presents the data sources and methods used in the descriptive statistical analysis of services trade in the aggregate and at the sub-sector level, with a focus on financial services trade. Section 4.2.2 focuses on the data and methods used in computing South Africa's trade potential in financial and finance-related services sub-sectors, while Section 4.2.3 focuses on the data and approach used for the gravity model analysis. Section 4.3 outlines the limitations of the data and techniques employed for the study and Section 4.4 concludes.

The empirical analysis for the study is reported and discussed in Chapters 5 and 6. Chapter 5 gives a detailed view of the nature, growth and prospects of South Africa's financial services trade. Following the introduction to the chapter in Section 5.1, Section 5.2 gives a detailed analysis of the growth and structure of the different sub-sectors within South Africa's services trade and Section 5.3 analyses South Africa's services trade at sub-sector level with its biggest African trading partners. Section 5.4 discusses the results of computed trade complementarity indices. Section 5.5 gives a brief overview of South Africa's financial services trade through commercial presence with the rest of Africa.

Chapter 6 examines the determinants of trade in financial services focusing on the impact of membership in regional groupings on financial services trade in Africa using a gravity model. Section 6.1 introduces the chapter. Section 6.2 revisits the specifications used in estimating the gravity model whilst Section 6.3 discusses the results of each estimation. Section 6.4 concludes.

Finally, Chapter 7 concludes the study in three parts. Section 7.1 briefly summarises the research, including the methods and techniques used to achieve the main goal. Section 7.2 outlines the main limitations of the study and Section 7.3 reiterates the key findings of the study along with recommendations for future research.

Chapter 2: Services trade theory and policy

2.1 Introduction

There are a number of features that can define services. These are intangibility, non-storability, a requirement for physical proximity and heterogeneity (Banga, 2005: 4). Non-storability describes services and goods in some instances that cannot be kept for future consumption and are meant to be consumed as they are produced (Low and Hassani, 2017: 14). Some services require physical proximity of the provider and consumer. According to Low and Hassani (2017: 14) digitalisation has decreased the need for physical proximity and has even allowed for the storability of certain previously non-storable services. Unlike most goods, some services cannot be homogeneous in their offerings. Each consumer receives a customised service when it comes to personal services like medical attention or car servicing however services produced for mass consumption like tourism packages or musical concerts will most likely be characterised as having a homogeneous output for the consumers concerned (Low and Hassani, 2017: 14). Except for intangibility all these features may as well be found in certain goods. Services can therefore be described as intangible goods that may be non-storable, may require physical proximity and may be heterogeneous.

Copeland and Mattoo (2008: 85) identify twelve main services sectors as highlighted by the GATS, signed in 1994. These are Business services; Communication services; Construction 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 and Other services not elsewhere included. These are further disaggregated into 155 sub-sectors in accordance with the WTO's 1991 "Services sectoral classification list" that was used during the GATS negotiations (Cattaneo, N., 2020: 40).

By contrast, the broad categories in the balance of payments data (BPM6 version), noted in Chapter 1, are Manufacturing services on physical inputs owned by others; Maintenance and repair services n.i.e.; Transport services; Travel services; Construction services; Insurance and pension services; Financial services; Charges for the use of intellectual property n.i.e.; Telecommunications, computer and information services; Other business services; Personal, cultural and recreational services and Government goods and services. The EBOPS 2010 introduced by the MSITS disaggregates these BPM6 categories further into more detailed sub-

sectors in an attempt to facilitate the collection of information in the BOP data that will better align with the sub-sectors discussed in services trade negotiating environment. Concordances between the two different systems are also available (UN *et al*., 2010: 36-38).

There are two main characteristics that distinguish services trade from goods trade according to Copeland and Mattoo (2008: 84). The first is that two highly important ways of trading services occur through FDI (under Mode 3 supply of services) and labour mobility (Mode 4). As outlined in Chapter 1, there are four ways in which services are traded, with cross-border supply (Mode 1) being the most comparable to the way goods are traded (Copeland and Mattoo, 2008: 86). Under Mode 1, the service output is separable from the producer and there is no need for physical proximity between the provider of the service and the consumer. With growing digitisation and dematerialisation, Mode 1 supply of services has been growing in relative importance, although Mode 3 is still dominant.

Unlike goods trade, there are quite a number of services which would be impossible to trade without physical proximity even with the continuous advancements in information and communications technology (ICT). For instance, construction work would require the physical presence of the construction workers on the construction site and a patient from South Africa requiring dental work from a dentist in Sweden would have to travel to Sweden for the dental service. Services that have the physical proximity characteristics are traded through the remaining modes of supply, Modes 2-4 (consumption abroad, commercial presence and the presence of natural persons).[1] Unlike goods, services that require movement of persons usually have no other alternative way of being provided.

The second characteristic of services trade raised by Copeland and Mattoo (2008: 84) is that services trade is usually met with regulations that can act as barriers to trade. These regulations are often domestic and depending on the sector they are often for public policy reasons and correcting market failures. In the case of some sensitive sectors like the audiovisual sector for example, they may be designed to protect local service providers from foreign competition (Adlung and Mattoo, 2008: 68). Regulations are often seen as trade barriers even when they

[1] This is not to say that goods only ever require movement of goods across borders. Even though there are instances where producers of goods travel across borders to produce the goods that they trade (for example cars that are sold by but assembled outside the home country). Copeland and Mattoo (2008: 87) argue that this method of production is usually a substitute for producing in the home country.

have legitimate public policy reasons or are for correcting market failures. Copeland and Mattoo (2008: 84) argue that regulations are often difficult to identify and measure and make service liberalisation more complex than the liberalisation of goods trade.

Another important feature of services when looking at their role in development as discussed later in the chapter, is the distinction between low-value and high-value services. Low-value services are categorised as services sectors that require a low-level skillset in their provision and are thus the sectors that tend to be more prominent in the exports of low-income or underdeveloped countries (Visagie and Turok, 2021: 22). These include transport and travel services sectors for example. On the other hand, high-value services sectors such as business services, construction, financial and insurance services and telecommunications are generally exported more by developed economies as they comprise of services that require higher levels of skillsets. The importance of this distinction for development is that high-value services can increase productivity and growth in sectors like agriculture, mining and manufacturing (Visagie and Turok, 2021: 22).

Against this background, the purpose of this chapter is, firstly, to examine the application of trade theory to the services context, both in terms of comparative advantage and new trade theory. Secondly, the chapter considers the debate on services trade liberalisation, with a focus on the case of financial services trade. In this discussion, the particular nature of services trade barriers is examined. The remainder of the chapter is structured as follows. Section 2.2 discusses comparative advantage theory in the context of services trade. Section 2.3 examines new trade theory in the context of services trade. Section 2.4 looks at the role of services trade in global value chains. Section 2.5 discusses services trade barriers and the liberalisation debate. Section 2.6 looks at the role of regional trade agreements in services trade, while Section 2.7 concludes the chapter.

2.2 Services and comparative advantage

Comparative advantage, as Copeland and Mattoo (2008: 88) explain, exists where one state bears a lower opportunity cost in producing a good or in providing a service compared to a potential trading partner. They note that a country's comparative advantage in a good or service may derive from a number of sources, such as its relative state of technological advancement, relative abundance of natural resources or other factor endowments, or favourable government policies and institutions (Copeland and Mattoo, 2008: 88). In traditional trade theory, the

Ricardian model emphasises differences in technology as a source of comparative advantage, while the Heckscher-Ohlin model emphasises differences in relative factor endowments (Chang, *et al*., 2016: 35).

As stated in Copeland and Mattoo (2008: 88) the theory of comparative advantage can be applied to services trade across the different modes of supply. Because differences between countries from a trade perspective usually has to do with factor inputs, as with goods trade, a service will be exported if the factor involved in its production is one in which a country possesses a relative dominance. For instance, a country will most likely export medical services if they have a relative advantage in the quantity of highly skilled medical professionals they produce. In the same way, the importing country will import medical services because they do not have enough skilled medical professionals and are at a comparative disadvantage in that sector. This is much like how it works for goods trade (Copeland and Mattoo, 2008: 88).

Besides factor differences, Copeland and Mattoo (2008: 88) note that differences between countries can also be caused by technological differences as well as differences in institutions and regulatory systems. A country advanced in ICT is likely to be an exporter of services to which technology is a major advantage. A country that has advanced to digitally provide a service that was previously limited by physical proximity or immediate production and consumption requirements may become an exporter of that service to a country that is lagging behind in that type of technological advancement. A regulatory system that creates an environment for service sectors to thrive by providing adequate protection and incentive for innovation is bound to be a comparative advantage for countries compared to those with relatively poorly functioning institutions and legal systems (Copeland and Mattoo, 2008: 88).

The third mode of supply, commercial presence, is seen as the most dominant form of services trade, and is of notable importance for the financial sector (WTO, 2019: 21). This form of services trade requires the establishment of multinational companies outside of their home countries. For services that require physical proximity or immediate production and consumption it is often assumed that trade will inevitably require a synonymous movement of factors as such services seemingly cannot be produced without their factors of production (Deardorff, 1985: 11). It would also follow that the most important factor(s) in the production of that service would therefore also be the incentive (comparative advantage) behind the trade.

Deardorff (1985: 11) argues that services trade under Mode 3 does not necessarily follow this logic.

According to Deardorff (1985: 11), a foreign firm establishing commercial presence in a foreign country will most likely not bring along all the required factors of production from the home country. It is more plausible to envisage that a foreign firm employs factors of production (such as capital and labour) to some extent from the country in which the subsidiary is being established. This means that part of what the firm makes as earnings is put back into the host country as wages to its employees or interest for capital borrowed. This brings into question what it is that constitutes trade in this case if the establishment in the host country has no factor connection to its home country. In this regard, Deardorff (1985: 11) explains that even though commercial presence in another country will require employment of factors there, there exist what are termed "absent factors". These absent factors are the factors that contribute to the profitability of the company abroad whilst staying a property of the home country. These could include a brand name, a unique management method or special techniques of production. These absent factors are the exported factors that make the content of the transaction between the two countries (Deardorff, 1985: 11).

To see whether this form of services trade aligns with the principle of comparative advantage, Deardorff (1985: 18) tests it against three different interpretations of comparative advantage. The first of these is that countries will export a service only if the price of the service in autarky is the lowest compared to the other country. The second is that countries will be exporters of service inputs that can contribute internationally to the service production and will do so if they have the lowest autarky price for those service inputs compared to the other country. Finally, countries will export factors embodied in the services if they have the lowest autarky prices for those factors compared to the other country. It is found that none of the three interpretations hold as explanations fit for services trade under Mode 3 (Deardorff, 1985: 18; Deardorff, 2017: 3).

Like the Heckscher-Ohlin theorem, Deardorff (1985: 12) uses a 2x2x2 model in which we have two countries A and B, two factors of production (management as the absent factor and labour as the factor in the country of production) and two outputs (a good and a service). For the study, focus is placed mainly on the production of the service. For the first interpretation of comparative advantage, Deardorff (1985: 18) finds that comparative advantage fails if the price

of the service is cheaper in Country A compared to B. This is because the relatively higher price of the service in country B reflects higher factor costs. If this were a case of goods trade this would not matter because the factors used in production are from Country A and not B. In this case however, the factors in Country B (i.e. labour) will have to be employed at their high cost to produce the service. There is therefore no incentive for a firm to establish presence in Country B for this reason. It would be much cheaper to produce the service at home.

For the second interpretation, comparative advantage once again fails if we drop the H-O theorem assumption that there is no difference in technology between the two countries. Say that the service input here is management and that the salary of managers in country A is higher than that of those in Country B. Following this interpretation, we are to assume that country B will be an exporter of the management input and consequently be the ones producing the service in Country A as they possess the comparative advantage (Brondino, 2023: 808). However, Deardorff (1985: 17) argues that should Country A be superior in technological advancement compared to country B, they would in fact be the ones exporting management (even with the higher salary requirement compared to Country B) and consequently be the producers of the service in country B. The same reason is responsible for the failure of the comparative advantage theory for the third interpretation given (Deardorff, 1985: 18; Deardorff, 2017: 3).

According to Arndt (2013: 72), the Heckscher-Ohlin factor endowment explanation of comparative advantage does not contribute any significance to financial services trade. Arndt (2013: 72) argues that although countries that have had a comparative advantage in financial intermediation also had an abundance of capital in the past, the comparative advantage was not due to the banking sector being capital-intensive. Arndt (2013: 72) also argues that natural resource differences also do not explain financial services trade although location and proximity may be important factors especially when it comes to financial intermediation. What gives a country comparative advantage for trading in financial services according to Arndt (2013: 72) are the man-made conditions and resources that make the performance of financial services more efficient compared to other countries. These conditions include political and economic stability, good infrastructure of complementary services (like telecommunications and accounting services) and well-functioning legal or regulatory systems.

The theory of comparative advantage may provide some insights into aspects of trade in services, but it is not necessarily useful in the explanation of much of services trade. Section 2.3 below thus broadens the discussion to include an analysis of new trade theory in the services context.

2.3 Services and intra-industry trade

Intra-industry trade (IIT) refers to the simultaneous exporting and importing of goods or services within the same industry (Moshirain *et al*., 2005: 1090; Petrović and Mirović, 2018: 358). IIT theory, according to Moshirain *et al*. (2005: 1091) is an extension of the Heckscher-Ohlin-Samuelson (H-O-S) trade theory. Effectively, however, it explains a significant part of international trade flows observed empirically that the H-O-S model was unable to explain (Petrović and Mirović, 2018: 359) As a 'new trade theory', monopolistic competition and product differentiation feature in IIT theory as some of the central explanations for the existence of intra-industry trade flows (Banga, 2005: 7). Lee and Lloyd (2002: 162) argue that when it comes to services there cannot be a single theory to explain why IIT takes place in services as a whole and this is because of the complex way that services have been defined using differing modes of supply.

According to Lee and Lloyd (2002: 162) there are services under Modes 2, 3 and 4 that are naturally two-way traded services. Tourism will, for instance, frequently exist as a two-way traded service if consumers travel. This logic also implies that most services consumed by tourists abroad form part of IIT simply because it is inevitable that consumption will take place when tourists travel. There are also services like telecommunications which fall under Modes 1 and 2 in which we find significant IIT because communication between two people in two different countries will be two-way. Lee and Lloyd (2002: 163) however do not neglect the influence of imperfect competition on IIT. Services such as transportation, telecommunications, financial services, shipping and so on require networks across borders to operate efficiently and beneficially for consumers. Networks form to create the smooth movement of these services internationally and natural monopolies are often created as a result. IIT may then increase between countries with firms who need networks and those that have a natural monopoly in providing that network (Copeland and Mattoo, 2008: 97). Lee and Lloyd (2002: 162) argue that government regulation tends to block these networks in some instances and hence affects the levels of IIT that can occur. This is where trade agreements play a role in

generating IIT in heavily regulated sectors by granting rights, access to domestic facilities, fixing settlement rates for sales and so on (Lee and Lloyd, 2002: 163).

Copeland and Mattoo (2008: 94) emphasise the importance of product variety in services IIT. Product variety comes about as firms respond to the demands of both producers requiring services for input and final consumers. The response of the firms is the pursuit of a niche in the market which leads to product variety. If there are fixed costs to developing a niche or new variety then there will be more product variety if trade is permitted as trade liberalisation will lead to a larger market and a larger pool of firms (Copeland and Mattoo, 2008: 94). This is what Copeland and Mattoo (2008: 94) refer to as a market-niche effect on trade. Moshirain *et al*. (2005: 1096) highlight the importance of the demand structure of a country as a reflection of per capita income. A demand structure that shows consumer appetite for differentiated/varied products or services suggests a higher per capita income and reflects a relatively higher capital-labour ratio. The argument therefore presented by Moshirain *et al*. (2005: 1096) is that if two countries have a similar (high) per-capita income they will most likely have a similar demand structure for differentiated products which creates a market where firms will be incentivised to pursue a niche. This then applies in the case of traded niche services as well as in the usual case of goods trade.

Another cause of intra-industry services trade provided by Copeland and Mattoo (2008: 95) is firm-specific intangible assets. These firm-specific assets include specialised knowledge of organisational and production processes, distribution and supply networks, and reputations for quality and reliability. Once these assets are established a successful firm will gain from setting up plants in foreign markets as the existing reputation and knowledge already acquired by the firm can still be exploited. Copeland and Mattoo (2008: 95) also refer to the benefits of FDI for the firm in terms of costs. To establish branches in different countries firm-level fixed costs are only paid once leaving only plant-level fixed costs to be paid to establish the new foreign branches. A question that arises, however, is how the establishment of a firm in a foreign country contributes to IIT. Copeland and Mattoo (2008: 95) explain that the consumers in the host country gain from the FDI because of the access to a variety of cheaper specialised services. However, this description only shows what benefits Country B (the host country) obtains from Country A (the home of the foreign affiliate). It is not indicative of a two-way channel of trade between the two countries.

It is more useful to IIT theory to consider the role of FDI as a contributor to the volume of IIT rather than its contribution to product variety in a foreign country (Moshirain *et al*., 2005; Petrović and Mirović, 2018). In fact, according to Moshirain *et al*. (2005: 1097) studies conducted under the premise that FDI is only a contributing factor to product differentiation concluded that an increase in FDI was negatively related to the volume of IIT. This is however the result of mis-specifying the role of FDI. Modern trade theory corrects this by placing FDI as a key determinant in increasing the volume of IIT. FDI will contribute to IIT if multinational companies also engage with other firms within the same sector in the host country. By being a source of demand in the same industry in the host country whilst also being a supplier of services within that industry, two-way trade through FDI can be established. However, if parent corporations which establish affiliates abroad inter-trade with their affiliates and supply all inputs needed for operating in the foreign country, IIT within that sector is reduced (Moshirain *et al*., 2005: 1098).

Agglomeration, where a specific industry concentrates in one place or where there is a general concentration of economic activity in certain cities countries or regions is a cause for FDI which would lead to IIT in services (Copeland and Mattoo, 2008: 96). There are a number of positive externalities that firms can benefit from by locating branches in areas of agglomeration. According to Copeland and Mattoo (2008: 96), these externalities include knowledge spillovers, access to a common pool of specialised labour and access to infrastructure designed to meet the needs of that industry. Other benefits of agglomeration include economies of scale, reduced transportation costs and the absence of trade barriers.

When it comes to banking services, Moshirain *et al*. (2005: 1105) support the hypotheses that financial education as a factor endowment, FDI in banking, economies of scale, intensity of trade in financial services and market openness all led to growth in IIT between the US and its trading partners. Financial education is considered a significant factor endowment in banking services. The engineering of financial products and risk management products require financial service personnel to have high quality education in order to produce differentiated products (Moshirain *et al*., 2005: 1097). In Ricardian-Heckscher-Ohlin trade theory a difference in factor endowment between trading partners would result in an incentive for specialisation and trade. However, as Moshirain *et al*. (2005: 1097) explain, for IIT both trading partners have to be endowed with well-educated human capital in the finance sector in order for them to trade

within this sector. Therefore, the higher the differences in financial education between trading partners, the lower the bilateral IIT generated and vice versa.

In terms of FDI in banking, multinational financial institutions which establish plants abroad are expected to provide the foreign country with access to a wider variety of financial products. Two-way trade between the trading partners will increase with the establishment of bank branches across borders. However there has to be little inter-trade in financial services between the parent banks and their foreign branches (Moshirain *et al*., 2005: 1098).

According to Moshirain *et al*. (2005: 1099) whether economies of scale exist in banking has in the past been contentious. There is more evidence of the presence of economies of scale when average cost is viewed from a value maximising perspective as opposed to cost minimising. It is also important to look at the bank's activities both domestically as well as the financial services provided to foreign customers when determining the size of the banks. Moshirain *et al*. (2005: 1099) argue that larger banks have the infrastructure and capacity to enjoy economies of scope and scale and have lower marginal costs in providing foreign financial products compared to smaller banks. As banks grow bigger, including expanding abroad, so do their economies of scale and hence their capacity to provide more differentiated financial products. This, according to Moshirain *et al*. (2005: 1099) is what will lead to an increase in IIT in this sector.

IIT in banking is also expected to increase if the trade between the trading partners in the financial services industry is substantial. The more intensive is the trade that exists within the industry, the more likely it is that differentiated products in banking services will also increase in trade (Moshirain *et al*., 2005: 1099). As stated by Moshirain *et al*. (2005: 1100), product differentiation in the banking sector has expanded post the Uruguay round of trade negotiations. This in turn has led to greater trade in financial services amongst trading partners. Market openness in the form of deregulation is therefore an important way for countries to open themselves up to greater volumes of IIT in the banking sector.

Although IIT theory is very useful in explaining services trade, it is also important to consider value chain theory. This is because gross trade theory is not enough to explain the growing significance of global value chains. Some value chains are also regional and are pertinent to the development of the continent especially in the context of the AfCFTA. In the section that

follows, the growing importance of services in global value chains and their role in regional development are discussed in more detail.

2.4 Services and global value chains

The increasing significance of services in global trade has been related to the establishment of global value chains (GVCs) through the various roles that services play in the manufacturing of goods. Services are traditionally viewed as the connecting factor or "glue" in GVCs (Low, 2013: 63). A GVC is created when the manufacturing of a product or the providing of a service is fragmented into tasks from start to finish between two or more countries. A range of services are then employed at different stages to allow for these different production points to contribute to the smooth production of a finished product (Low, 2013: 63). These enabling services often include Transport, Logistics, Information and computer services, Communications, Insurance, Financial services, and Other business services amongst others (Low, 2013: 63; Swedish National Board of Trade, 2013: 5).

Services can also be part of the inputs that directly add value to the production of a good (Grater, 2014: 280). Services that serve as inputs can be found at any point of the value chain. Some examples of these services include Research and development and Design at the beginning stages of the chain and services like Marketing and Distribution at the end of the value chain. Although these services can be produced "in-house" by a manufacturing firm, they can also be outsourced intra-firm to the same company's service providing branch or inter-firm between different companies across countries. According to the Swedish National Board of Trade (2013: 6) the trend in outsourcing and utilising offshore services began as a means of gaining efficiency and economies of scale for firms as it may be costly for a firm to perform certain services for itself in-house compared to outsourcing the same services, depending on their cost structure and size. Another way in which services feature in manufacturing value chains is through the bundling of services together with goods. According to Miroudot and Cadestin (2017: 10) this is becoming a popularised practice where firms find it more beneficial and profitable to sell goods together with a service that is often essential for the customer to optimise value in the use of the good. This increasing use of services in manufacturing activities is refered to in the literature as the "servicification" of manufacturing and subsequently GVCs (Jansen van Rensburg *et al*., 2020: 341; Miroudot and Cadestin, 2017: 8).

As services grow in importance in GVCs, they are increasingly gaining traction for their potential role in fostering development for developing countries. It has become an argument in support of the view that developing countries should liberalise their services sectors to develop more productive and efficient services that will lead to growth in GDP and employment. Cattaneo, N. (2011: 6) warns that the evidence that supports this view of services led growth is based on aggregated data that may conceal considerable cases of survivalist activities and poorly paid work that may fall undetected under services data. However, the literature emphasises that the focus should be on the development of higher value services to facilitate GVC participation. This is more difficult for low- and lower-middle income countries to achieve.

Nevertheless, GVCs provide an opportunity for countries to specialise in final goods, parts of goods and services creating opportunities for industrialisation for countries who do not yet have the capacity to produce certain final goods from start to finish. Emerging economies like those in Eastern Europe and China since becoming industrialised economies themselves have stifled out competition in global manufacturing trade from less developed countries (Cattaneo, N., 2011: 6; Visagie and Turok, 2021: 22). Even though participating in GVCs provides a chance for growth through export-oriented industrialisation for developing countries it is difficult for said countries to participate meaningfully in GVCs as they lack in technical, and standards requirements required in these networks.

There are several factors that determine countries' ability to participate in GVCs. Amongst them are market size, level of development and the degree of industrialisation, remoteness, regional trade agreements and tariffs and openness to foreign direct investment (Kowalski *et al*., 2015: 17). These factors determine the extent to which countries participate in GVCs through either forward or backward linkages. Forward linkage participation is characterised by the export of primary products such as agricultural and natural resources that serve as inputs in the production process. Less developed countries tend to participate more in GVCs through specialisation in these types of forward linkages (Kowalski *et al*., 2015: 18). Specialisation in the assembly (factory) stages of production and more backward linkage activities is associated more with early industrialisers whilst those in the latter stages of industrialisation are likely to have developed in technology and highly competitive services sectors that allows them to dominate again in forward linkage activities (of high value services inputs) in the GVCs. It seems from this that becoming a services-led economy is the final stage of the industrialisation

process, while many developing countries are still struggling to industrialise in the current global environment.

Although the argument for developing countries to shift focus from manufacturing towards services as a development engine has increasingly become popular, it is also believed by post-Keynesian, structuralist, and Schumpeterian scholars, that manufacturing is still central to development (Cattaneo, N., 2020: 13). It is argued that learning by doing, economies of scale, increasing returns, externalities and spillover effects are more prevalent in manufacturing than in agriculture or services. However, the issue for developing countries, especially those in Latin America and Africa, is that of premature deindustrialisation along with the declining opportunity to participate in GVCs through manufacturing (Cattaneo, N., 2020: 14, Visagie and Turok, 2021: 22). These developing economies are fast losing the potential growth effects of industrialisation because of falling employment in their manufacturing sectors and the shift of labour into services activities that do not yield the level of productivity that would propel economic development. It is difficult for economies currently specialising in low-productivity agriculture in GVCs to shift the low-skilled labour from that sector into high-value services sectors that require higher skills (Cattaneo, N., 2020: 15). The result then is that both services and manufacturing industries in developing economies seem to be falling behind in productivity especially in Africa (Rodrik, 2018: 12).

The way forward is not necessarily a shift away from manufacturing into services or vice versa. There is scope for both services and manufacturing to play a role in driving development in Africa if both industries are strategically placed in policy. The key to increasing participation in GVCs for developing economies is to foster growth and overall improvement in the services sector to improve their competitiveness in the manufacturing sector. Because of the intertwined nature of goods and services, productivity in the production of goods is strongly tied together with the quality of services and infrastructure that allows manufacturing industries to thrive (Low, 2013: 63). When it comes to the type of services developing countries in Africa should foster, Visagie and Turok (2021: 24) suggest that the focus be on high-value services industries as these are the industries that have potential to encourage development compared to the lower-value services (like Transport and Travel) in which African trade is mostly dominant. This is however a difficult task for the least developed economies who still have low levels of per capita income and have not yet established a middle class who for instance could afford to acquire the skills and education needed to participate in the development of knowledge

intensive services industries. This creates a significant gap in the development ladder that least developed economies may not be able to climb.

It could thus be argued that the focus is not on the creation of "competitive" services industries for GVCs but to foster the development of services sectors that will encourage industrialisation on the continent and greater participation in GVCs. Hence, according to the Swedish National Board of Trade (2013: 13), developing countries should target the type of services that play an enabling role in GVCs. However, according to Dihel and Goswami (2016: 13), the extent to which African countries have already begun to upgrade their participation in GVCs is relatively unknown, due to challenges with data and the existence of "unseen" services in trade that are either embedded in final products or coupled with them as bundled/composite goods.

When it comes to policy implications it is important to differentiate firstly between the level of development as there is more room to liberalise services in the context of GVCs for emerging economies than there is for the lesser or least developing economies (Low, 2013: 70). It is also useful to differentiate between the different ways through which participation through services is possible in GVCs. Emerging economies will be more inclined towards using services competitively whilst lesser developed economies might need to focus more on developing a thriving environment for services to enable their manufacturing industries as explained above. It could be argued that these two objectives are not mutually exclusive; however, focus could be placed more on one objective than the other depending on context. As Miroudot and Cadestin (2017: 32) explain, deindustrialisation does not always necessarily call for intervention through prevention policies as firms will evolve to adapt to consumer demands. As it stands, rapid technological advancements and the increasing value created in providing services to customers is fast becoming the future for manufacturing firms (Miroudot and Cadestin, 2017: 32). This also implies that firms have an important core role to play in the upgrading of a country's participation in GVCs.

According to Low (2013: 72) the encouragement of firms to upgrade in GVCs should be a direct consequence of governments prioritising national development through amongst other developmental measures providing education, infrastructure and enabling ease of technological transfers. These kinds of policies create an economy-wide competitiveness whilst more sector specific policies focus on trade restrictions, government subsidies, regulations on local content and so on (Low, 2013: 72). When it comes to services that enable the function of GVCs, there

may be blurred lines in the importance of high value vs low value services as the productivity of the services themselves are not the main drive behind development, but their contribution towards the operation and upgrading of firms participating in the GVCs is. This may make participating in GVCs through enabling services more accessible for lower income/least developed countries. Focusing policy on high value services and their productivity could therefore be more important where services are used competitively in the value chain. According to the Swedish National Board of Trade (2013: 11), trade policy for services enabling the functioning of GVCs should embrace the liberalisation of all modes of supply. As most services can be provided through multiple modes of supply, it is important that firms providing services be able to move freely between modes depending on what is most cost efficient. Mode 3 and Mode 4 are cited as imported modes to liberalise in the context of GVCs as they are both important in delivering services and Mode 4 is a key way to alleviate the shortage of skills for economies especially in the developing world (Swedish National Board of Trade, 2013: 12).

As much as developing countries may differ in their levels of industrialisation, participation GVCs may be possible through services whether it is through the enabling of firms or providing competitive services as tasks along value chains. Therefore, services need more attention in policy towards participation in GVCs in the context of developing countries. It is also important to note that the intertwined nature of goods and services calls for them to be treated as complementary in policies and trade agreements. According to Low (2013: 64) policy interventions that raise costs in the services markets will inevitably have implications on goods markets that are interdependent with those services causing a fall in demand for both the goods and services involved. In the context of GVCs this logic would hold especially in cases where goods are bundled with services. It is therefore imperative that policy-making in these areas should be integrated and wholistic (Low, 2013: 64).

2.5 Barriers to services trade and the liberalisation debate

The regulations or measures that govern services providers or consumers in the provision of or consumption of services are generally seen as barriers to services trade (WTO, 2012: 75). When it comes to services trade governments typically make use of regulations depending on the mode of supply (Deardorff and Stern, 2008: 178). This is because the other modes of supply besides cross border are avenues for capital and labour mobility to be issues associated with services trade. Also, unlike with goods, many service trade regulations are aimed at the supplier

of the service and not the service itself (WTO, 2012: 75). For these reasons, barriers to services trade deserve separate attention from barriers to goods trade in the literature (WTO, 2012: 75). It is however also important to note that barriers to services trade and barriers to goods trade have a great amount of overlap, especially when it comes to non-tariff barriers (NTBs) as services trade barriers for the most part are NTBs (Copeland and Mattoo, 2008: 103). According to Copeland and Mattoo (2008: 103), NTBs are government policies that either discriminate against foreign service providers in favour of local services providers or that make entry into the domestic market costly or impossible. These are discussed further below.

Deardorff and Stern (2008: 178) provide two ways to classify services trade barriers. Firstly, there are those that regulate the entry and establishment or the operations of service providers. According to Deardorff and Stern (2008: 179) the barriers to entry and establishment influence the quantity of suppliers in a market and will most likely shift the service supply schedule to the left reducing quantity supplied of the service at any given price. As for operation barriers, Deardorff and Stern (2008: 179) argue that these increase costs of providing the service and therefore increases the cost of the service to the consumer as well. The second classification of services trade barriers are those that discriminate against foreign service providers and those that do not differentiate between local or foreign service providers. In the case of the former, only the supply curves of the foreign service provider are affected by the policy whilst with the latter both the local and foreign service providers experience a leftward shift in their supply curves (Deardorff and Stern, 2008: 179).

There are numerous types of policies that govern different services industries and the most common ones that affect the services sector are tariffs, discriminatory regulations, licensing and certification requirements and quantitative restrictions such as quotas (Copeland and Mattoo, 2008: 104). Tariffs are generally considered incompatible with services because of the difficulty in keeping up with the various services and in the different ways in which they reach consumers across borders (Deardorff and Stern, 2008: 178). Deardorff and Stern (2008:178) argue that it is easier to impose tariffs on goods as they reach borders as this is the primary way in which they move from producer to consumer. Some traded services on the other hand are primarily provided and consumed in the same country, making them out of reach for customs agents (Deardorff and Stern, 2008: 178). Although this is logical, we can still consider that there are tariffs imposed on the services that do cross physical borders. Examples of cross border tariffs relating to the movement of natural persons are visa fees and entry-exit taxes

(Banga, 2005: 13). Tariffs also pose a barrier to services trade indirectly as they are imposed on goods that embody certain services and goods that are inputs to the production of services. Although tariffs are less pervasive in services compared to other barriers, Copeland and Mattoo (2008: 106) argue that the foregone trade resulting from a tariff imposed on a service sector has an adverse impact on social welfare. The higher cost of providing the service is reflected in the price charged and the consumer bears a static welfare loss. Tariffs however provide a government with revenue which may act as an incentive and, adopting a more dynamic view, can foster domestic development of the services in question if used strategically.

Licensing, certification, procurement policies and standards are some of the most common barriers to professional services (Copeland and Mattoo, 2008: 105). These lead to bureaucratic delays, travel restrictions at the border and inspections etc. According to Banga (2005: 13) educational standards for example may lead to non-recognition of certain imported services while environmental standards may affect service sectors like transportation and tourism. Compliance to these kinds of policies is often costly in terms of the measures service providers must take and the long bureaucratic processes they must go through to meet these requirements. Copeland and Mattoo (2008: 107) argue that these requirements do not generate monetary revenue for the domestic government despite the costs they impose on the foreign service provider. Such non-revenue generating barriers to services trade create a greater welfare loss as the prices of the services absorb the costs and consumers reduce their consumption of the services but there is no benefit to society as there would have been with a tariff.

Quotas are quantitative restrictions that are mostly applied to service providers and not the services themselves as would be found in the case of goods trade (Banga, 2005: 12). A zero quota completely disallows foreign providers of a service from entering the market. This is common in the transportation sector (Copeland and Mattoo, 2008: 105). Some other types of quotas merely place a limit on the content of the services that can be provided. For services consumed via Mode 2 (consumption abroad), quotas may be implemented in the form of foreign exchange restrictions that place a limit on the consumer's ability to access services abroad. Quotas imposed on Mode 3 (commercial presence) place a limit on the number of foreign service providers. This is prevalent in sectors like banking and telecommunications. Other forms of quotas related to this mode of supply restrict the amount of equity foreign enterprises can own in firms established in the domestic market (Copeland and Mattoo, 2008: 105). Like other non-tariff barriers, quotas do not typically generate state revenue and have a

similar effect on welfare in a static framework as tariffs do with the exception of quota rents. According to Copeland and Mattoo (2008: 108), quota rents normally accrue to domestic agents who have the right to import services. These quota rents turn into revenue for the government if they are auctioned however this is not a typical occurrence.

However, as noted earlier, there are a number of reasons why government intervention that may lead to services trade barriers exists, including those related to domestic public policy and developmental objectives. Such interventions may include those aimed at correcting market failures resulting from information asymmetries and imperfect competition (WTO, 2012: 52). Information asymmetry occurs where some agents in the market have an informational advantage over others in economic transactions. This causes inefficiencies in the market as incorrect market signals cause adverse selection in the choices that agents make. These adverse choices in some cases manifest as losses in productivity and where consumers fall victim to sub-standard products or services, information asymmetry may threaten the health and safety of consumers (WTO, 2012: 53). Market failure is prevalent in many services industries. This is because the intangibility of services makes it so that consumers cannot evaluate a service before consuming it. Service providers are in many instances best informed about the service they are providing, and this information often does not make it to the consumer either because of costs or commercial advantage (WTO, 2012: 74). Policies related to licensing and qualification requirements ensure that service providers are not exploiting information asymmetries and are providing competent and quality services. This provides a more nuanced perspective that needs to be taken account of in relation to some of the static arguments about services liberalisation noted earlier.

Other important interventions exist to counter the exploitation of market power. Regulations are often necessary in the presence of imperfect competition where market players engage in activities that abuse their dominance in the market. NTBs like price ceilings for instance are useful for reducing the influence of market power in instances where a foreign monopoly has control over the domestic market of an importing country (WTO, 2012: 58). The importing government by imposing rules or requirements as prerequisites for trade would expand its imports and reduce artificial shortages by reducing the price charged by the monopolist on the imported good or service. Import subsidies and minimum import volume requirements are other examples of NTBs that are used to combat abuse of power by monopolies (WTO, 2012: 58). Financial services, electric power, telecommunications, and air transport are all sectors

that are dominated by monopolies or oligopolies in the services sector (Copeland and Mattoo, 2008: 112). Government intervention to prevent undersupply and overpricing in these markets is thus necessary (WTO, 2012: 75).

Government intervention is also motivated by pressure from the political economy. This pressure is assumed to mainly be from organised producer groups; however, it also strongly stems from consumers in the interest of health and safety as well as non-governmental organisations advocating for environmental issues (WTO, 2012: 50). According to the WTO (2012: 6), in some cases, regulations may be specifically created for reasons related to strategic protection of services industries. In these instances, protection is directed towards infant industries operating at a high-cost and facing some level of difficulty in competing with foreign firms. The dynamic motivation behind government intervention here is usually warranted if the industry has potential to generate positive externalities which they are unable to fully capture as they are operating below efficiency. The support given by regulators for infant industry protection is ideally temporary (WTO, 2012: 55). This form of support and protection is however criticised as being illegitimate and undesirable by proponents of free trade. According to Copeland and Mattoo (2008: 104), governments are known to take advantage of the legitimate reasons for services trade barriers (namely to correct market failures) to create a front for protectionism.

Separating legitimate and non-legitimate policies with regards to domestic regulation has become a challenge for trade policy in the services trade context. This is because it affects how services trade liberalisation ought to take place. Free trade when it comes to goods trade has been a fairly well understood concept in trade policy. To liberalise trade in goods is to remove the barriers to trade protecting local firms from foreign competition (Copeland and Mattoo, 2008: 103). This is an action that can be expected from all members negotiating towards a trade agreement. However, the same cannot be easily achieved with services trade negotiations. Trade barriers cannot be easily removed across the board as they are often tied to domestic regulatory objectives that states often cannot afford to neglect (Copeland and Mattoo, 2008: 104). Because each country will often have its own approach to domestic regulation, liberalisation will often come with the dilemma of how to harmonise the different approaches to regulation if harmonisation is at all possible (Fink and Jansen, 2008: 224). The challenge then, is to find a balance where barriers restricting trade can be eliminated or where that is not

possible, reduced whilst still managing to regulate the inefficiencies of an imperfect market (Copeland and Mattoo, 2008: 104).

According to Roy (2016: 38) countries both developed and developing, have unilaterally shown movement in the direction of liberalising services trade since the world economic crisis of 2008. The benefits of services trade liberalisation accruing to local consumers in product variety and producers in the exposure to foreign competition have, according to Roy (2016: 38), been the main drivers of this change. However, Copeland and Mattoo (2008: 4) argue that these benefits are not automatic following the removal of trade barriers. Liberalisation, even when unilateral, ought to be accompanied by the building of regulatory institutions to correct market failures and to ensure genuine competition, the correct sequencing of service sector reforms and the establishment of mechanisms that ensure that the poor have access to essential services (Copeland and Mattoo, 2008: 3).

Roy (2016: 38) finds that developed and developing countries have shown a similar level of reluctance towards services trade liberalisation in important modes of supply like Modes 3 and 4. However, Copeland and Mattoo (2008:3) argue that developing countries are most likely to have significant benefits from removing barriers to services trade, subject to the qualifications about sequencing, regulatory and institutional development noted earlier. Indeed, Hoekman (2017: 11) argues that liberalising services trade in all modes is an important channel to a much sought-after structural transformation for African countries but adds that the benefits to African countries with weak governance will be minimal. According to Hoekman (2017: 10) the presence of trade barriers in African countries causes some local service providers to engage in informal trade in order to circumvent these barriers which has a negative impact on the productivity of the economy. In this view, it is important for liberalisation of services trade in the African context to be met with a synchronised improvement of their control over corruption, quality of regulation and strengthening of rule of law (Hoekman, 2017: 11). An important catalyst role in driving domestic regulatory reform in services according to Copeland and Mattoo (2008: 3) is played by international engagements between source and host countries. Liberalisation in cooperation with the international community can be useful for developing countries to gain support in strengthening regulatory institutions and building the mechanisms needed for the poor to have access to essential services (Copeland and Mattoo, 2008: 4).

It is not surprising then, that developing countries are under mounting pressure to become more proactive in the liberalisation of services at the bilateral, regional, and multilateral levels (Cattaneo, N., 2011: 5). Developing countries were initially reluctant to agree to services trade liberalisation in the context of the General Agreement on Tariffs and Trade (GATT) negotiations in the early 1980s. One reason, aside from a perceived lack of comparative advantage in services sectors, was the concern that the inevitable inclusion of FDI openness was a politically sensitive issue (Banga, 2005: 9). The concern of encroachment into domestic policy space is still a matter of contention. Allowing the market to take over without the protective role of the state and providing a "one size fits all" regulatory framework as a solution to services trade liberalisation should receive scrutiny for its appropriateness (Cattaneo, N., 2011: 13). According to Cattaneo, N. (2011: 16), however, certain service sectors would likely benefit from South-South regional cooperation agreements. It is important that this kind of cooperation is looked at on a sector-by-sector basis as some services are more suitably supplied at the domestic, regional or international level.

Trade in financial services is linked to the efficiency of not just the financial services sector but nearly all other sectors in the economy due to significant linkages with other productive sectors (Jansen, 2006: 12). Barriers to trade in financial services therefore affect not only the financial sector but other linked sectors as well. Jansen (2006: 12) argues that excessive government intervention through regulation of financial services has led to the underdevelopment of the sector in many developing countries. Some of the regulatory barriers practiced by these countries included government ownership of banks whether in major or minor quantities, quotas for credit allocation, government controls on interest rates and restricting entry into the banking sector.

The potential benefits to liberalising financial services are mostly apparent in Mode 3 liberalisation. This is because Mode 3 allows clients to have lower information and communication costs in dealing with foreign banks and the spillovers or growth prospects for local firms through learning by doing is much more feasible when the foreign firms establish themselves in the country (Jansen, 2006: 14). According to Jansen (2006: 14) Mode 1 for financial services trade should only be prioritized if countries are willing to open up their capital account as this mode mainly deals with cross border capital flows. Mode 1 also poses more of a risk to the domestic financial system as unlike Mode 3, cross border financial services trade is harder to control under domestic prudential regulation. This is the same for the

insurance sector (Jansen, 2006: 15). Liberalising financial services is overall a sensitive undertaking which Jansen (2006: 14) argues should be done with appropriate financial regulation. Although what exactly constitutes appropriate financial regulation is not yet understood, it is still clear that many developing countries lack the capacity to properly regulate their financial sectors. To this end, Jansen (2006: 14) argues that foreign technical and monetary assistance will be a useful starting point for these countries.

When looking at the SADC trade negotiations in financial services, Thomas (2011: 44) found that the G20 international agenda for regulatory reform to accompany liberalisation posed a complication and offered new barriers to trade negotiations.[2] According to Thomas (2011: 44) South Africa being a member of the G20 and one of the few African countries with an exceptional financial services sector, would be obligated to take up the G20 regulatory reforms. These reforms will most likely have a punitive effect on the rest of the developing countries with underdeveloped financial services sectors in the rest of Africa (Thomas, 2011: 45). More precisely, structured and corporate financing, project financing and trade financing are some investment bank portfolios that could be negatively impacted by the stringent requirements imposed by the reform (Thomas, 2011: 45). This could dampen the potential for growth that other African economies in and outside the SADC region would have had from the much-needed financing for infrastructure. According to Thomas (2011: 45) these regulatory reforms are also likely to reduce the appetite for long-term lending and attract higher capital requirements as other African countries would be projected as high-risk in the lending process. Therefore, even though developing countries are encouraged to liberalise services trade, the proposed reforms do not seem to hold much development prospects for developing countries with underdeveloped financial services sectors. The potential role for intra-African regional cooperation and integration in the field of financial services trade is important to consider as a result.

Out of the measures discussed in this section, it appears that the most prominent for services trade are tariffs; regulations of a discriminatory nature; licensing, procurement and certification requirements and standards; quotas; price ceilings and prudential regulations. Of these, licensing and certification standards, together with prudential regulations are particularly

[2] The G20 is a prominent forum that meets on international economic cooperation issues. It was initially formed in 1999 after the Asian financial crisis as a forum for finance ministers and central bank governors to discuss global financial stability. See https://www.g20.in/en/docs/2022/G20_Background_Brief.pdf for further detail.

important in the context of financial services. Increasing regulatory parity within services sectors across countries reduces barriers to trade and can be essential in facilitating greater trade in services. Section 2.6 considers the prospects for such harmonisation in the context of services in regional trade agreements.

2.6 Services and regional trade agreements

Regional trade agreements (RTAs) are formed when two or more countries are signatories to a trade agreement that allows for the preferential treatment of member states in trade rules (Carpenter, 2008: 13). According to Roy (2019: 942) the General Agreement on Trade in Services (GATS) signed by the members of the WTO provides market access and national treatment commitments at the multilateral level. These rules of trade can be used by member states to attract competition and to promote investment in their services sectors. Commitment under the GATS also calls for transparency from members which would prevent countries from implementing protectionist policies in trading with partners which could otherwise hamper competition. Because the goal of the GATS is to eventually gain full liberalisation in services trade, countries that are members of RTAs often seek to liberalise more services sectors at a regional level than they have at the multilateral level (Cattaneo, N., 2011: 15). This can be particularly concerning for developing countries in North-South trade agreements if services-led development is an objective. According to Fink and Jansen (2008: 225) certain services sectors need room for domestic regulation either because they are important for government objectives or to ensure that the quality of the service provided is not compromised. Such sectors include financial services, educational services, health and social services, and business services amongst others.

At the onset of the WTO GATS agreement, member states agreed to a wide range of initial commitments, with developed countries liberalising more services sectors than most developing and least developed economies (Roy, 2019: 943). However, according to Cattaneo, N. (2011: 14) developed countries were still reluctant to make commitments in services provided through Mode 4 supply. This shows a reluctance in developed countries to give up policy space in sensitive policy areas when it comes to their services sectors. The push for developing countries to liberalise most of their services sectors which are often underdeveloped or developing sectors when negotiating North-South trading agreements should therefore be scrutinised (Cattaneo, N., 2011: 15). North-South trade agreements in services are beneficial

to the North in terms of market access however their sophisticated and well-developed services industries may overwhelm emerging industries among their partners in the South.

According to Fink and Jansen (2005: 228) there are economic benefits to regional services trade agreements. Firstly, unlike in the case of goods trade, services liberalisation through RTAs brings about unambiguous welfare gains through trade creation. For example, if a good from Country A (a low-cost supplier) costing $100 were to be imported at a tariff of 50% in importing Country B it would cost the customer in the importing country $150 for this product. Whereas if an RTA were to exist between Country B and neighboring Country C (a high-cost supplier) who also produced and sold the same product for $130 and the tariff were not to be applied to Country C, the customer in Country B would benefit from importing the product from Country C at the cheaper price of $130. The benefit to the customer in country B is a saving of $20 from this transaction, whilst the government in Country B forfeits the $50 revenue it would have gained from the tariff it would have imposed on imports from country A. The other beneficiary from this transaction would be Country C who benefits $30 from Country B towards subsidising their inefficient production in this product (Fox, 2004: 4). The welfare gains in the case of goods trade are thus ambiguous.

When it comes to services, there is no tariff applied and therefore no tariff revenue to be lost. Trade barriers in the instance of services mean that liberalisation in an RTA would be to remove certain regulations or non-tariff barriers. The removal of non-trade barriers under an RTA allows for partner countries to become competitive with the importing country within the RTA in open services sectors. The welfare gains for services are therefore positive for the countries involved in the RTA (Fink and Jansen, 2008: 229). What is trade creation for members in an RTA is also trade diversion away from non-members of the RTA which may seem counterintuitive to the overall goal of the GATS.

Secondly, where developing countries are involved, preferential liberalisation of services in RTAs may be beneficial to promoting the growth of infant industries and encouraging competition between partner countries within the RTA (Fink and Jansen, 2008: 229). This is particularly beneficial to countries with struggling or inefficient services industries when competition is coming from other developing countries and the RTA is created with a developmental objective. This is because trade rules under these types of RTAs will allow for domestic policy space that still allows some protective domestic regulation. This is a form of

positive policy integration which is further explained below. According to Fink and Jansen (2008: 229) preferential liberalisation would expose partner countries to learning by doing within the RTA and would benefit countries that are operating below productivity levels in certain services sectors by leading to greater efficiency and the ability to eventually compete on a global level. This is important especially for developing countries looking to foster development through their services sectors or looking to better their participation in GVCs through developing their services sectors.

Thirdly, Fink and Jansen (2008: 230) discuss long term effects of trade diversion from low-cost to high-cost service providers in the global market. When services trade eventually becomes fully liberalised on a multilateral level, high-cost firms which were part of RTAs would have gained a foothold in the global market as competitors. This is because high location sunk-costs and network externalities would have gained them durable advantage in the market as "first movers" against more efficient services providers from outside the RTA.

RTAs in reality do not necessarily prevent non-members from benefiting from free trade in services. Fink and Nikomborirak (2007: 2) discuss the concept of rules of origin in the context of services in comparison to goods trade in RTAs. Rules of origin specifications in some cases prevent non-member states from benefitting from low tariffs applied by RTA members by strategically exporting goods through low tariff countries to consumers in high tariff countries within an RTA. With goods trade, rules of origin will successfully prevent non-members from benefitting from preferential tariffs if the level of transformation of a good is limited so that the exporter country which is a member of the RTA is also the producer of the good; that is, that the good imported originates from the member country and not an outside country looking to benefit from preferential tariffs.

Due to the intangible nature of services trade, the origin of the supplier of the service under each mode of supply needs to be specified (Fink and Nikomborirak, 2007: 3). Under services, rules of origin can take form in two ways. According to Fink and Nikomborirak (2007: 4), more liberal rules of origin allow service providers which are non-members of the RTA to benefit from commitments to relaxed regulations if they are established in at least one RTA member state. On the other hand, restrictive rules of origin will only provide preferential treatment to a subset of services providers within the RTA (Fink and Nikomborirak, 2007: 4). Under the GATS agreement rules governing the formation of services RTAs (under Article V),

rules of origin in RTAs will, in general, always be liberal as the agreement entitles all services providers whether or not they are part of an RTA to benefit from any preferential treatment made in any RTA as long as the service provider has substantive business operations within the RTA territory (Fink and Jansen, 2007: 237).

Simo (2020: 73) acknowledges that attempts at regional integration may face difficulties because of the heterogeneity in services regulations across countries. This calls for a choice between the use of negative or positive forms of policy integration. Whilst negative integration refers to measures designed to remove barriers like discriminatory regulations, positive integration refers to the application of harmonised policies created with the purpose of achieving state welfare objectives. As explained by Simo (2020: 74) negative integration ensures a level playing field between competing suppliers of a service in the global market because measures used ensure that foreign service suppliers are not discriminated against by trade laws in favour of domestic suppliers. These measures include the MFN treatment, rules on market access, and national treatment rules. Under negative integration, the rules of the regional agreement trump domestic regulation. Positive integration on the other hand seeks to transfer policy making power from member states to the supranational body governing the trade agreement. This reduces domestic policy space for member states however it is done to encourage regulatory convergence. Because domestic regulations can be seen as a barrier to trade, such barriers are addressed by allowing for recognition of differing regulations amongst member states, or harmonising the regulations amongst them (Simo, 2020: 74). Harmonisation would address the issue of differing regulations by removing the main differences or by setting new rules that all member states will adhere to in that context.

The acknowledgement of services in regional trade agreements is fairly new in the literature as the focus far has been on accommodating goods trade in RTAs. Although services differ from goods in terms of the types of trade barriers involved, eliminating trade restrictions through RTAs can have a positive effect on domestic suppliers when the RTA is development oriented. Learning by doing through competition with efficient low-cost suppliers may be beneficial to domestic suppliers however this is in the long term when domestic suppliers in developing countries have been able to successfully enter the global market. Although RTAs can be beneficial to developing member states, they are not necessarily discriminatory towards non-member states.

2.7 Conclusion

The purpose of this chapter was to give a theoretical background to the empirical analysis of the study. Section 2.2 set out to discuss the comparative advantage theory in the context of services trade. Section 2.3 presented the determinants of intra-industry trade in services and financial services. Section 2.4 looked at the growing importance of services in GVCs. Section 2.5 discussed the barriers posed to services trade and the liberalization debate. Section 2.6 looked at the role of regional trade agreements in services trade.

Section 2.2 established that countries find incentives to trade in services where there are factor, technological and network connection differences between local and foreign services firms. Comparative advantages in financial services are argued to be where countries have established economic and political stability, good infrastructure and complementary regulatory systems. Section 2.3 found that countries trade in services within the same industry because of the presence of imperfect competition, differences in productivity and specific personalized assets like knowledge in organisational and production processes and distribution networks that some firms may have compared to others in the global market. Section 2.4 emphasised the importance of emerging countries to develop competitive higher value services sectors for meaningful participation in GVCs. Section 2.5 presented the debate on services liberalisation including the risks of liberalisation in sensitive policy areas for developing countries. Section 2.6 looked at the benefits of regional trade agreements in fostering development in the services sectors of member states. The focus of the study now turns, in Chapter 3, to an examination of the literature on trade in financial services more specifically, with an emphasis on the African continent.

Chapter 3: Trade in financial services with a focus on Africa

3.1 Introduction

The African financial services sector landscape has had a series of reforms whose successes and failures have led to the present-day state of financial services on the continent. The financial services sector across most African countries was historically dominated by foreign banks that raised discontentment in their lending policies that favoured multinational companies and the wealthy and neglected lending to local and small businesses and the poor (Makina, 2017: 3, Ndung'u, 2022: 2). Many of these banks were nationalised post-independence or were heavily influenced by government intervention. Interventions included the directing of funding from the financial institutions towards national development objectives (Makina, 2017: 3). This wave of reform lacked much success and was later overtaken by global pressure for the privatisation and liberalisation of the sector in the 1980s. Although this led to some initial growth and increased financial sector competition in some countries, the negative effects of governments' previous control over the financial services sector remained (Makina, 2017: 3). Some of the main issues characterising Africa's financial services sector are lack of institutional development, inefficiencies, and lack of accessibility for some of the population.

According to Jansen (2006: 13) due to the inefficient and high cost of financial services, African countries have seen a rise in informal microfinance institutions. These have served a larger part of the population that do not have access to deposit and credit facilities in the formal financial sector. Although the entry of foreign banks into the domestic market is supposed to bring in genuine competition, what we see is a preference by the foreign banks for the large clients in the manufacturing sector (Jansen, 2006: 13). According to Jansen (2006: 13) however, this is good for the financial sector as local banks are pressured to focus on retail operations and to reduce costs. Microfinance institutions which reportedly provide a large portion of the population with financial services are not subject to competition from foreign banks and have become a sector in need of their own regulatory systems (Jansen, 2006: 13).

Despite the failure of previous liberalisation efforts to develop financial services on the continent, there has been some notable progress. Although still relatively small in number, there has been a growth in the number of stock exchanges on the continent with South Africa leading with the most developed and largest stock exchange on the continent by market capitalisation (Garikai *et al*., 2022: 37). The evolving role of fintech and the digitalisation of

financial services in recent times has also added to the development of financial services on the continent, allowing ease of access to previously disadvantaged groups, significantly improving Africa's very low levels of financial inclusion and reducing transaction costs (Ndung'u, 2022: 4, UNECA *et al*., 2021: 116). According to Ndung'u (2022: 7), the three main hubs driving this revolution in Africa are South Africa, Kenya, and Nigeria. Digitalisation of financial services is important in increasing financial services trade within the continent, however fintech regulations across Africa require further development and harmonisation (UNECA *et al*., 2021: 117). The availability of physical infrastructure and the ability to develop sophisticated fintech ecosystems in African countries are also an important factor to consider (Ndung'u, 2022: 7).

Although it can be argued that the financial services sector is important for economic growth, most African countries are yet to experience spill over effects from the financial sector due to underdevelopment of the sector across the continent. According to Ngwu *et al*. (2019: 12) the financial sector has contributed very little to economic growth and development in African countries. The role of financial services trade is important to investigate, as it could facilitate financial development which could in turn benefit economic growth. Access to financial technology in countries like South Africa, Nigeria and Kenya has led to a substantial increase in access to funding for startups (UNECA *et al*., 2021: 116). Access to finance can encourage entrepreneurship and have positive consequences for employment in these countries.

Against this background, the purpose of the present chapter is to review the existing empirical literature on financial services trade in Africa. The rest of the chapter is organised as follows. Section 3.2 provides background on trade in services on the continent. Section 3.3 looks at trade agreements and financial services in Africa. Section 3.4 examines the current state of play of the AfCFTA services trade negotiations and highlights other ongoing services trade negotiations among eastern and southern African regional groupings. Section 3.5 reviews some recent trade in services studies on Africa, while Section 3.6 focuses on empirical studies of financial services trade on the continent. Section 3.7 concludes the chapter, highlighting the empirical work to be undertaken in the remainder of the thesis.

3.2 Africa's trade in services

In the global context, Africa's participation in services trade has been growing. However, services trade remains marginal compared to global counterparts. Reportedly, most African countries are net importers of services from the world (UNECA *et al*., 2022: 62). Visagie and Turok (2021: 31) report that there are significant services trade deficits in SADC countries' services trade with the world, for instance, that are owing to large imports of commercial services which include financial services. These kinds of services are considered high-value services and are mostly imported from developed countries within Europe and North America (Visagie and Turok, 2021: 34).

By 2012 services exports within the continent and to the rest of the world by SADC countries were dominated by what are broadly considered in the literature as low-value services sectors, namely transport and travel (Visagie and Turok, 2021: 31). Similarly, a study of a more comprehensive selection of African countries (inclusive of SADC, non-SADC TFTA and other AU countries) over the period 2005 to 2017 also found a prominent trend in transport and travel being the major source of services exports for these countries (Cattaneo, N., 2020: 25). Transport and travel albeit low-value services play an important role in global trade that should not be underplayed. Tourism alone serves as a major vehicle for trade, foreign exchange, investment and employment across the continent (Visagie and Turok, 2021: 31).

According to Visagie and Turok (2021: 24) when compared to high-value service sectors, sectors like transport and travel do not offer as big a boost to economic development in the long run. High-value services, when they hold a significant portion of services exports become sources of linkages that foster overall productivity in other non-services sectors such as agriculture, mining and manufacturing. This in turn depends on a country's capacity and capability to develop the highly skilled and knowledge driven labour force required to drive these high-value service sectors, which differs significantly from country to country. African countries are assumed to have little capacity and a majorly unskilled labour force which is more likely to be absorbed by the low-value services sectors. Hence tourism and travel, although not the most productive, are the most prominent sectors in services exports on the African continent (Visagie and Turok, 2021: 24).

There has however been a noticeable movement towards the exporting of higher value services by some African countries. SADC countries for instance have shown such improvement in the

exports of services in the IT and telecommunications sectors (Visagie and Turok, 2021: 30). According to Cattaneo, N. (2020: 26) there is scope for potentially more trade between African countries in the telecommunications sector alongside business services, technical and trade related services. Financial services has also been singled out as an important sector in the existing services exports within the continent. The growth of exports in these high-value sectors have reportedly been faster than that of the traditional transport and travel sectors. They are still nonetheless minute in size compared to the traditional transport and travel sectors (Visagie and Turok, 2021: 31).

Intra-African trade in services is generally low. South Africa is said to hold a hegemonic position as the largest exporter of services within the SADC region and holds the status of the largest market in Southern Africa. However according to Visagie and Turok (2021:33) South Africa's trade with other African countries is marginal. In 2012, only 5 percent of its imports and 11 percent of exports in total were recorded as trade with other countries in Sub-Saharan Africa. Most of this trade consisted of services in transport and travel (Visagie and Turok, 2021: 33).[3] Other prominent services exporters on the continent include Egypt, Morocco, Ghana, Nigeria, Kenya, Tanzania, Ethiopia, Tunisia and Algeria (UNECA *et al*., 2022: 62).

When it comes to intra-African trade in financial services, even at its low levels (about one percent of total global trade in financial services for imports and exports individually), the top three exporters of financial services within Africa are South Africa, Nigeria and Kenya, based on balance of payments (BOP) data (UNECA *et al*., 2022: 112). South Africa is the largest intra-regional exporter of financial services at 31 percent of total intra-African exports of financial services in 2018. On the imports side, Nigeria is reportedly the largest intra-regional importer of financial services on the continent followed by Mozambique, Angola and Kenya (UNECA *et al.*, 2022: 114). However, even though there is an existence of financial services trade within the continent it is quite insignificant when compared globally (UNECA *et al*., 2022: 114). Dihel and Goswami (2016: 4) nevertheless argue that the narrative of marginal African services trade, especially within the higher value services sectors, should be taken cautiously. This is because the evidence backing up data in most of the research surrounding African participation in global services trade is based on patchy and incomplete data. This is especially when the data is mainly sourced from the balance of payments which excludes

[3] More recent trends in this regard are considered in the empirical section of this thesis, notably in Chapter 5.

services trade in the form of commercial presence which is seen as one of the most dominant modes of financial services trade (Visagie and Turok, 2021: 35). In this regard, FDI data becomes a useful supplement to the balance of payments data.[4]

In recent years services have become increasingly prioritised in trade agreements at the multilateral, continental and regional levels. For Africa's regional trading blocs, it has become important to negotiate on regional services trade to foster the strategic development of services sectors within the regions. This is to induce structural transformation and to develop regional value chains to which South Africa, in the southern African setting in particular, has an important potential to contribute (Cattaneo, N., 2020: 10; Jansen van Rensburg *et al*., 2020). These are the main goals of the Tripartite Free Trade Area (TFTA) in addressing services trade as part of their Phase II negotiations. The TFTA consists of the Southern African Development Committee (SADC), Common Market for Eastern and Southern Africa (COMESA) and the East African Community (EAC). Negotiations on services trade are also included in the AfCFTA's Phase I negotiations. Financial services have been stated as a priority sector in the SADC, TFTA and AfCFTA services trade negotiations (Cattaneo, N., 2020: 10).

3.3 Trade agreements and financial services in Africa

Some of the literature on financial services trade places considerable focus on the role of international trade agreements (specifically the GATS) and their role in liberalising financial services trade for participating countries. The purpose of the GATS in the context of financial services has been to reduce and eliminate measures that prevent or inhibit financial services trade under any of the four modes of supply. According to Masamichi *et al*. (1997: 5) the multilateral trade agreement gave flexibility to developing countries in achieving progressive liberalisation by allowing the gradual but progressive extension of market access in line with their development status. The GATS also encouraged help from developed countries for developing countries in improving access to distribution channels and information networks (Masamichi *et al*., 1997: 5).

Using liberalisation indices, Dobson (2008: 308) demonstrates that African countries alongside Eastern Europe and other developed countries showed greater participation in making GATS

[4] Recent trends in Africa's FDI in services and financial services (commercial presence activity) are analysed in Chapter 5.

market access and national treatment commitments for their insurance and core banking sectors compared to Asian and Latin American countries. Dobson (2008: 309) notes that despite the positive turnover of participation by African countries in the GATS commitments regarding financial services, only a few smaller sized economies amongst them made commitments to fully liberalise Modes 1 and 2 in the banking sector. For Mode 3, South Africa and Nigeria are two notable African countries that guaranteed full liberalisation amongst a few. Reportedly, there was lesser participation for commitments in the insurance sector (Dobson, 2008: 309).

As with financial services, Africa's commitments to liberalising services trade across the other broad GATS service sectors appears patchy when looking at the level of commitments that were made at the sub-sector level. This is because countries with least developed country (LDC) status, which is 60% of African Union countries were allowed to make limited commitments of as low as one sub-sector out of the 155 services sub-sectors (Cattaneo, N., 2020: 41). This resulted in some countries making more commitments to liberalise than others, creating a commitment gap between the North-South/Developed-Developing countries. A study by Cattaneo, N. (2020: 41) evaluates the extent to which GATS commitments reflect the degree of openness of the services sectors. This study presents the argument that unilateral commitments made by countries beyond the GATS agreement and current regulatory frameworks are much more indicative of openness of the services sectors. According to Cattaneo, N. (2020: 42) observing the number of sub-sector listings or the limitations to market access and national treatment that have been listed for those subsectors under the four modes of supply are not by themselves adequate measures of openness (Cattaneo, N., 2020:42). Looking at efforts to liberalise beyond the GATS is reflective of the current standing of states when it comes to services trade which is more useful to the current discourse. The GATS rules are however still foundational to services trade liberalisation as they inform current, ongoing, and future services trade agreements, fulfilling an important characteristic of the agreement as being a pre-commitment to future liberalisation.

African countries with limited commitments to services trade liberalisation are under pressure to increase these commitments in North-South trade agreements. This is inevitable since despite the flexibility granted to developing countries, Article V (1) of the GATS requires all services trade restrictions in a services RTA to be eliminated within a reasonable period (Cattaneo, N., 2020: 45). There are two issues that arise. Firstly, domestic and regional regulatory frameworks on the continent are underdeveloped. LDCs in negotiating trade

agreements with developed countries may have to give up a substantial portion of the policy space they have in their financial services sectors, accommodating liberalising policies that may be harmful to their financial systems. Jansen (2006: 4) supports this argument by first acknowledging arguments prevalent in the literature that opening the financial sector (especially Modes 1 and 3) to trade is beneficial to emerging economies by improving efficiency and through spillover effects.

It is also true however, that introducing foreign linkages to domestic financial markets without adequate regulation appropriate to development status and domestic requirements will expose developing countries to legal difficulties or instability triggered by unfavorable events such as internal or external capital flight (Jansen, 2006: 4). Another threat to financial stability is the threat of failing domestic banks due to being inefficient and the exposure to advanced foreign competition. This is reminiscent of the infant industry argument for goods trade however in the context of financial services; the consequences of overhasty liberalisation can threaten the stability of the domestic financial system (Dobson, 2008: 312). Financial services is a sensitive sector that affects the functioning of the entire economy therefore it is argued that some policy space needs reservation for this purpose. In order to satisfy the requirements of the GATS Article V(1), a substantial number of commitments may have to be made when negotiating trade agreements with developed countries even without fully developed internal regulatory frameworks, so caution is needed (Cattaneo, N., 2020: 46).

The second issue that arises is that the majority of African countries remain net importers of high value services. Regional and continental trade agreements are often designed with a developmental objective, especially in the African context. It has become increasingly important for African countries to grow capacity within the services sector as it has become increasingly attractive as the newest potential engine behind growth and development (Cattaneo, N., 2020: 12). Several African countries lack the kind of market size in their financial markets that would attract foreign bank investment. Regional integration of financial services (of which trade is part) is recommended to decrease regulatory costs, achieve economies of scale, risk diversification and effective competition on a regional scale (Jansen and Vennes, 2006: 7). Existing regional integration initiatives aiming towards this are the West African Economic and Monetary Union (WAEMU), Central African Economic and Monetary Community (CEMAC), Southern African Development Community (SADC) and the Common Market for Eastern and Southern Africa (COMESA).

For a continent that consists of mainly developing countries, regional and continental integration are means to achieve a more meaningful developmental integration. This type of integration focuses on developing the continent's productive capacity and regional value chains through market integration, infrastructure development and industrialisation as a collective (Cattaneo, N., 2020: 49). North-South trade agreements are not necessarily inclined to achieve the same objective as the benefits of trade will likely only be achieved if financial markets in African countries become attractive enough for effective foreign investment and if in return African financial service suppliers benefit from the market access and national treatment commitments made by developed countries in those agreements. Because of the underdeveloped nature of African financial services sectors either way will prove not to be entirely beneficial. It is therefore important for African countries to focus on strategically forming and strengthening regional and continental services trade relationships before making further North-South services trade agreements in financial services (Cattaneo, N., 2020: 9).

The AfCFTA is engineered for this purpose, considering that all AU countries are at differing levels of development. To this end, common regulatory principles will be facilitated to increase intra-African trade whilst recognising current commitments and rights of member states regarding domestic regulations (Cattaneo, N., 2020: 49).

3.4 State of play of the AfCFTA services trade negotiations

The AfCFTA is a continental preferential trade agreement in the form of a free trade area. It includes 54 out of 55 African countries and will therefore be the largest market for both goods and services to exist since the establishment of the WTO (Simo, 2020: 65). The success of the AfCFTA will be important to induce development in Africa considering the potential of services to propel growth and development and to create decent and productive employment especially in the current age of an increasingly young population on the continent (UNECA, 2020: 2). To achieve this, members of the new free trade area are encouraged to generously liberalise service sectors under the agreement (UNECA, 2020: 2). This, it is argued, will play a key role in promoting and deepening intra-African trade which is currently at low levels.

One of the AfCFTA's unique features setting it apart from existing regional trade agreements is the concurrent negotiation on goods and services which shows recognition of the importance of services in promoting industrialisation and the development of regional value chains.

According to Simo (2020: 66) previous African regional trade agreements focused on goods trade first before later negotiating terms on services trade. This is a linear form of integration that disregards the importance of services for the economy. Trade negotiations under the AfCFTA are happening in three phases. Phase 1 of the negotiations focuses on trade in goods and services and concerns dispute settlement, tariff concessions, rules of origin and schedules of specific commitments for services trade (Kaaria *et al*., 2020: 2). Phase 2 focuses on competition policies, investment and intellectual property rights. Phase 3 was recently added to cover women and youth in trade and digital trade (TRALAC, 2023: 3).

Services trade liberalisation under the AfCFTA is guided by the Protocol on Trade in Services (PTIS). The protocol covers commitment schedules, most favoured nation (MFN) exemptions, air transport, priority sectors and a framework on regulatory cooperation. In order to achieve the aim of free trade in services, the protocol amongst other measures provides for the progressive liberalisation of services sectors by member states (Sawere, 2020: 5). Member states will commit to liberalisation by undertaking specific sector commitments to guarantee market access and national treatment in those sectors across all four modes of supply (cross border, consumption abroad, commercial presence and presence of natural persons). Members are required to commit to a minimum number of sectors apart from the priority sectors and subsectors (Sawere, 2020: 7). Member states who are already WTO members have been required to make GATS-plus commitments, i.e., commitments that members make at the AfCFTA level should exceed their GATS commitments either by increasing the number of sectors and subsectors liberalised or by reducing the limitations placed on modes of supply. Non-WTO members do not have GATS commitments as starting points however their commitments across sectors at AfCFTA levels should be better than existing levels of autonomous liberalisation (Sawere, 2020: 7).

According to Sawere (2020: 6) under the PTIS, members states had come to agreement in 2018 on the priority sectors which would be liberalised at the onset of the AfCFTA negotiations. The sectors agreed upon were Business, Communication, Finance, Tourism and Transport services. The negotiations for these five sectors were set to be concluded at the start of 2020. Negotiations on the remaining sectors namely Construction, Education, Environmental, Health, Recreational, sports and cultural services, and Other services not elsewhere included were to be concluded by 2021. By December of 2022, TRALAC (2022) reported that Phase 1 of the AfCFTA negotiations had outstanding matters that were yet to be concluded. Amongst

those outstanding matters, commitments in the five priority services sectors were yet to be finalised. Phase 2 was well advanced but had also not yet been concluded. According to TRALAC (2022) these delays were due to interruption by the Covid-19 pandemic and also the difficulty in integrating 54 economies who are at different levels of economic development with competing interests and conflicting goals for their domestic industries.

Although the protocols for Phase 2 were concluded in October of 2022, negotiations are still ongoing to finalise Phase 1 of the negotiations, including the finalisation of the schedules of commitments in the five priority services sectors (TRALAC, 2023: 9). The services negotiations are taking place on a request-offer basis and, so far, 46 countries have made offers to liberalise services at AFCFTA level. These offers are being verified by the AFCFTA Secretariat for compliance with the agreed modalities.[5] Following the verification process they will be required to submit final schedules of commitments (TRALAC, 2023: 9).

In July 2022, final schedules of specific commitments were adopted from 10 countries. These schedules came from the following countries: Djibouti, the Democratic Republic of Congo (DRC), eSwatini, Lesotho, Namibia, Malawi, Mauritius, Seychelles, Zambia and Zimbabwe; and a Combined Schedule of the five East African Community (EAC) Partner States, namely, Burundi, Kenya, Rwanda, Uganda, and Tanzania. These state parties were required to gazette the adopted final schedules and to report the date and place of publication to the Secretariat of the AfCFTA. A Committee on Trade in Services was scheduled to take place in May of 2023 that would consider revised offers of commitments in the prioritised sectors and also draft regulatory frameworks regarding communication and financial services, two of the five prioritised sectors.

Some of the other regional trade agreements on the continent have passed the AfCFTA stage of services trade negotiations. SADC countries signed their trade in services protocol in 2012 which was also created with the goal of achieving a single liberalised services market for member states. Negotiations began in 2012 with discussions around prioritising six services

[5] The 46 countries inclusive of State and non-State parties are Angola, Algeria, Benin, Botswana, Burkina Faso, Burundi, Cameroon, Central Africa Republic, Cape Verde, Chad, Comoros, Congo, Cote d'Ivoire, Democratic Republic of Congo, Egypt, eSwatini, Equatorial Guinea, Gabon, The Gambia, Ghana, Guinea, Guinea Bissau, Kenya, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritania, Mauritius, Morocco, Namibia, Niger, Nigeria, Rwanda, São Tome and Principe, Senegal, Seychelles, Sierra Leone, South Africa, Sudan, Tanzania, Togo, Uganda, Zambia and Zimbabwe.

sectors. These sectors were Communication, Construction, Energy-Related, Financial, Tourism, and Transport services. At the end of the first round of negotiations years after commencement, commitments were finally made and adopted in these priority sectors, first in 2018 and then finally in 2019 (Sawere, 2022: 2). In 2021, a negotiation framework was put in place for the second round of negotiations that would cover the remaining services sectors. The second round of services negotiations is still ongoing.

According to COMESA (2022: 38), the COMESA member states committed to liberalising seven priority services sectors. Phase 1 of the COMESA services negotiations which covered negotiations in Communication, Financial, Tourism and Transport services which were concluded in 2014. Phase 2 negotiations covering Business, Construction, and Energy Related services commenced in 2019 and are still ongoing. The member states of the EAC have also made commitments to liberalise in Business, Communications, Distribution, Education, Financial, Tourism and Travel, and Transport services under the EAC common market protocol. Apart from these seven priority sectors, further agreements were made to make more commitments in the additional sectors that were not covered in the initial commitments at a future date. The sectors yet to be concluded include Energy, Environmental, Health and social services, Construction and related services as well as Recreation, cultural and sporting activities (EAC, 2022).

The AfCFTA has yet to conclude negotiations in its five priority sectors for services trade liberalisation. This step has been achieved by the SADC, COMESA and EAC regions however all these trade agreements still have pending negotiations on trade in services commitments especially in the non-priority sectors. It is however clear that Financial services and other services sectors like Communication, Tourism, Travel and Business services are important to African development as they keep appearing as priority sectors in African regional trade agreements.

3.5 Studies on trade in services in Africa

Services trade has gained considerable attention in recent literature. There have been several studies illuminating the growth of services trade in Africa with a consensus that there has been growth in the amount of services trade coming from the continent (Visagie and Turok, 2021, UNECA *et al*., 2022, Cattaneo, N., 2020). However, it is also generally agreed that services trade coming from and to the continent is still marginal when compared globally. Based on

data provided by the WTO for the years 2017 to 2019, UNECA *et al*. (2022: 62) reported that only 10 countries out of 54, namely Egypt, Morocco, South Africa, Ghana, Nigeria, Kenya, Tanzania, Ethiopia, Tunisia and Algeria, accounted for 79 percent of Africa's commercial services exports. The bottom 10 countries including Liberia, Burundi, Lesotho, Guinea-Bissau, São Tomé and Príncipe, Sierra Leone, Guinea, eSwatini, Democratic Republic of Congo and Comoros only contributed 0.5 percent to the continent's exports. These bottom 10 countries are classified as least developed countries and are recommended to be given special and differential treatment provisions in the AfCFTA Trade in Services protocol in order to create opportunities for them to incorporate more services trade into their industrial policies. This shows that an overwhelming number of African countries are not meaningfully participating in services trade internationally. It is also implied that most African countries have continued to neglect advancing services trade in their industrial policies despite the evident move of the world towards more services trade.

A recent study assessing Africa's services trade and trade growth on the continent does so for the period 2005 to 2017, considering selected countries under the African Union. The selected countries include SADC member states, selected non-SADC countries that are involved in the TFTA between SADC, the EAC and COMESA, and selected AU countries that are not part of the TFTA (Cattaneo, N., 2020: 25). In total, the study analyses 18 countries, which are inclusive of upper-middle, lower-middle- and low-income countries including those of least developed status. Cattaneo, N. (2020: 25) albeit also recognising growth in the exports of services over the period 2005 to 2017, draws attention to the type of growth in services trade on the continent. From 2005 up until 2013, growth in Africa's services trade was mostly on the import side which resulted in bigger services trade deficits during that period. From 2013 to 2017, it is reported that the deficit in services trade on the continent had begun to shrink, notably owing to a decline in imported services to the continent and not necessarily as a result of increased exports. What is also interesting to note is that Angola and Nigeria are singled out as two of the largest importers of services on the continent. According to Cattaneo, N. (2020: 25) these two countries accounted for such a large share of the continent's imports that when removed from the data, the continent's services trade deficit reduced by more than half. Interestingly, between 2017 and 2019 Angola placed fifth in the top 10 importers of services on the continent (UNECA *et al*., 2022: 64). When looking at the category of services that drove Angola and Nigeria's imports from the world, 'Technical, trade related and other business services' and 'Sea freight' stood out as common sub-sectors for import by the two countries. The particular

sub-categories within 'Technical, trade related, and other business services' driving the trends are however uncertain. Other major services importers identified by UNECA (2022: 64) include Egypt, South Africa, Algeria, Ghana, Morocco, Ethiopia, Libya and Mozambique.

Visagie and Turok (2021: 28) make use of the first version of the Balanced Trade in Services (BaTIS) data, put out by the OECD and WTO,[6] accounting for two decades of international services trade for SADC countries for the period 1995 to 2012. The aim of their study was to make a case for the potential role of tradable services in promoting industrial capabilities, productivity growth and exports for countries in Southern Africa. Most African countries in the SADC region according to this study have only recently seen growth in the exports of services globally. Their analysis of the composition of the growing services exports coming from the SADC region both to the world and with other African regions is useful. According to their findings there appears to be evidence of diversification away from more traditional services to high-value services in the services exports of SADC countries (Visagie and Turok, 2021: 30). Although these newer services are fast growing as exports, they still remain smaller in size compared to the traditional transport and travel services sectors.

Using the computation of trade complementarity indices (TCIs), Cattaneo, N. (2020: 29) expands further on the assessment of bilateral services trade on the continent by investigating the potential for services trade between South Africa and selected AU countries in the context of the formation of the AfCFTA. The export TCIs revealed significant potential for South Africa to increase overall exports of services to Tanzania, Mauritius and Nigeria. On the import side, Kenya, Egypt, Tanzania, Ethiopia, Morocco, and Nigeria were high matches for potential increase in imports of services to South Africa.

Also looking to investigate ways in which low performance of intra-African services trade could be improved, Diressie (2011: 14) employed a gravity model in order to establish major determinants affecting Africa's bilateral trade in services. The main determinants of interest in this study included economic performance, total labour force and colonisation. The period covered by the study was 2003 to 2007. The results of the study established that the nations' GDP per capita, total labour force and advancement of technology were a positive influence

[6] The latest version of the BaTIS dataset, covering the period 2005 to 2021, is used for some of the empirical work in the present thesis and is described in more detail in Chapter 4.

on Africa's services trade. An interesting finding was the positive impact that commonality/cultural similarity in terms of language and colonial history had on services trade between certain African countries which also explained trade between some African countries and their former colonisers. Distance and land locked-ness, despite the assumption that they would not have an impact on services trade due to the intangible nature of services, were found to have a negative impact on services trade (Diressie, 2011: 41).

Another recent study that makes use of the gravity model in the context of African services trade is Majune *et al*. (2023). The focus of this study was to establish determinants of intra-COMESA services trade among 17 COMESA countries for the years 2005 to 2019. The study accounted for total services and eight individual categories of services including Travel, Transport, Telecommunication, Construction, Financial, Insurance, Other business services, and Personal, cultural and recreational services (Majune *et al*., 2023: 11). According to Majune *et al*. (2023: 4) the Poisson pseudo maximum likelihood (PPML) estimator of the gravity model was used for the estimation. An interesting variable in the specification of this model was the time zone difference variable. According to Majune *et al*. (2023: 4), time zone difference is better suited to services trade for services that do not require much proximity in terms of trading costs compared to physical distance. Another interesting variable used was a dummy variable indicating whether the countries were signatories to the GATS which is specific to services trade. The results of the estimation showed that the impact of various determinants may differ across the different services sectors. Time zone difference had a positive effect on total services and specifically Transport, Construction, Financial and Personal, cultural and recreational services. A negative effect was found in the case of Travel, Insurance, ICT and Other business services. When it came to the GATS agreement, being a signatory increased exports of total services and Transport services (Majune *et al*., 2023: 8).

Dihel and Goswami (2016: 6) discuss restrictiveness as one of the reasons why Africa's international trade in services remains low. Despite data from the World Bank's Services Trade Restrictiveness Index showing that African countries were restrictive in professional services which may lead to the belief that restrictions may be hampering services trade, Dihel and Goswami (2016: 6) argued that empirical evidence does not fully support the theory that low levels of restrictiveness leads to growth in trade in the context of African countries. They also argued that Africa is less restrictive in services such as finance, transport and retail when compared to some other regions. Other factors may contribute to the hindering of services

export growth specifically in knowledge intensive services in Africa. According to Dihel and Goswami (2016: 19) these include skills shortages due to inadequate capacity or institutions for disseminating adequate skills, the growth of informal services providers due to trade and regulatory hurdles, heterogeneous regulation across African countries and inadequate standards stifling the demand for services across countries. Factors that contribute to the growth of services in Africa include cost differences in providing or acquiring services in a different country, differences in quality or non-availability of a service in the home country and proximity in cases such as informal services that require physical labour, foreign students travelling to neighboring states for education or firms exporting services to clients located in their region (Dihel and Goswami, 2016: 20).

3.6 Empirical studies of financial services trade

The growing importance of services in regional integration and global value chains has garnered interest in services trade within Africa. As discussed in Section 3.4, there are a growing number of studies that investigate the existence, level and prospects for services trade on the continent. There is however a limited number of studies that have conducted an econometric analysis of the prospects of increasing services trade on the continent at the sub-sectoral level, particularly in financial services, based on BOP data. There are also limited studies found that have assessed trade complementarity of African trading partners in financial and finance-related services trade using trade complementarity indices.

When it comes to methods used to investigate determinants of trade in financial services, while not specifically on African countries, a study by Moshirian *et al*. (2005: 1101) uses a non-linear Logit and truncated Tobit model to investigate the presence and determinants of intra-industry trade (IIT) amongst the US and selected trading partners in the banking sector for the years 1997, 1998 and 1999. Their results found evidence of IIT in US banking services although the IIT in the US banking sector was found to be less than that of European countries like France, Germany and Italy (Moshirian *et al*., 2005: 1105). This is due to the abundance of US multinational banks in OECD and developing countries which resulted in the reduction of IIT for the US as increasing intra-firm trade with their own multinational banks would mean a reduction in trade in financial services with the other countries. They also found that education in finance as a factor endowment, investment into the banking sector of another country (FDI), economies of scale, trade intensity and a liberalised banking sector were all determinants in increasing intra-industry trade in banking services.

Podpiera (2021: 4) conducted a study on the impact of trade barriers (proxied by distance) on the exports of financial and insurance services from the UK to other countries in the world post Brexit. The study contributes to the literature by moving from a narrower definition of financial and insurance services used by previous studies to a more comprehensive definition of financial services. Previous studies focused on interest-bearing asset holdings across countries in their definition of financial services. Podpiera (2021: 4) on the other hand includes all types of financial and insurance services except for loans, deposits and securities. The study uses a censored normal regression model as opposed to a Tobit-type model used in previous studies to conduct estimations of a gravity model in this context (Podpiera, 2021: 4). The variables used in explaining financial services exports for the gravity model included the standard gravity model variables as well as cultural and political similarities and important economic partnerships such as membership of the European Union, Economic Partnership Agreements, and the Association Agreement (Podpiera, 2021: 6). The study found that trade barriers only mattered for interest-bearing activities and not so much for the rest of financial services. Trade agreements, language and income per capita of the importer had a small but positive impact on financial services trade (Podpiera, 2021: 18).

In the context of African countries, similar studies were found that included financial services as one of a number of sectors observed under a gravity model (Majune *et al*., 2021; Majune *et al.*, 2023). Using the PPML estimation method, Majune *et al*. (2023: 69) employ a gravity model to assess the prospects of the AfCFTA to boost intra-African trade in services. This was done through two objectives, by firstly establishing determinants of services trade and secondly the impact of trade facilitation on services trade in Africa. The estimation is conducted for total services and separately for eight categories of services which include financial services hence the similarity to the objective of the current study (Majune *et al*., 2023: 65). The bilateral data used due to the nature of the study was panel data for the years 1995 to 2019. The data was BOP data and sourced from the OECD for 1995 to 2012 and from the WTO for 2013 to 2019 (Majune *et al*., 2023: 66-67).

The results of their estimations were particularly interesting when compared to the results of the current study to be considered in Chapter 6. They found that having a common language and being signatories of the GATS trade agreement were insignificant in explaining Financial services trade and reduced the volume of Insurance trade. Distance increased financial services

trade and having a common border reduced financial services trade but increased insurance trade (Majune *et al*., 2023: 70). A variety of trade facilitation indicators were included in their estimations, a mixture according to Majune *et al*. (2023: 70) of "hard" and "soft" indicators. Amongst these, trade restrictiveness (measured by the STRI coefficient), a soft indicator, was found to be negative and significant for financial and insurance services. ICT infrastructures such as mobile phone subscriptions (hard indicators) increased Financial and Insurance services. Interestingly, improving internet access and availability was reportedly insignificant in explaining financial services trade.

Other studies found on intra-African financial services trade were more on the descriptive side. A recent study looking at intra-African financial services trade found that African countries' trade with other African countries in Financial services was nearly insignificant when compared to global trade in Financial services based on BOP data (UNECA *et al*., 2021: 111). The study conducted an analysis of the policies and regulations governing financial services trade at country and regional trade agreement level and found that there were overlapping and conflicting interests that hindered financial services trade on the continent (UNECA *et al*., 2021: 108). Thus, trade restrictiveness and lack of coherence in regulation are established as having a negative impact on financial services trade in Africa.

In a study of the challenges and prospects of insurance penetration in sub-Saharan African economies, Ngwu *et al*. (2019: 14-17) make an interesting contribution to the literature by discussing a pervasive existence of informal financial services in many African countries as one of the reasons why there is a low demand for formal insurance services in African countries. Besides this, they cite a lack of trust and credibility between insurers and clients, poor economic development and the inability of many Africans to afford access to insurance services that are limited to the upper middle-income groups as some of the other factors contributing to the low demand (Ngwu *et al*., 2019: 14). Some of the informal financial services discussed include the West African "esusu or susu" credit, saving and withdrawing service. This service is rendered by a collector who makes an agreement with a client to collect and accumulate daily savings for said client at a fee of one day's worth of savings. The "Tontines" system is another financial service in which a group of individuals pool regular payments into a common fund called the "tontine" which is used as a loan to one or more members of the group and is recovered without interest. This is common practice in Cameroon, Senegal, South Africa, Sudan and Uganda (Ngwu *et al*., 2019: 18).

According to Ngwu *et al*. (2019: 20) these types of indigenous financial services are better absorbed as they have been created out of cultural values and norms which are better understood compared to western laws governing insurance services in some African communities. The authors therefore suggest the integration of these types of indigenous financial services norms into formal financial services provision to attract more demand towards the formal sector in African countries (Ngwu *et al*., 2019: 20). This is an interesting contribution to the literature as it illuminates the possible presence of informal financial services trade on the continent that is not accounted for in services trade data. This may indicate far more financial services trade on the continent than is currently measurable (Dihel and Goswami, 2016: 4). The low penetration of Insurance services across the continent is an indication of an opportunity to grow and develop this market on the continent (Ngwu *et al*., 2019: 16). This will effectively positively impact financial services trade across the region as demand within the countries themselves would begin to rise from current levels.[7]

Given South Africa's hegemonic presence on the continent and sophisticated financial services sector, an important study carried out in 2009 by Luiz and Charalambous set out to investigate factors that would determine South Africa's foreign direct investment in financial services to the rest of sub-Saharan Africa. They carried out interviews and a survey with key decision makers within senior management in South Africa's financial services firms. The results of the surveys and interviews were then ranked according to the importance of each factor (Luiz and Charalambous, 2009: 309). The most important factors were found to be country governance and political risk (good political stability), market size and demand conditions (a considerable size of potential consumers), infrastructure considerations (good transport, IT and telecommunications infrastructure) and macro-economic performance (stability of interest rates and inflation, growth in GDP and so on) (Luiz and Charalambous, 2009: 316).

Although the above types of studies are important for financial services trade on the African context, more empirical studies are needed that assess the possibility and determinants of increasing financial services trade on the continent and to establish the country pairs and regions where this potential exists. This will assist policy makers, business and other relevant

[7] Interestingly, some of the more recent BaTIS data estimates for trade in the Insurance sub-sector based on BOP data, considered further in Chapter 5, suggest a notable increase in imports in this sub-sector in some African economies and regions.

stakeholders in the knowledge of where and how to use trade policy or investment on the continent in order to increase intra-African financial services trade.

The present study thus seeks to contribute to the financial services trade literature by building on some of the empirical work that has been cited in this chapter. The first is the calculation of trade complementarity indices for financial and finance-related services trade as opposed to only the financial services sector, as explained in the methods chapter (Chapter 4) and reported in Chapter 5 below. This seeks to incorporate all the finance-type service categories and the ICT sector which is an integral part of financial services provision, especially in an era of financial digitalisation through fintech which is rapidly increasing in the finance world. Secondly, the present study estimates a gravity model with additional key trade agreement variables involving African countries, including the AfCFTA which is currently undergoing services trade negotiations. The gravity model, which is discussed in Chapter 4 and reported in Chapter 6, also examines the impact of trade between African and non-continental partners in financial services trade, revealing interesting contrasts between intra-African and multilateral trade in financial services involving African economies.

3.7 Conclusion

This chapter set out to review empirical literature on trade in financial services in Africa. Section 3.2 provided background on services trade in Africa. Section 3.3 looked at literature on services in trade agreements and the existing levels of commitment made in financial services in Africa. Section 3.4 examined the state of play of the AfCFTA services trade negotiations and the African countries that have currently made offers for commitments in services liberalisation under the new free trade area. Section 3.5 reviewed some recent studies on services trade in Africa, while Section 3.6 focused on empirical studies of financial services trade on the continent.

As noted at the outset, the financial services sector has been designated as a priority sector in the AfCFTA services trade negotiations. It is therefore important to expand the study of financial services trade in terms of its existence and potential on the continent. There has been much focus in current literature on the determinants or impact of financial development in African economies and emerging financial technology (fintech) innovations. However, there are fewer studies on services trade as measured in the BOP data, both in the aggregate and at the sub-sector level in sectors relevant for financial services on the continent. Addressing the

gaps in financial services trade studies will be useful for researchers, business, policy makers and trade negotiators. The rest of the thesis thus undertakes empirical analysis with a focus on financial and finance-related services trade on the African continent, as measured in the BOP data. Chapter 4 sets out the methods and data used for the empirical work, while Chapters 5 and 6 report and discuss the findings related to the goals of the thesis set out in Section 1.1 of Chapter 1.

Chapter 4
Research Methods and Data

4.1 Introduction

As noted in Chapter 1, the main goal of this thesis is to examine the nature, importance and prospects for growth of South Africa's trade in financial services in the context of the AfCFTA. In order to address the main goal, the following three sub-goals were specified. First, the share and growth performance, as well as some of the characteristics, of South Africa's financial services trade in the aggregate and with selected partners and regions will be identified and measured, with a focus on financial services trade with the rest of Africa. Secondly, South Africa's trade potential in finance-related services trade in the context of the AfCFTA services trade negotiations will be computed. Finally, the impact of the formation of the AfCFTA and membership of other regional groupings on financial services trade will be estimated using a gravity model. The first two of these sub-goals are addressed in Chapter 5, while the third sub-goal is the focus of Chapter 6.

In terms of the scope of the empirical analysis, the emphasis in this study is on trade in financial services and related sectors as measured by the BOP data. As explained in Chapter 1, this data is based on the sixth edition of the IMF's Balance of Payments Manual (BPM6) and the associated 2010 Extended Balance of Payments (EBOPS) categories in the Manual on Statistics of International Trade in Services (UN *et al*., 2010). While there has been much research emerging on the impact or determinants of financial development on the African continent, as well as the evolving impact of financial technology (fintech) innovations,[8] there are few studies on financial services trade and finance-related services trade potential, measured using the BOP services trade data.

As indicated in Chapter 1, there are twelve main EBOPS 2010 (BPM6) services trade sub-sectors, specified as follows: Manufacturing services on physical inputs owned by others; Maintenance and repair services n.i.e.; Transport services; Travel services; Construction services; Insurance and pension services; Financial services; Charges for the use of intellectual property; Telecommunications, computer and information services; Other business services; Personal, cultural and recreational services; and Government goods and services n.i.e.

[8] Recent examples include Ibrahim and Sare (2018), Iheonu *et al*., (2020), Ndung'u (2022) and Ozili (2023).

The study adopts a quantitative research approach (Creswell and Creswell, 2018: 41) and employs a number of different quantitative research methods and techniques to address the objectives of the research. These methods and techniques are set out in Section 4.2 below with reference to the relevant sub-goals of the thesis, along with the data sources used in each case. Section 4.3 discusses some of the limitations of the data and empirical approaches used in the study, while Section 4.4 concludes the chapter with reference to the empirical work conducted in the remainder of the thesis.

4.2 Research methods, empirical techniques and data sources

4.2.1 Descriptive statistical analysis

The first sub-goal of the study, on the share and growth performance of South Africa's financial services trade, is addressed in Chapter 5 by first looking at the overall trends and average annual growth rates of South Africa's total services trade as measured in the BOP data. This is to establish an understanding of how South Africa's trade in services overall has taken shape over the years. Once this has been established, a more nuanced and detailed analysis of services trade with the world by sub-sector with a focus on financial services, is undertaken by looking at the trends, shares and average annual growth rates at the BPM6 sub-sector level. This helps to illuminate the sectoral structure of South Africa's services trade and to see how financial services and other finance and ICT-related services sub-sectors are situated as part of South Africa's total services trade.

The focus at this stage (in Section 5.2 of Chapter 5) is on South Africa's services trade with the whole world, based on BOP data, and the position of South Africa's financial services trade in this context. Data for South Africa's services trade in the aggregate and by main EBOPS 2010 (BPM6) sub-sector was sourced from the ITC, UNCTAD and WTO Trade in Services Database (ITC *et al*., 2023). The period under study is from 2005 to 2022 for South Africa's global services trade in the aggregate and by sub-sector since this is the period for which the relevant data are available in the dataset.

The first sub-goal is then addressed in further detail in Section 5.3 of Chapter 5 by looking at estimates of South Africa's bilateral services trade with selected African trading partners, both in the aggregate and at the BPM6 sub-sector level, focusing on financial services and finance-related services trade. The availability of bilateral services trade data involving developing

countries is severely limited by poor or incomplete reporting of such trade data, especially at the sub-sector level. This situation is even more problematic when it comes to bilateral trade involving or between African economies. Bilateral services trade data for the present study was sourced from the OECD-WTO Balanced Trade in Services (BaTIS) Database (OECD and WTO, 2023). This is the most recent edition of the BaTIS dataset available at the time of writing and covers the period from 2005 to 2021.

The BaTIS Database provides a complete matrix of bilateral services trade flows for 202 countries for total services trade and for bilateral trade in each of the 12 main EBOPS 2010 services sub-sectors (Liberatore and Wettstein, 2021: 3). It uses all the reported data available from ITC *et al*. (2023) for trade with the world, as well as all reported bilateral data from existing sources such as the OECD's Trade in Services by Partner Country statistics, the Eurostat International Trade in Services statistics, UN Comtrade data, together with official and additional national sources (Liberatore and Wettstein, 2021: 7). This reported data is then supplemented by estimates for the non-reported trade flows. The methodology used for the estimations and for balancing export and import flows is described in detail in Liberatore and Wettstein (2021: 9-17). The BaTIS Database thus provides an invaluable tool for the analysis of trade patterns in the absence of reliable and complete reported data.[9]

In addition to financial services trade flows as recorded in the BOP data, information on trade in financial services via Mode 3 (commercial presence) is briefly investigated under the first sub-goal. FDI statistics from various reports on inward and outward investment flows and stocks on the continent in services both in the aggregate and at the sub-sectoral level were obtained and are used to make inferences on the state and prospects of commercial presence financial services trade on the continent. FDI statistics are an alternative way to examine trade in terms of commercial presence in place of Foreign Affiliates Statistics (FATS). FATS are a useful way to measure trade via Mode 3 as they provide information on the operations (including sales and employment statistics) of foreign affiliates in host countries (UN *et al*., 2010: 87). Although FDI statistics are not synonymous with FATS statistics, FDI statistics provide information on the transactions between direct investors and foreign affiliates and are therefore also a very useful way to establish a country's use of commercial presence in services

[9] See Section 4.3 for a discussion of the limitations of using the BaTIS Database in the context of the present study.

trade and are recommended as an alternative (UN *et al*., 2010: 91). FATS data on South Africa's foreign affiliate activity on the Investment Map database could not be used as the data available on the database is incomplete and would not produce a reliable inference. The FDI statistics relied on from the reports and articles sourced cover various types of FDI statistics including commonly reported Greenfield project investments.

4.2.2 Analysis of trade potential using trade complementarity indices

To address the second sub-goal of the study in Chapter 5, on the prospects for finance-related services trade in the context of the AfCFTA trade in services negotiations, trade potential based on a cluster of four finance and ICT-related services sub-sectors is computed using trade complementarity indices (TCIs). These sub-sectors include:

- Financial services which cover services that are provided by financial intermediaries and auxiliaries and encompass a range of services including banking and investment;
- Insurance and pension services which refer to services that include the assumption of financial risk, investment, and savings, guarantee services and the administration of retirement funds among others;
- Charges for the use of intellectual property n.i.e. involving payments for licenses to use intellectual property as well as propriety rights such as patents etc.;
- Telecommunications, computer and information (ICT) services which are services that include the use of technology for the transmission, processing and storage of data which is integral in enabling the aforementioned three sectors access to the global digital market (UN *et al*., 2010: 57-71).

These sub-sectors were identified by the author as a cluster of finance and ICT-related services sub-sectors which are of key relevance to the main theme of the thesis.

TCIs examine the structure of one country's exports to the world in comparison to the structure of another country's imports from the world, irrespective of whether the countries under investigation already engage in trade within that sector or group of sub-sectors (Baccheta *et al*., 2012: 30; Tang *et al*., 2024: 1081-1082). This indicates areas in which both countries' trade overlaps and thus helps to determine the African countries and regional groupings with which South Africa has the most potential to trade in the identified cluster of finance and ICT-related (FICT) services sub-sectors. The advantage of the TCI as an indicator of trade potential is that

it does not require bilateral trade data for the countries selected; all that is required is the structure of the countries' global exports and imports of the goods or services cluster or main sector under study. As noted above, bilateral services trade data is difficult to obtain, particularly for many African countries, due to poor or incomplete data collection or reporting, and more so at the subsector level. It is therefore useful to use TCIs for the analysis of trade potential in this instance, as undertaken in Section 5.4 of Chapter 5.

For each bilateral relationship between South Africa and a partner country or region, two TCIs are computed, an export TCI and an import TCI. For the present study, South Africa's export TCI with a particular trading partner or region for the FICT cluster is computed as follows:
$SAEXPTCI = 100\ [1 - \sum \left| saexp_i - partimp_i \right| /2]$ where
$saexp_i$ is the share of FICT services sub-sector i in South Africa's total FICT services exports to the world, and
$partimp_i$ is the share of FICT services sub-sector i in the trading partner's total FICT services imports from the world.[10]

Similarly, South Africa's import TCI for the FICT cluster is computed as follows:
$SAIMPTCI = 100\ [1 - \sum \left| saimp_i - partexp_i \right| /2]$ where $saimp_i$ represents the share of FICT services sub-sector i in South Africa's total FICT services imports from the world and $partexp_i$ is the share of FICT services sub-sector i in the trading partner's total FICT services exports to the world.

The TCIs range from 0 to 100 percent, with a larger value indicating a higher match between the export structure of one party and the import structure of the other, for the relevant cluster of services sub-sectors. Hence, the higher the index, the greater the trade potential in that cluster as trade barriers are removed or as trade agreements are implemented. Data for the trade potential section of the study was sourced from the ITC, UNCTAD and WTO Trade in Services Database (ITC *et al*., 2023).

[10] South Africa's total FICT services exports to the world refers to the sum of South Africa's global exports of Financial services, Insurance and pension services, Charges for the use of intellectual property n.i.e. and Telecommunications, computer and information services. Similarly, South Africa's total FICT services imports from the world is the sum of South Africa's global imports in the same four specified FICT sub-sectors.

4.2.3 Gravity model analysis of bilateral financial services trade

Finally, to examine the impact of the formation of the AfCFTA and membership of other regional groupings on trade in financial services (the third sub-goal of the research), a gravity model is estimated. This part of the research, reported in Chapter 6, therefore focuses more specifically on just the Financial services sub-sector in the FICT cluster identified earlier. The gravity model is a well-established technique for investigating the determinants of bilateral trade and investment flows. The gravity model typically considers bilateral trade as a function of the GDP of the importing country, the GDP of the exporting country, whether or not they share a common border, whether or not they share a common official language, the distance between the countries and the bilateral trade costs or trade restrictions between them (Baccheta *et al*., 2012: 103-109; Nordås, 2018: 3537-3538; Tang *et al*., 2024: 1084-1085).

In the context of the present study, the gravity model considers the determinants of bilateral financial services trade to African countries. In the sample, all importing countries are thus African economies, while the exporting countries include both African and non-African trading partners. For the purpose of estimating the model, a unique gravity dataset was compiled by the author from a variety of data sources. The selection of countries was guided by bilateral financial services trade data availability in the BaTIS dataset. All African economies were included as importers except for Eritrea, the Sahrawi Republic, São Tomé and Príncipe, Somalia, South Sudan, Sudan and Togo, giving a total of 48 importing nations, all from the continent. On the exporter side, the 48 African countries together with 45 non-African countries were included, giving a total of 93 exporters.[11] This yielded a sample of 4416 bilateral trading relationships, i.e., 4416 observations of the dependent variable (bilateral financial services trade).

The usual gravity model determinants, namely the GDP of the importing and exporting countries, existence of a common border and common official language, as well as the distance between partner countries, are included in the model. Bilateral trade restrictions in the financial services trade context are measured using the Services Trade Restrictions Index (STRI) for the financial services trade of the importing country, obtained from the World Bank-WTO Services Trade Restrictions Index (STRI) Database (World Bank and WTO, 2023a). The STRI is a

[11] The importing and exporting countries included in the study are listed in Appendix Table A4.1 at the end of this chapter.

quantitative measurement of restrictions to services trade. The STRI database covers a broad range of services sectors including Financial services, Telecommunications, Retail services, Transportation, and Professional services. According to Gelosso Grosso *et al*. (2014: 6) the STRI database covers a range of restrictions including market access, domestic regulations, and national treatment policies, with the STRI score of each country only taking account of the restrictions applied by that country. The index is a score ranging from 0 to 100 with zero indicating a fully open services sub-sector with no restrictions and 100 indicating a fully closed sub-sector based on the restrictions underlying the index (World Bank and WTO, 2023b: 1).

In order to investigate the impact of participation in the AfCFTA on bilateral financial services trade involving African importing countries, a dummy variable that takes on a value of one if both countries are members of the AfCFTA and zero otherwise was created. In addition, given the importance of trading relationships between many African countries and the EU and UK, a dummy variable was also created to indicate an EU/UK-African bilateral trading relationship, with the dummy set equal to one if the importer is an African country that has signed an Economic Partnership Agreement (EPA) and the exporter is an EU member or the UK.

Finally, since the AfCFTA services trade negotiations have not yet been concluded, two further dummy variables were created for different versions of the model, in order to consider the impact of some of the RECs in which services trade arrangements have proceeded further than the current status quo in the AfCFTA. The first of these takes on a value of one if both the importer and exporter are members of SADC and zero otherwise. The second alternative to the AfCFTA dummy takes on the value of one if both the importer and exporter are members of SADC or if both are members of the EAC or if both are members of COMESA, and zero otherwise. It is therefore broader than the SADC dummy, taking account of services trade arrangements within three eastern and southern African RECs simultaneously.[12]

A number of estimation methods can be used for the gravity model, but a log-linear model is particularly convenient in the data-constrained environment of the present study, given its simplicity (Baccheta *et al*., 2012: 105-106; Tang *et al*., 2024: 1084-1085). The baseline gravity model for the study is specified as follows:

[12] See Chapter 3.

$$\ln FINSERVX_i = \beta_0 + \beta_1 \ln GDPIMP_i + \beta_2 \ln GDPEXP_i + \beta_3 FINSTRI_i + \beta_4 CONTIG_i + \beta_5 LANG_i + \beta_6 \ln DIST_i + U_i$$

In the baseline model (Model 1):

$FINSERVX_i$ stands for the financial services exports of the exporter country to the African importer country in current US dollars millions for 2021, sourced from the BaTIS Database (OECD and WTO, 2023).

$GDPIMP_i$ is the GDP of the importing country, measured in current US dollars millions for 2021, sourced from the World Bank (2023).

$GDPEXP_i$ is the GDP of the exporting country, measured in current US dollars millions for 2021, also from the World Bank (2023).[13]

FINSTRI is the measure of restrictiveness in a country's financial services trade sub-sector, measured as a percentage between 0 and 100, sourced from the World Bank and WTO's STRI Database (World Bank and WTO, 2023a).[14]

$CONTIG_i$ is a dummy variable set equal to 1 if the two countries have a common border, 0 otherwise.

$LANG_i$ is a dummy variable set equal to 1 if the two countries share a common official language, 0 otherwise.

$DIST_i$ is the distance between the largest cities across the two countries measured in kilometers.

The gravity variables CONTIG, LANG and DIST for the 4416 bilateral relationships in the author's dataset were all sourced from the CEPII GeoDist Database (CEPII, 2011).

The following dummy variables for trade agreements were specified, as discussed above:

$AFCFTA_i$ is a dummy variable set equal to 1 if the importing and exporting countries are both part of the AfCFTA and 0 otherwise.

$NS\text{-}EPA_i$ is a dummy variable set to 1 if the trading relationship is between an African importing country that has signed an EPA and an EU/UK exporter and 0 otherwise.

$SADC_i$ is a dummy variable equal to 1 if the importing and exporting countries are both part of SADC and 0 otherwise.

ESA_i is a dummy variable set equal to 1 if the importing and exporting countries are both part of SADC or both part of the EAC or both part of COMESA, and 0 otherwise.

[13] The exception is the GDPEXP data for Chinese Taipei, which is sourced from IMF (2023).
[14] FINSTRI is not in log format since it is measured in percentage terms.

The trade agreement dummy variables were constructed by the author based on membership of the AfCFTA and the three eastern and southern African regional groupings, together with information on signatories to the Economic Partnership Agreements (EPAs) in the case of the NS-EPA dummy. Membership and signatory information were obtained from the African Union website, the three REC websites and the European Commission website respectively.[15]

Following the estimation of the baseline model (Model 1), five further versions of the gravity model are estimated. Model 2 adds the NS-EPA dummy to the baseline model, while Model 3 adds the AfCFTA dummy but omits the NS-EPA dummy. Models 4 to 6 all include the NS-EPA dummy but alternate the three intra-African trade agreement dummy variables (AFCFTA, SADC and ESA).

The respective specifications for Models 2 to 6 are as follows:

Model 2

$$\ln FINSERVX_i = \beta_0 + \beta_1 \ln GDPIMP_i + \beta_2 \ln GDPEXP_i + \beta_3 FINSTRI_i + \beta_4 CONTIG_i + \beta_5 LANG_i + \beta_6 \ln DIST_i + \beta_7 NS\text{-}EPA_i + U_i$$

Model 3

$$\ln FINSERVX_i = \beta_0 + \beta_1 \ln GDPIMP_i + \beta_2 \ln GDPEXP_i + \beta_3 FINSTRI_i + \beta_4 CONTIG_i + \beta_5 LANG_i + \beta_6 \ln DIST_i + \beta_7 AFCFTA_i + U_i$$

Model 4

$$\ln FINSERVX_i = \beta_0 + \beta_1 \ln GDPIMP_i + \beta_2 \ln GDPEXP_i + \beta_3 FINSTRI_i + \beta_4 CONTIG_i + \beta_5 LANG_i + \beta_6 \ln DIST_i + \beta_7 NS\text{-}EPA_i + \beta_8 AFCFTA_i + U_i$$

Model 5

$$\ln FINSERVX_i = \beta_0 + \beta_1 \ln GDPIMP_i + \beta_2 \ln GDPEXP_i + \beta_3 FINSTRI_i + \beta_4 CONTIG_i + \beta_5 LANG_i + \beta_6 \ln DIST_i + \beta_7 NS\text{-}EPA_i + \beta_8 SADC_i + U_i$$

Model 6

$$\ln FINSERVX_i = \beta_0 + \beta_1 \ln GDPIMP_i + \beta_2 \ln GDPEXP_i + \beta_3 FINSTRI_i + \beta_4 CONTIG_i + \beta_5 LANG_i + \beta_6 \ln DIST_i + \beta_7 NS\text{-}EPA_i + \beta_8 ESA_i + U_i$$

[15] The respective URLs are https://au.int/, https://www.comesa.int/, https://www.eac.int/, https://www.sadc.int/ and https://trade.ec.europa.eu/access-to-markets/en/content/economic-partnership-agreements-epas.

In a double log gravity model, special attention has to be paid to the meaning of what appear to be zero trade flows. Baccheta *et al*. (2012: 39) point out that it may be difficult to distinguish between zero trade flows and missing values or erroneous entries. However, in the case of the BaTIS database used for bilateral trade flows in the present study, Liberatore and Wettstein (2021: 9-14) carefully explain how partner data is estimated in instances where data is only partially reported or where official data is missing or mis-allocated, giving a complete matrix of bilateral services trade flows with no missing values. Accordingly, just the instances of zero or negligible trade flows need attention in the present study and three sample versions were used for the estimations to accommodate three different approaches to zero or negligible trade flows in the context of a log-linear gravity model.[16]

Out of 4416 total country pairs, the first sample used (Sample A) filters out all country pairs with zero bilateral trade in financial services leaving a sample size of 3992 after all the zero flows were omitted. As Baccheta *et al*. (2012: 58) explain, this is a common approach used in the context of a double log model, provided the resulting sample size remains adequate. However, leaving out true zero trade flows effectively omits the information indicated by those data entries and can bias the coefficient estimates (Baccheta *et al*., 2012: 58; Shepherd *et al*., 2019: 51). The second sample used (Sample B) thus converts all the zeros in bilateral financial services trade flows to USD 1 to address this, leaving the original sample size of 4416 pairs. Baccheta *et al*. (2012: 112) indicate that adding a small constant, such as 1 USD, is also a common approach to dealing with zero trade flows. Since the dependent variable has to be logged in the double log model, the relevant bilateral trade flows cannot be left as zero if they are to be included.[17] The third sample has a threshold of USD 10 000 in bilateral financial services trade (Sample C). This was done in order to see the effect on the results of filtering out smaller bilateral trade flows, leaving a sample size of 1505 after all pairs with bilateral trade below USD 10 000 were removed.

Finally, given that the most recent year for which all the necessary data were available was 2021, the second year of the COVID-19 pandemic, corresponding estimations of the gravity

[16] The limitations of using the BaTIS data for the gravity model are highlighted in Section 4.3.
[17] Apart from the alternative of eliminating the zero trade flow observations, as in Sample A, the model could be estimated in level rather than log terms (Baccheta *et al*., 2012: 112). The use of different estimators (other than OLS in the double log context) is discussed in Section 4.3 below.

model were also done for the year 2019 in order to compare the results with those for 2021. This was to take account of the potential distortionary impact that the pandemic could have had on the estimated coefficients of the model. The results for both 2021 and 2019 are reported and discussed in Chapter 6, with the 2019 results appearing in the Appendix Tables A6.1-A6.3.

4.3 Limitations of the data and empirical approaches

With respect to the first sub-goal of the study, the ITC *et al*. (2023) database and the BaTIS dataset (OECD and WTO, 2023) only start in 2005, giving a limited historical time series. This is due to the shift from BPM5 to BPM6 and EBOPS 2002 to EBOPS 2010 (see Chapter 1). In addition, in the case of South Africa's services trade with the world by sub-sector, there is no data reported in the ITC *et al*. (2023) Database for the EBOPS 2010 sub-sector "Manufacturing services on physical inputs owned by others" (previously classified under goods trade). However, this is typically small in relation to other sub-sectors. Furthermore, missing sub-sectoral data for the FICT sub-sectors for some African countries in the ITC *et al*. (2023) Database affected the choice of individual trading partners for which TCIs were computed for the second sub-goal. This also means that the TCIs computed with regional partners should be viewed with caution as regional totals may include some of the countries with missing data.

In the case of the bilateral trade data analysis under the second sub-goal, as well as the bilateral financial services trade data used in the gravity model, the limitations of the BaTIS Database (OECD and WTO, 2023) need to be acknowledged. Despite the careful use of as much reported data as is available in the BaTIS Database, there is also a reliance on mirror data (i.e., correcting gaps in country A's imports or exports by looking at the export or import data of the source or destination country), and on estimates based on econometric modelling in cases where both the source and destination countries have missing data. In the case of African countries which are an integral part of this study, BaTIS data on exports and imports at the sub-sector level are heavily reliant on modelled data as most African countries are known not to have recorded data on country of origin for imports or destination of exports (Visagie and Turok, 2021: 27). The results of the bilateral trade analysis and the gravity model estimations are thus indicative, but must be treated with caution.

With respect to the gravity modelling, there are a number of other limitations and qualifications that should be noted, both with the data and the empirical approach adopted. Firstly, Bacchetta *et al*. (2012: 37) indicate that import data are generally preferred to export data for the

dependent variable in the gravity model, because import data tend to be monitored and recorded more carefully due to their tax importance. However, they acknowledge that there are circumstances in which partner export data will need to be used. In the case of the BaTIS database used for the bilateral trade flows in the current study, it is recommended that exporter data be used (Liberatore and Wettstein, 2021: 7), as has been done in the present study. This is because, for trade in services, exports are often seen to be better reported and tend to show greater coverage than imports.

Secondly, in gravity models that investigate the determinants of bilateral trade in a particular sector of the economy (such as financial services in this instance), the sectoral GDP of the exporting country may be included in place of total GDP. However, Shepherd *et al*. (2019: 12) note that this is often not possible due to data constraints, as was the case in the present study. This would be a useful route for further research when the necessary data is more widely available for African economies.

Thirdly, the STRI indices for the financial sector sourced from the World Bank-WTO Services Trade Restrictions Database were only available for particular years, mostly 2020 and 2021 across the different countries. Therefore, the STRI's used for each country were those for the closest year available to that for which the gravity model was estimated.

Fourthly, as explained in Section 4.2.3, the three alternative samples used for the gravity model estimations were each adjusted to address the inconvenience of having zero or negligible trade flows in the context of a double log model. This leads to a possible bias of the estimated coefficients due to the omission of information or as a result of the adjustments made, despite their common application in gravity modelling.

Fifthly, the gravity model in this study is cross-sectional, with a focus on the years 2019 and 2021 in separate estimations, with the 2019 version included as a check of the main results, since 2021 was the second year of the COVID-19 pandemic. An alternative method that could be used to investigate the determinants of bilateral trade would be to use panel data to include the time dimension, rather than simply cross-sectional data (Tang *et al*., 2024: 1084). Panel data gravity models have the advantage of showing the behaviour of the different variables over a period of time. They are also useful for identifying trends and long-term patterns in trade relationships. Panel data modelling was not feasible in the current study, however, mainly

because of the absence of a consistent time series for the FINSTRI variable, and other data availability issues.

Finally, the gravity model in this study uses the standard log-linear OLS estimation method. One of the main limitations of this method is that it compels the omission of zero trade flows or their conversion into a small constant amount such as 1 USD as the log of zero is undefined (Gomez-Hervera, 2012: 1091; Nordås, 2018: 3357). One alternative to this method used in Nordås (2018: 3358) is the Poisson pseudo maximum likelihood (PPML) estimation method which is useful to account for zero trade flows but however has its own limitations (Gomez-Hervera, 2012: 1092; Shepherd *et al*., 2019: 46-50). OLS and PPML are only some of the many estimation methods used for gravity models. Nevertheless, as indicated earlier, the simplicity of the log-linear OLS method was appropriate for the purpose of the present study.

4.4 Conclusion

This chapter set out the methods, empirical techniques, and data sources used to achieve the three sub-goals outlined in Chapter 1 of the thesis. Section 4.2.1 outlined the structure of the descriptive statistics used in addressing Sub-goal 1. Section 4.2.2 explained the composition of the finance and ICT related (FICT) services sub-sectors used in the compilation of the TCIs, as well as the rationale and equations used for the calculations and the interpretation of the TCIs for Sub-goal 2. The gravity model addressing the third sub-goal was explained in Section 4.2.3, along with the countries, variables included in the estimation and the method of estimation used. The six model versions estimated were also outlined in this section, together with the different approaches used to deal with zero trade flows in the context of a double log model.

Section 4.3 addressed the limitations of the methods and data used for the empirical analysis for the TCI computations, bilateral trade analysis and the gravity model. These included the limited historical time series data available, missing sub-sectoral data for some African countries in the FICT sub-sectors and a heavy reliance on mirrored data for African countries' bilateral trade data. In the case of the gravity model, the discussion acknowledged shortcomings and qualifications of the data used, different sample sizes included as justification for the omission of trade flows and the OLS method of estimation applied compared to alternative methods. Against this background, the empirical analysis of the thesis follows in Chapters 5 and 6 below.

Chapter 5

South Africa's financial services trade and trade potential in the context of the AfCFTA trade in services negotiations

5.1 Introduction

As discussed in Chapter 3, the financial services sector is a designated priority sector in the AfCFTA services trade negotiations. South Africa has a prominent financial services sector which is likely to face both market opportunities and new competitors in a continental services trade agreement under the AfCFTA. The aim of this chapter is therefore to provide a picture of the growth, structure and potential for South Africa's trade in financial and finance-related services sectors through the first two sub-goals referred to in Chapter 4.

The chapter addresses the first sub-goal of the study in identifying and measuring the share and growth performance of South Africa's financial services trade in the aggregate and with selected regions and partners. It does so by firstly looking broadly at aggregate services trade trends between South Africa and the world, and then more narrowly at the different sub-sectoral services trade trends. The focus then turns to estimates of South Africa's bilateral services trade with selected AU trading partners in the context of finance-related services trade. The chapter next addresses the second sub-goal of the study with the computation of trade complementarity indices in order to identify trade potential between South Africa and selected African regions and partners in finance-related services trade.

Chapter 5 also provides a preliminary view of South Africa's FDI activity and foreign affiliates in finance-related services sub-sectors on the continent in order to illuminate the presence of Mode 3 financial services trade with the continent that is not accounted for by the BOP data. However, as noted in Chapter 4, the emphasis of the empirical work in the present study is on financial services trade and related sectors as measured by BOP data sourced from the ITC *et al*. (2023) Trade in Services Database and the OECD and WTO (2023) BaTIS Database. As stated in Section 4.1, the BOP services trade data sources have generally been less extensively studied in existing empirical literature, especially in relation to financial services trade on the African continent.

The rest of this chapter is structured as follows. Section 5.2 gives a detailed discussion of the growth and structure of South Africa's services trade with the world, both in the aggregate and

at the sub-sector level. Section 5.3 analyses estimates of South Africa's bilateral services trade with selected AfCFTA partners, with a focus on finance-related services sub-sectors. Section 5.4 investigates trade potential between South Africa and selected partners and regions in a cluster of financial and finance-related services sub-sectors. Section 5.5 provides a preliminary view of South Africa's Mode 3 financial services trade with Africa. Finally, Section 5.6 concludes the chapter.

5.2 Growth and structure of South Africa's services trade in the aggregate

This section begins by looking at the trends in South Africa's aggregate services trade with the world in nominal terms, shares of total goods and services trade and growth rates for the period 2005 to 2022. Figure 5.1 below depicts South Africa's aggregate services exports and imports over the period in USD millions, while the top panel of Table 5.1 provides the same data, together with the share of services in South Africa's total exports and imports, for selected years. The lower panel of Table 5.1 indicates average annual growth rates of South Africa's services trade relative to goods trade for selected periods in percentage terms.

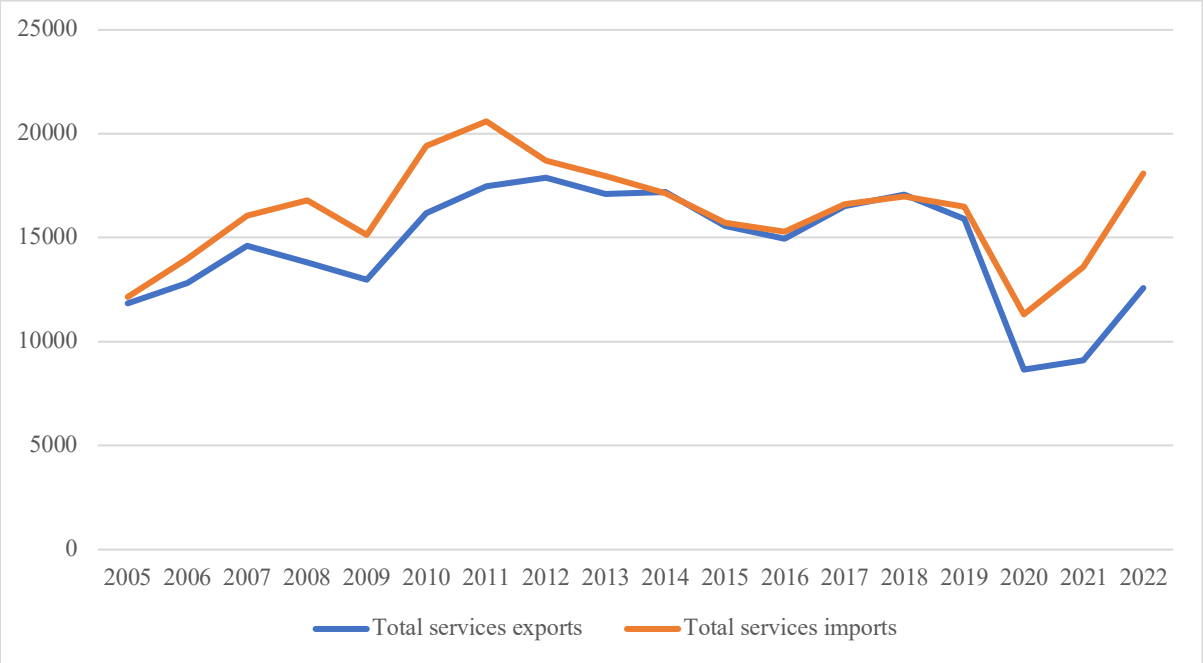

Figure 5.1: South Africa's total services trade from 2005 to 2022 in USD millions
Source: Author's graph based on data from ITC et al. (2023)

Table 5.1: South Africa's services trade: USD millions, percentage shares of total trade and growth rates

Services trade	**2005**	**2008**	**2011**	**2014**	**2017**	**2019**	**2021**	**2022**
Services exports (USD millions)	11829	13808	17477	17195	16531	15900	9111	12592
Services imports (USD millions)	12151	16808	20600	17143	16602	16485	13586	18097
Share of services in total exports %	20.11	15.73	13.93	15.66	15.58	14.95	6.86	9.24
Share of services in total imports %	18.09	16.10	16.69	14.66	16.62	15.74	12.67	13.92
Average annual growth rates (%)	**2005-2008**	**2008-2011**	**2011-2014**	**2014-2017**	**2017-2019**	**2019-2021**	**2021-2022**	
Total services exports	5.29	8.17	-0.54	-1.30	-1.93	-24.30	38.21	
Total goods exports	16.32	13.43	-4.99	-1.10	0.48	16.98	-0.10	
Total exports (goods and services)	14.27	12.64	-4.34	-1.14	0.11	11.78	2.53	
Total services imports	11.42	7.02	-5.94	-1.06	-0.35	-9.22	33.20	
Total goods imports	16.76	5.48	-0.98	-5.85	2.91	3.01	19.51	
Total imports (goods and services)	15.83	5.73	-1.78	-5.11	2.38	1.19	21.25	

Source: Author's computations based on data from ITC et al. (2023)

As Figure 5.1 indicates, there was notable growth in both the exports and imports of total services in nominal terms from 2005-2011. Services exports increased from USD 11829 million in 2005 to USD 17477 million in 2011, while services imports increased from USD 12151 million to USD 20600 USD million over the same period in absolute terms. During this period services imports exceeded services exports and grew much faster in 2005-2008 (11.42 percent per annum versus 5.29 percent per annum), widening the services trade deficit. It is notable, however, that during the part of the period up to 2011 covering the global financial crisis (2008-2011), services exports grew slightly faster than services imports (8.17 percent per annum versus 7.02 percent per annum), narrowing the deficit for that part of the 2005-2011 period (see Figure 5.1 and the lower panel of Table 5.1).

As discussed further below with the sub-sectoral trends, Transport services have held the largest share of services imports for the entire period of 2005-2022. As the sub-sectoral graph below for Transport services (Figure 5.2) indicates, a notable incline in Transport services imports from 2005-2011 helped to drive the growth of total services imports during that period, with the exception of 2009 following the fallout from the global financial crisis. Other significant services sectors which contributed to growth on the import side include the Other business services sector and Charges for the use of intellectual property. Within this period, services imports in the aggregate started to slow down between 2007 and 2008 and dipped in 2009. This appears to be primarily a result of the adverse effects of the global financial crisis on imports in the Transport, Travel, Insurance and pension services, and Financial services sectors in particular.

The services trade deficit began to narrow more significantly from 2011-2014, largely due to a contraction on the import side (Figure 5.1). The contraction is majorly influenced by declining imports in Transport, Travel, Charges for the use of intellectual property and Other business services during this period.

The following period from 2014-2019 in Figure 5.1 is characterised by a period where South Africa's total services exports and imports are more well balanced. The average annual growth rate in Table 5.1 shows that services exports from 2014-2017 contracted in growth by 1.30 percent per annum. Growth of services imports also fell simultaneously by 1.06 percent per annum. Between 2017 and 2019 exports again contracted by 1.93 percent per annum and so did imports by 0.35 percent per annum. There is however a recovery that can be seen between 2016 and 2018 in both exports and imports of services in Figure 5.1.

Between 2019 and 2021 the value of services exports decreased at an average annual growth rate of 24.30 percent per annum from USD 15 900 million to USD 9 111 million. This was largely due to the precipitous decline in services exports to USD 8654 million in 2020 with the onset of the COVID-19 pandemic, before the slight recovery to USD 9111 million in 2021. During 2019-2021, the share of services in South Africa's total exports of goods and services fell by almost a half from 14.95 percent to 6.86 percent. Although the Covid-19 pandemic had an obvious impact on South Africa's overall services trade, the effect on imports was less compared to exports. This was mainly due to the deep plunge in exports of Travel services during the pandemic (depicted in Figure 5.3). As discussed below, Travel and Transport services account for a large proportion of South Africa's services trade, particularly Travel on the export side and Transport on the import side. The shocks to these sectors are therefore reflected heavily in total services exports and imports.

Between 2019 and 2021 South Africa's imports of services fell in value from USD 16 485 million to USD 13 586 million by 9.22 percent per annum. The initial decline in 2019-2020 as the pandemic took hold was from USD 16 485 million to USD 11 309 million in 2020, followed by a recovery to USD 13 586 million in 2021. The share of services in South Africa's total imports of goods and services also declined from 2019-2021, but only went down from 15.74 percent to 12.67 percent within that period.

The 2021-2022 period immediately after the pandemic saw an improvement in both exports and imports of services however South Africa's negative services trade balance for both years was larger than it has been over the last two decades, due mainly to a slow recovery in Travel services exports and the faster recovery in Transport services imports during that period.

In sum, Figure 5.1 and Table 5.1 show that the overall services trade balance was mostly negative throughout 2005-2022 with imports exceeding exports throughout the period except, marginally, in 2014 and 2018. Services trade was notably negatively affected by two global shocks. Export growth was more affected by the pandemic compared to import growth, while during the global financial crisis, import growth was more adversely impacted than export growth. However, both export and import growth were, unsurprisingly, more significantly affected by the pandemic than the financial crisis. Overall, the share of services in South Africa's total trade was much lower at the end of the period under study than before: the shares of services in total trade fell from a high of 20.11 percent for services exports and 18.09 percent for services imports in 2005 to post-pandemic shares of 9.24 percent and 13.92 percent for services exports and imports respectively.

Turning to the sub-sectoral drivers of these trends in more detail, Figures 5.2 to 5.12 below illustrate the changes in South Africa's services imports and exports to the world by BPM6 sub-sector from the years 2005-2022.[18] Tables 5.2 to 5.5 show the trends in shares and average annual growth rates of South Africa's services trade by BPM6 sub-sector from the years 2005-2022.

[18] As noted in Chapters 1 and 4, the twelve BPM6 sub-sectors are as follows: Manufacturing services on physical inputs owned by others; Maintenance and repair services n.i.e.; Transport services; Travel services; Construction services; Insurance and pension services; Financial services; Charges for the use of intellectual property; Telecommunications, computer and information services; Other business services; Personal, cultural and recreational services; Government goods and services n.i.e.

Figure 5.2: South Africa's Transport services trade from 2005 to 2022 in USD millions
Source: Author's graph based on data from ITC et al. (2023)

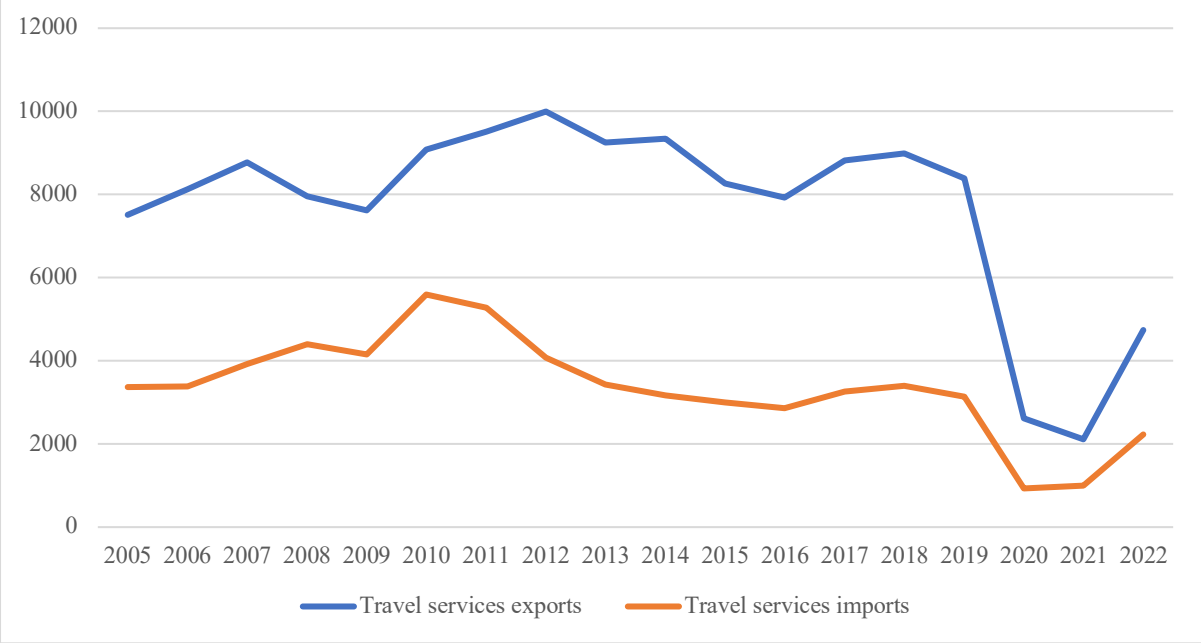

Figure 5.3: South Africa's Travel services trade from 2005 to 2022 in USD millions
Source: Author's graph based on data from ITC et al. (2023)

Transport and Travel services are both highly important to South Africa's services trade but have very different trade balance pictures. Looking at Figure 5.2, Transport services imports have exceeded exports throughout the observed period maintaining a trade deficit. It is interesting to note that Transport services exports are far less in value compared to imports and are comparable in recent years to exports in other upcoming services sectors like the Other business services, Telecommunications, computer and information services, Charges for the use of intellectual property and Financial services.

South Africa's trade balance in Travel services has been positive throughout the period 2005 to 2022. Despite the dramatic fall in exports from USD 8 390 million in 2019 to USD 2 108 million in 2021, Travel services still account for most of South Africa's services exports as can be seen in Table 5.2 below. These two sectors account for a significant share of services exports and imports and their share in exports and imports have stayed quite high throughout the years with the exception of the negative impact of the pandemic between 2019 and 2020. Travel and Tourism were some of the most vulnerable sectors to the widescale implementation of lockdowns and the closing of borders during the pandemic (Chaitoo, 2020: 40).

Figures 5.4 and 5.5 below depict South Africa's Insurance and pension services trade and Financial services trade respectively for the period 2005-2022 in millions of US dollars.

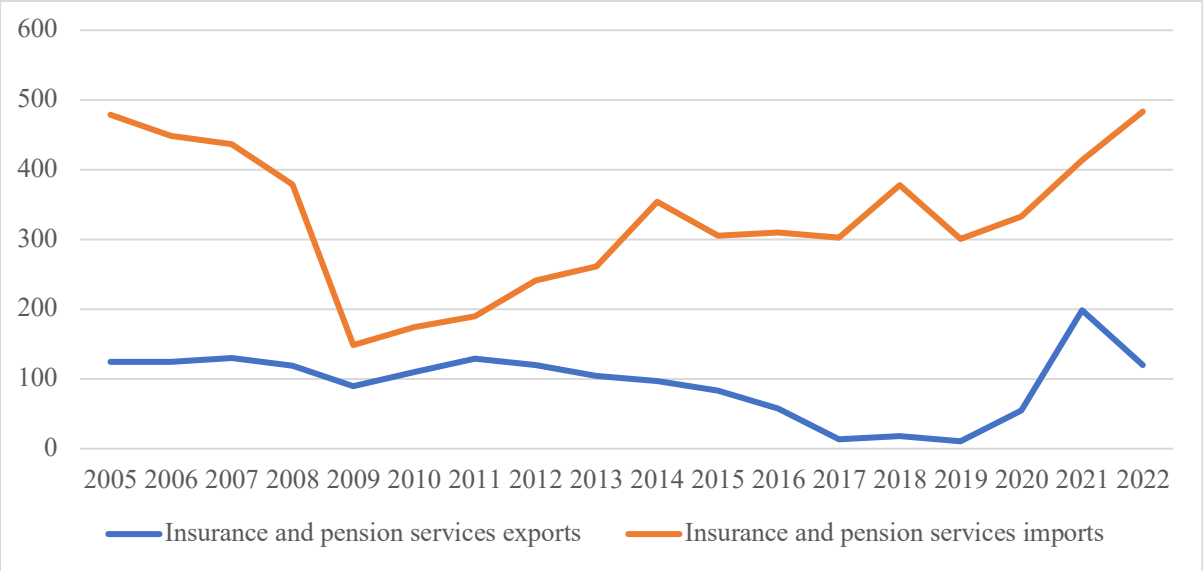

Figure 5.4: South Africa's Insurance and pension services trade from 2005 to 2022 in USD millions
Source: Author's graph based on data from ITC et al. (2023)

South Africa's trade in Insurance and pension services is relatively small, but presents some interesting trends (Figure 5.4). There is a notable trade deficit in this sector which only narrowed significantly during the financial crisis period for the years under observation. Interestingly, exports increased to USD 54 million in 2020 and reached a peak of USD 199 million in 2021 which were also the years mostly affected by the pandemic. The growth spurt in exports and imports in the insurance and pension services sector during this period could partly be due to the increase in gross written premiums as a result of the pandemic. Life

insurance claims also increased between December 2019 and December 2020 (FSCA, 2022: 42). Exports fell again in 2022 but remained higher than pre-pandemic levels.

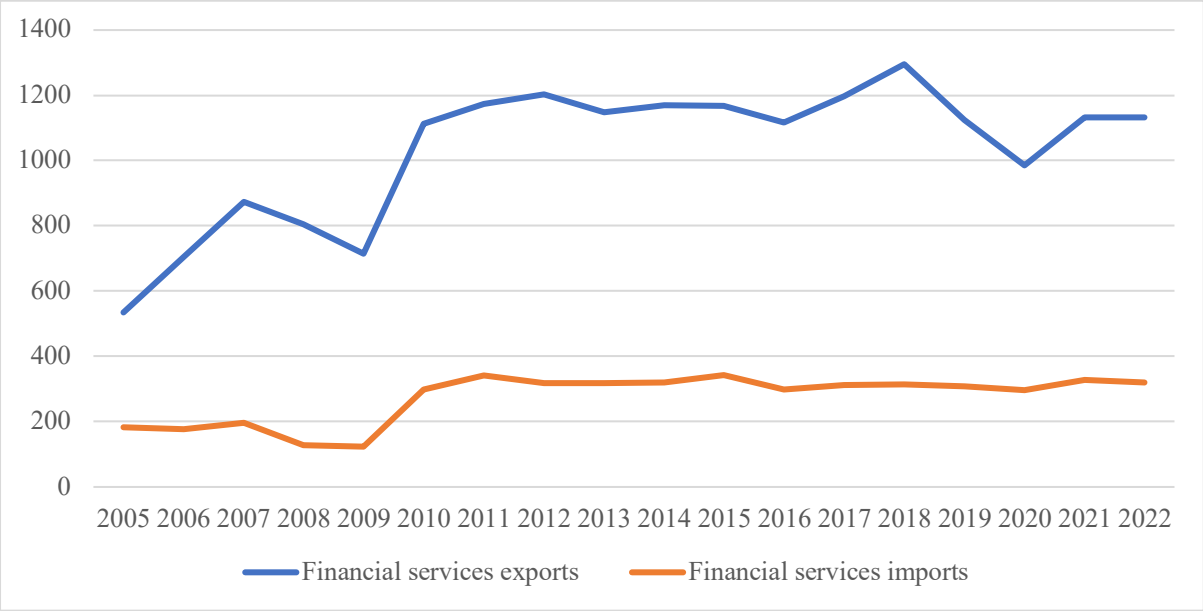

Figure 5.5: South Africa's Financial services trade from 2005 to 2022 in USD millions
Source: Author's graph based on data from ITC et al. (2023)

As Figure 5.5 shows, South Africa has had a relatively large trade surplus in financial services trade from 2005-2022. In 2022, exports of financial services were valued at USD 1 132 million which increased from USD 534 million in 2005. Financial services exports have been gradually increasing since 2005 with major declines in export value only occurring during the financial crisis and the Covid-19 pandemic respectively (Figure 5.5). South Africa's sophisticated and well-regulated financial services sector as well as increased digitalisation may have contributed to the upward trajectory in exports (FSCA, 2022: 29). Figure 5.5 also shows a low and (from 2011) relatively steady level of Financial services imports up to 2022. This points to a low reliance on Financial services imports for the South African economy based on this data. There is however an increase in the value of imports from USD 184 million in 2005 to import value of USD 320 million in 2022 in nominal terms.

South Africa's trade in these two sectors interestingly had contrasting reactions during the period of the global financial crisis and the 2020 pandemic. Financial services exports reacted adversely to the financial crisis shock whereas the Insurance and pension services sector only had a slight decline in exports. On the import side Insurance and pension services fell sharply during the financial crisis whilst Financial services imports had far less of a negative response to the shock. As exports of Insurance and pension services rose during the pandemic, Financial

services exports fell and as imports of Insurance and pension services increased during the pandemic, Financial services imports were seemingly unaffected. Overall, it is evident that there is a difference in the nature of the effect of the global financial crisis and of the pandemic on Financial services and Insurance and pension services due to the different finance-related services included in each sub-sector, as explained in Section 4.2 of Chapter 4.

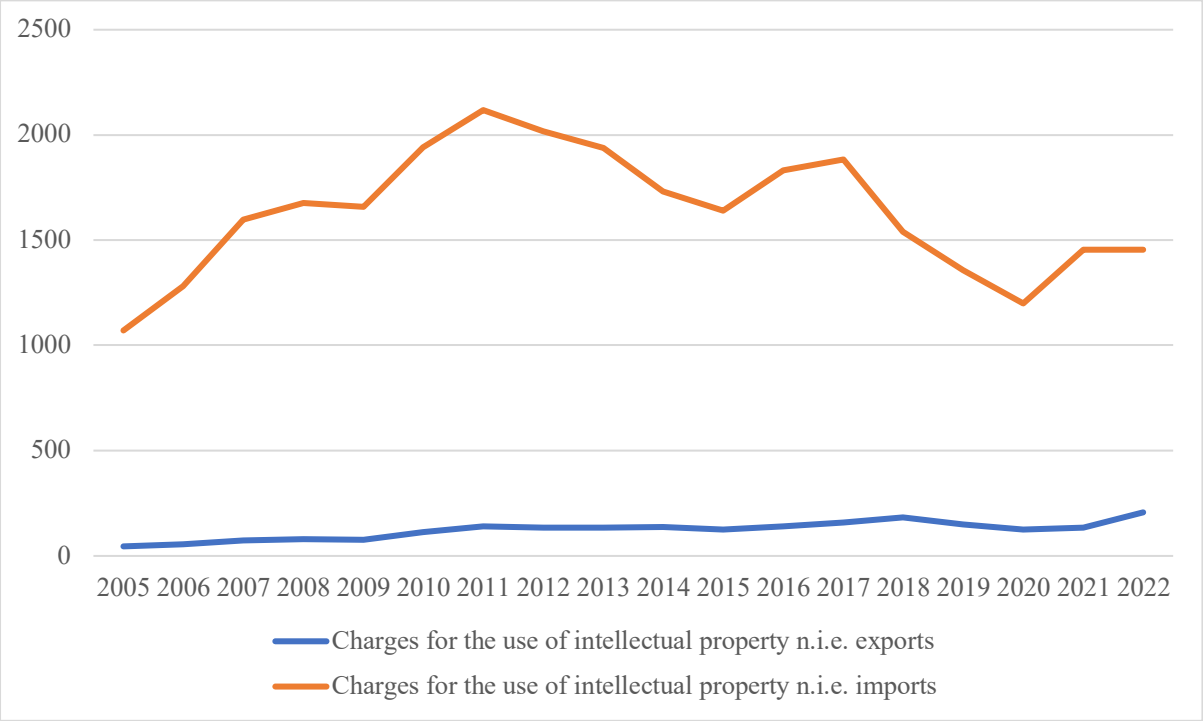

Figure 5.6: South Africa's Charges for the use of intellectual property trade from 2005 to 2022 in USD millions
Source: Author's graph based on data from ITC et al. (2023)

Charges for the use of intellectual property is an interesting services sector in which exports had gradually increased from USD 45 million in 2005 to USD 207 million in 2022 (Figure 5.5). The imports in this sub-sector were significantly higher than the exports and gradually increased from USD 1 071 million in 2005 to USD 2 118 million in 2011 after which there was a rapid decline to USD 1 453 million of imports in 2022. The sector is indicative of the amount of innovation traded across borders (WIPO, 2023). With the growing globalisation of production and technology the large negative trade balance in this sector points to a heavy reliance on foreign innovations in the South African economy. Although imports have declined over time, the exports of these charges remain concerningly low.

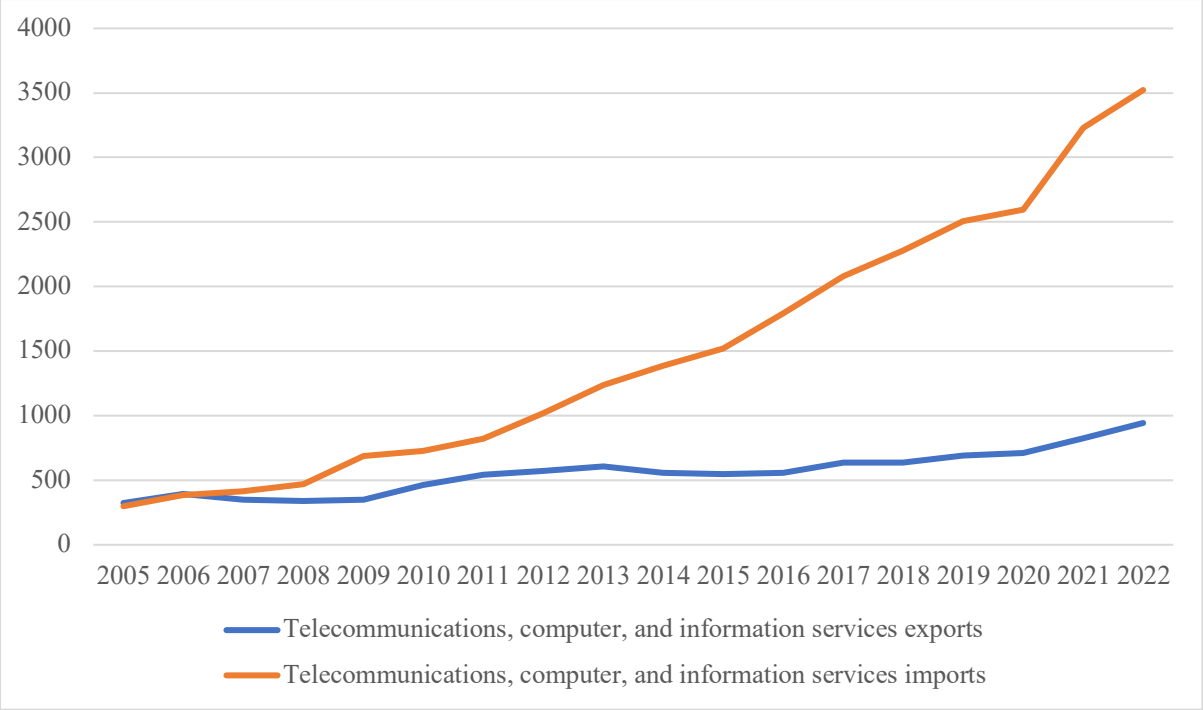

Figure 5.7: South Africa's Telecommunications, computer and information services trade from 2005 to 2022 in USD millions
Source: Author's graph based on data from ITC et al. (2023)

Telecommunications, computer and information services is another sector which has a big negative trade balance in recent years. As seen in Figure 5.7, the value of exports in this sector has nonetheless been steadily increasing over the observed period and was valued at USD 944 million in 2022 compared to USD 323 million in 2005. Imports in this sector have increased much faster in the last two decades to a value of USD 3 523 million in 2022 from USD 297 million in 2005. Both exports and imports in this sector increased more rapidly during the pandemic than before, particularly in the case of imports where the steep climb continues through 2020 and 2021. This is unsurprising given the increased need for such services during the pandemic. In addition, these services seldom require face-to-face engagement (Chaitoo, 2020: 39). There is also a heavy reliance on imports of services in this sector owing to the growing outsourcing of ICT services by firms in developing countries looking to cut costs and increase productivity by using complex technologies (UNCTAD, 2022: 92).

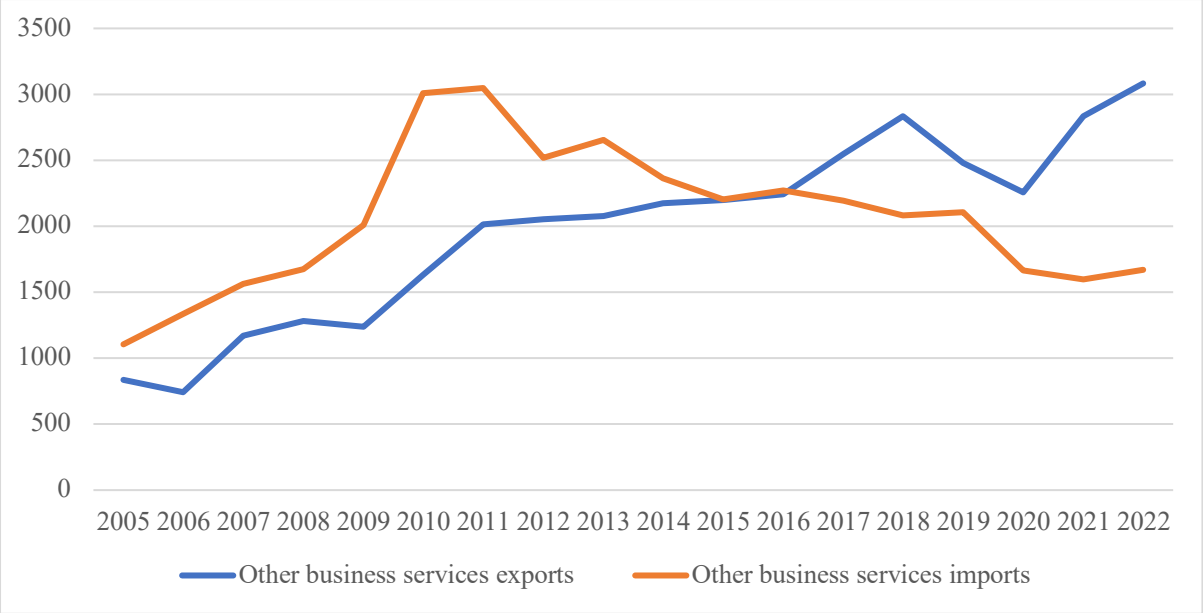

Figure 5.8: South Africa's Other business services trade from 2005 to 2022 in USD millions
Source: Author's graph based on data from ITC et al. (2023)

The Other business services sector which is inclusive of research and development, business and management consulting and other business supporting services has been a fast-growing sector over much of the period under study, most recently on the export side. Figure 5.8 shows that South Africa's exports of Other business services increased rapidly between 2006 and 2011 (except for the period of the global financial crisis), and again for 2016-2018, and recovered strongly in 2020-2022 after a decline in 2018-2020. As Table 5.2 further below indicates, the share of Other business services in total services exports saw an improvement from 7.08% in 2005 to 24.49% in 2019. The export performance of this sector is reflective of the increasing export of call center services in recent years (The DTIC, 2023). Business process outsourcing has been a key focus sector in South Africa's industrial policy in the past fifteen years. Imports on the other hand had a brief period of incline from 2005-2010 (rising sharply from 2009 to 2010), after which they fell continuously until 2022, except for a small increase from 2018 to 2019. The expansion of the Other business services sector within the economy may have led to a decreased reliance on imports of these services over the years.

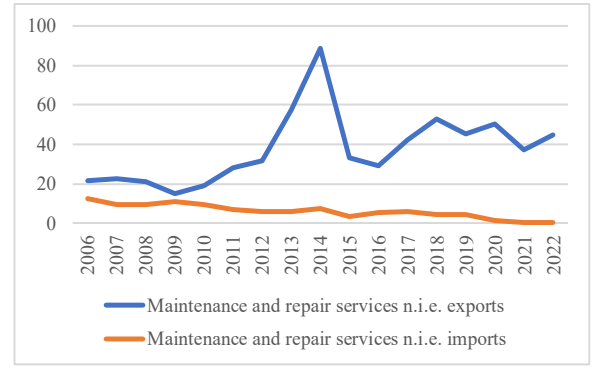

Figure 5.9 Maintenance and repair services trade (USD mns)

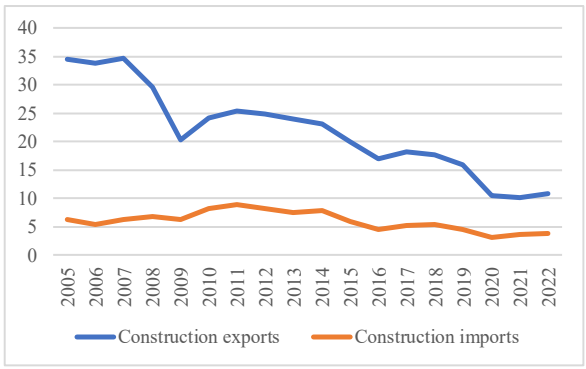

Figure 5.10 Construction services trade (USD mns)

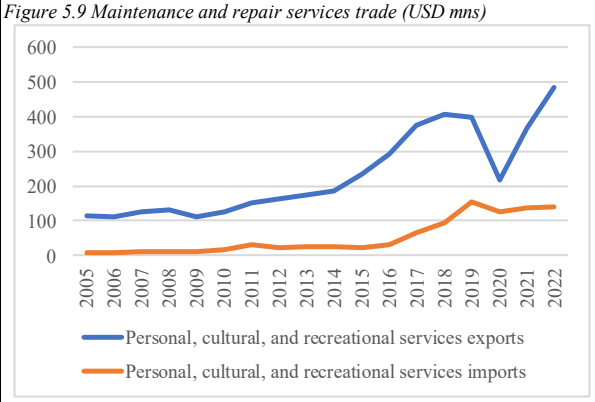

Figure 5.11 Personal, cultural and recreational services trade (USD mns)

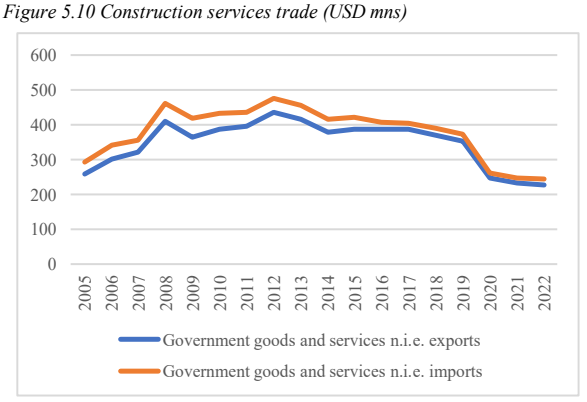

Figure 5.12 Government goods and services trade (USD mns)

Source: Author's graphs based on data from ITC et al. (2023)

When looking at the services sub-sectors that are smaller from a trade perspective, shown in Figures 5.9 to 5.12, there is a services trade surplus in all but the Government goods and services sector. The Maintenance and repair services sector has increased in the value of exports from USD 21 million in 2005 to USD 45 million in 2022. There is an abnormal spike upwards from 2012-2014 which falls quickly afterwards between 2014 and 2015. Although considerably low, imports of Maintenance and repair services have fallen further since 2006 widening the surplus from 2009 to 2014 and again for most years from 2016.

In Figure 5.10 Construction services exports have fallen significantly from USD 35 million in 2005 to USD 11 million in 2022. Imports have also fallen, though not as markedly as exports, and have remained at notably low levels from 2005-2022. This suggests that, although exports have declined, the South African economy is not heavily reliant on foreign Construction services. The export decline has, however, significantly weakened South Africa's trade surplus in this sub-sector.

Imports and exports in the Personal, cultural and recreational services sector increased from 2005 to 2022. South Africa's trade surplus in this sector was growing from 2005 up until 2019.

Exports fell steeply compared to imports during the pandemic, narrowing down the trade surplus. This may be attributed to the inherently face-face nature of most of these services like sporting events which were affected by the regulations surrounding the pandemic (Chaitoo, 2020: 40). Exports in this sector, however, made a sharp recovery in 2021-2022. Government services exports and imports have generally moved together from 2005-2022. Exports fell from USD 259 million in 2002 to USD 228 million after a long downward trend from 2012-2022. Imports also fell from USD 292 million to USD 243 million in 2022. There is a very small trade deficit in this sector which has narrowed over the years.

In sum, exports and imports in Insurance and pension services, Telecommunications, computer and information services imports as well as Charges for the use of intellectual property imports showed resilience to the effects of the Covid-19 pandemic from 2020 to 2021. This was also the case in exports of Financial services, Other business services and Personal cultural and recreational services which also includes audio-visual services. All these sub-sectors have a common characteristic of digital tradability which might have been a driving force behind their almost immediate recovery during this time.

To give a more nuanced view of the sub-sectoral trends in South Africa's services trade discussed above, Tables 5.2 and 5.3 report computations of sub-sectoral shares and average annual growth rates for the main EBOPS sub-sectors in South Africa's services exports and imports for selected intervals over the period 2005 to 2022.[19] The focus in the remaining discussion in this sub-section narrows more specifically to the cluster of finance and ICT-related (FICT) services sub-sectors identified in Section 4.2 of Chapter 4, namely Financial services, Insurance and pension services, Charges for the use of intellectual property; and Telecommunications, computer and information (ICT) services.

[19] There is no reported data available for South Africa's exports and imports in the "Manufacturing services and inputs owned by others" sub-sector in the ITC *et al*. (2023) database.

Table 5.2: Sub-sectoral shares of South Africa's total services exports (%)

Services export shares	2005	2008	2011	2014	2017	2019	2021	2022
Maintenance and repair services n.i.e.	0.18	0.15	0.16	0.52	0.26	0.29	0.41	0.36
Transport	17.09	19.10	19.23	17.72	14.19	14.09	13.49	12.71
Travel	63.54	57.62	54.44	54.31	53.33	52.77	23.14	37.63
Construction	0.30	0.21	0.15	0.13	0.11	0.10	0.11	0.09
Insurance and pension services	1.05	0.86	0.74	0.56	0.08	0.07	2.18	0.95
Financial services	4.51	5.83	6.71	6.80	7.24	7.07	12.43	8.99
Charges for the use of intellectual property n.i.e.	0.38	0.57	0.80	0.80	0.95	0.95	1.49	1.64
Telecomms, computer and information services	2.73	2.44	3.12	3.24	3.85	4.35	9.08	7.49
Other business services	7.08	9.28	11.53	12.64	15.40	15.61	31.10	24.49
Personal, cultural, and recreational services	0.96	0.95	0.86	1.08	2.26	2.49	4.01	3.85
Government goods and services n.i.e.	2.19	2.98	2.27	2.21	2.33	2.22	2.57	1.81
Total	100	100	100	100	100	100	100	100

Source: Author's computations based on data from ITC et al. (2023)

Table 5.3: Average annual growth rates of South Africa's services exports at the sub-sector level (%)

Services export growth rates	2005-2008	2008-2011	2011-2014	2014-2017	2017-2019	2019-2021	2021-2022
Maintenance and repair services n.i.e.	0.78	9.76	46.66	-21.84	3.65	-9.35	19.81
Transport	9.28	8.41	-3.22	-8.34	-2.28	-25.93	30.22
Travel	1.92	6.15	-0.62	-1.90	-2.45	-49.87	124.76
Construction	-5.05	-4.95	-3.09	-7.85	-6.18	-20.41	6.74
Insurance and pension services	-1.42	2.68	-9.06	-48.81	-9.87	333.34	-39.81
Financial services	14.62	13.40	-0.12	0.78	-3.07	0.37	-0.07
Charges for the use of intellectual property n.i.e.	20.29	21.06	-0.74	4.85	-2.22	-5.26	53.04
Telecomms, computer and information services	1.46	17.28	0.78	4.49	4.26	9.40	14.07
Other business services	15.25	16.29	2.54	5.42	-1.27	6.85	8.82
Personal, cultural, and recreational services	4.93	4.50	7.49	26.08	3.05	-4.01	32.65
Government goods and services n.i.e.	16.66	-1.20	-1.42	0.55	-4.28	-18.66	-2.62
Total services exports	5.29	8.17	-0.54	-1.30	-1.93	-24.30	38.21

Source: Author's computations based on data from ITC et al. (2023)

As Table 5.2 indicates, the Insurance and pension services export share went up in 2021 to 2.18 percent after falling consistently in the previous years. This is accounted for by the over 300 percent per annum growth of exports during the pandemic period (Table 5.3). Exports in the Insurance and pension services sector shrank by 39.81 percent per annum in 2022 however, causing its share in South Africa's services exports to fall from 2.18 percent to 0.95 percent in 2022.

Financial services exports experienced very slow growth of 0.37 percent per annum between 2019 and 2021. Although this was much slower than the average annual growth of South Africa's Financial services exports in 2005 to 2011, the share of Financial services in services exports increased from 7.07 percent in 2019 to 12.43 percent in 2021, the highest share Financial services has held in services exports for the entire period of 2005-2022, even for the years not shown in Table 5.2. The 2021 peak in the export share of Financial services thus had

more to do with the collapse in the Travel services export share during the pandemic than faster growth in Financial services exports *per se*. Nevertheless, the Financial services sub-sector was one of only four services sub-sectors with positive average annual export growth in the difficult 2019-2021 period. The others were Insurance and pension services, as noted already, together with Telecommunications, computer and information services and Other business service. Financial services exports did contract by 0.07 percent in 2021-2022 causing the share to fall to 8.99 percent. The Financial services sub-sector, however, still had the fourth largest export share in 2022.

It is interesting to see that in Table 5.2, the share of Charges for the use of intellectual property exports in total services exports has been gradually increasing throughout 2005-2022 showing the increasing importance of this sub-sector, even on the export side. Average annual growth rates have been erratic however, as Table 5.3 indicates. In the period 2017-2019 exports declined by 2.22 percent per annum whilst its share in services exports stayed the same in 2017 and 2019 at 0.95 percent. Although export growth shrunk further between 2019 and 2021, the share of Charges for the use of intellectual property rose from 0.95 percent in 2019 to 1.49 percent in 2021. The increasing share between 2019 and 2021 could be attributed, as noted earlier, to the reduced share of bigger sectors like Transport and Travel in 2021. Export growth recovered to 53.04 percent per annum from 2021 to 2022, which was reflected in a slightly increased share from 1.49 percent to 1.64 percent in 2022. In earlier periods, notable average annual export growth took place in this sector, especially between 2005 and 2011, although this has been off a very low base in absolute terms (Figure 5.6).

Although it had been increasing over the years, the share of Telecommunications, computer and information services in services exports was markedly higher in 2021 and 2022 than in previous years. The share in 2021 jumped to 9.08 percent of services exported from a 4.35 percent share in 2019. This is due to the increased growth of exports in this sector by 9.40 percent per annum between 2019 and 2021, as well as the collapse in the larger sectors during the pandemic period. Average annual export growth increased to 14.07 percent per annum between 2021 and 2022 however the share in total services exports fell from 9.08 percent in 2021 to 7.49 percent in 2022. This may be due to the recovery in the growth of the Travel sector during this period.

Table 5.4: Sub-sectoral shares of South Africa's total services imports (%)

Services import shares	2005	2008	2011	2014	2017	2019	2021	2022
Maintenance and repair services n.i.e.	0.08	0.06	0.03	0.04	0.04	0.03	0.00	0.00
Transport	43.84	45.18	40.36	42.97	36.71	37.83	38.16	44.44
Travel	27.76	26.20	25.65	18.48	19.62	19.05	7.29	12.27
Construction	0.05	0.04	0.04	0.05	0.03	0.03	0.03	0.02
Insurance and pension services	3.93	2.26	0.92	2.07	1.82	1.82	3.05	2.67
Financial services	1.51	0.76	1.66	1.87	1.88	1.87	2.42	1.77
Charges for the use of intellectual property n.i.e.	8.81	9.97	10.28	10.10	11.34	8.23	10.70	8.03
Telecomms, computer and information services	2.44	2.78	3.98	8.07	12.51	15.19	23.79	19.47
Other business services	9.08	9.95	14.80	13.77	13.21	12.76	11.74	9.21
Personal, cultural, and recreational services	0.07	0.06	0.15	0.14	0.40	0.94	1.02	0.78
Government goods and services n.i.e.	2.40	2.74	2.12	2.43	2.43	2.26	1.81	1.34
Total	100	100	100	100	100	100	100	100

Source: Author's computations based on data from ITC et al. (2023)

Table 5.5: Average annual growth rates of South Africa's services imports at the sub-sector level (%)

Services import growth rates	2005-2008	2008-2011	2011-2014	2014-2017	2017-2019	2019-2021	2021-2022
Maintenance and repair services n.i.e.	-1.46	-9.48	2.51	-7.40	-16.10	-74.85	33.21
Transport	12.54	3.06	-3.96	-6.12	1.16	-8.82	55.12
Travel	9.29	6.25	-15.67	0.93	-1.81	-43.84	124.08
Construction	2.82	9.02	-4.33	-12.58	-7.50	-9.19	3.07
Insurance and pension services	-7.47	-20.55	23.07	-5.10	-0.42	17.40	16.77
Financial services	-11.58	39.19	-2.13	-0.83	-0.78	3.20	-2.46
Charges for the use of intellectual property n.i.e.	16.11	8.12	-6.49	2.83	-15.14	3.51	0.03
Telecomms, computer and information services	16.35	20.62	19.00	14.52	9.79	13.61	9.00
Other business services	14.86	22.14	-8.16	-2.44	-2.05	-12.92	4.51
Personal, cultural, and recreational services	10.79	44.83	-7.35	38.90	52.62	-5.48	1.93
Government goods and services n.i.e.	16.38	-1.79	-1.48	-1.11	-3.90	-18.66	-1.46
Total services imports	11.42	7.02	-5.94	-1.06	-0.35	-9.22	33.20

Source: Author's computations based on data from ITC et al. (2023)

On the import side the Insurance and pension services sector has been erratic, with average annual growth plummeting between 2008 and 2011 by 20.55 percent per annum (Table 5.5), but recovering to 23.07 percent per annum in 2011-2014. Again, this is most likely accounted for by the global financial crisis and reduced consumer confidence in foreign insurance services products at the time. As a result of this fall in imports the share of Insurance and pension services in total services imports in Table 5.4 fell from 2.26 percent in 2008 to 0.92 percent in 2011. Between 2019 and 2021 the sector's imports grew by 17.40 percent per annum which resulted in an increased share from 1.82 percent in 2019 to 3.05 percent of services imports in 2021.

Interestingly, Financial services imports grew more significantly in 2008-2011 (by 39.19 percent per annum) compared to other periods, reflected in an increased share in services imports from 0.76 percent in 2008 to 1.66 percent share in 2011. Imports again grew by 3.20

percent per annum between 2019 and 2021 which contributed to the increasing share of Financial services in imports from 1.87 percent in 2019 to 2.42 percent in 2021.

The share of Charges for the use of intellectual property in imports of services has remained high over the period 2005-2022. Growth in imports picked up between 2019 and 2021 by 3.51 percent per annum after a period of decline in growth of 15.14 percent per annum between 2017 and 2019. During this period the share of this sector in services imports increased from 8.23 percent in 2019 to 10.70 percent in 2021. Growth then slowed down between 2021 and 2022 which was reflected in the fall in share to 8.03 percent in 2022. Until the mid-2010s, Charges for the use of intellectual property imports accounted for the fourth highest share of services imports into South Africa (after Transport services, Travel services and Other business services imports). However, from the mid-2010s onwards, the share of Telecommunications, computer and information services imports has been higher than that of intellectual property charges.

The Telecommunications, computer and information services sector took up a 23.79 percent share of services imports in 2021 compared to 2.44 percent in 2005. Between 2019 and 2021 imports grew by 13.61 percent per annum and the share of the sector increased from 15.19 percent in 2019 to 23.79 percent in 2021. This increase in share was also driven by the significant decrease in the share of Travel services imports from 19.05 in 2019 to 7.29 percent in 2021, but the sector grew significantly in its own right. By 2021, Telecommunications, computer and information services accounted for the second largest share of services imported after transport services. Although growth slowed down between 2021 and 2022, the sector held onto its place as the second largest importer of services into South Africa in 2022. It is the only services import sector with positive average annual growth throughout the period 2005-2022.

Overall, South Africa's services sector has underperformed in both exports and imports over the past decade. Positive average annual growth in the sector only occurred in the periods 2005-2008, 2008-2011 and 2021-2022 during recovery from the significant fall in growth experienced during the pandemic. At the sub-sector level, this prolonged low performance in growth is mainly reflected on the export side in the biggest services sub-sectors Transport and Travel which exhibited negative growth in the periods leading up to the pandemic. Both sectors collapsed during the pandemic and began to exhibit positive growth between 2021-2022. However as Figures 5.2 and 5.3 show, Transport and Travel have as yet failed to recover to

pre-pandemic export levels. Despite the sluggish growth in South Africa's biggest export services sectors, sub-sectors like the Telecommunications, computer and information services, Other business services, Charges for the use of intellectual property and financial services sectors had the most positive average annual growth in exports for most of the periods observed. For the smaller sectors Personal, cultural and recreational services and the Maintenance and repair services sectors had more positive than negative periods of growth.

On the import side Transport and Travel exhibited more erratic growth than on the export side. Telecommunications, communications and information services had positive growth in imports throughout the periods observed, followed by the Charges for the use of intellectual property sector which had more positive than negative growth on average. The Personal, cultural and recreational sector had high import growth throughout except for 2011-2014 and 2019-2021. The growth in both exports and imports of other non-traditional services besides Transport and Travel indicates a growing diversification in South Africa's services trade in recent years.

There are notable trade surpluses in the Travel, Financial services and Other business services sub-sectors. The Other business services sub-sector went from a prolonged time of deficit from 2005 to 2015 and became a surplus from 2017 to 2022. This is possibly the result of the policy support for this sector over the years. Among the smaller sub-sectors, Maintenance and repair services n.i.e., Construction and Personal, cultural, and recreational services sub-sectors have yielded surpluses in South Africa's services trade with the world.

5.3 South Africa's financial services trade with selected AfCFTA partners

As discussed in Chapter 4, there is little reported bilateral services trade data available between African country trading partners. This makes it difficult for countries to designate and negotiate priority sectors in the AfCFTA trade in services negotiations. The BaTIS Database described in Chapter 4 (OECD and WTO, 2023) provides an important set of consistent estimates that can shed some light on bilateral services trade at the main EBOPS sub-sector level between trading partners on the continent. These estimates are briefly considered in the present sub-section in an attempt to improve the overall picture of services trade involving African economies. However, as explained in Chapter 4, these estimates are largely indicative and

should be used cautiously.[20] Using the BaTIS database, Table A5.1 in the Appendix to Chapter 5 provides a compilation of estimates of South Africa's bilateral services trade flows with selected African trading partners for the start and end years in the latest dataset available, namely 2005 and 2021.

The BaTIS estimates indicate that South Africa's top three biggest services exports (total exports) to other African countries were valued at $59.91 million to Nigeria, $50.31 million to Mozambique and $48.70 million to Ghana in 2021. Other important destinations for South Africa's exports were Namibia, Zimbabwe, Angola, Egypt, Kenya, Zambia and Mauritius. In contrast South Africa's total exports of services to the world amounted to $9 111 million and $13 586 million in 2021.

For South Africa's top three African sources of services imports, the biggest partners were Ghana, from which South Africa imported $97.26 million in services imports, followed by Egypt at $93.01 million and Tanzania at $68.52 million. These values are surprisingly high compared to the services export values but in line with trends in the earlier BaTIS database. Other notable sources of imports for South Africa were, surprisingly, Liberia, followed by Mauritius, Mali, Namibia, Morocco, Kenya and Zimbabwe, according to this database.

Amongst these African trading partners South Africa had a trade surplus in total services trade with Nigeria, Mozambique and Angola. Major trade deficits occurred when it came to Egypt, Tanzania, Ghana, Liberia, Mauritius, and Morocco. Total services exports increased to Nigeria from $44.23 million in 2005 to $59.91 million in 2021. Exports to Mozambique rose from $27 million in 2005 to $50.31 million in 2021 and to Ghana from $16.29 million in 2005 to $48.61 million in 2021. Total services imports increased from Ghana from $12.60 million in 2005 to $97.26 million in 2021, Egypt from $46.74 million in 2005 to $93 million in 2021 and Tanzania from $18.42 million in 2005 to $68.52 million in 2021.

When looking at the sub-sectoral drivers of export flows in 2005 and 2021, Transport, Travel and Other business services seem to be the leading exports to Nigeria, Mozambique, Ghana and Namibia. Import flows from Ghana, Egypt, Tanzania and Liberia are largely dominated by

[20] As noted in Section 5.1, trade potential between South Africa and some of its AfCFTA partners is assessed in the following sub-section (Section 5.4) using trade complementarity indices which do not require bilateral trade data.

Transport and Travel however there are some anomalies. For instance, in the imports from Ghana, Manufacturing services and physical inputs owned by others increased from 0 imports in 2005 to $17.93 million in 2021 and the Other Business services sector had imports sharply increase from $0.98 million in 2005 to $43.37 million in 2021. Telecommunications, computer and information services imports from Egypt had a large increase from $1.65 million in 2005 to $10.22 million in 2021. Insurance and pension services imports from Liberia increased from $0.064 million in 2005 to $8.37 million in 2021. Although both Transport and Travel services in South Africa's exports and imports were significant in both years regarding most of these countries, there were some notable changes. With Ghana, Travel services exports increased from $12.41 million in 2005 to $31.54 million in 2021. On the import side imports from Egypt increased in Transport services from $16.80 million in 2005 to $45.94 million in 2021 whilst Transport services imports from Tanzania increased from $8 million in 2005 to $46.34 million in 2021 and imports from Liberia in Transport services increased from $25.05 million in 2005 to $39.45 million in 2021.

When analysing the trends in FICT services trade on the continent, the 2021 BaTIS estimates indicate that Mauritius, Angola, Egypt, Ghana, Cameroon, Equatorial Guinea, Nigeria and Mozambique were the biggest destinations for South Africa's Financial services exports. South Africa's imports of Financial services on the continent came mostly from Mauritius, Nigeria, Algeria, Egypt, Uganda, Morocco and Tunisia. Exports to Mauritius were $3.59 million, Angola $2.85 million and Egypt $2.67 million in 2021. Imports from Mauritius were valued at $3.42 million, Nigeria $1.67 million and Algeria $1.3 million in 2021. In contrast, South Africa's financial services exports to the world in 2021 were $1 133 million and imports from the world were $328 million.

Of the major trade partners shown in Table A5.1 in the appendix, the 2021 BaTIS estimates indicate that South Africa has a notable trade surplus in its Financial services trade with Angola, Egypt, Ghana, Mozambique, Namibia and Mauritius although the surplus with Mauritius is by a small margin. There are also small margins of deficit with Nigeria and Tanzania. Insurance and pension services was mostly traded between South Africa and Egypt, Kenya, Liberia, Mauritius, Mozambique, Nigeria, and Zambia. South Africa holds a trade surplus in Insurance and pension services when it comes to Zambia, Namibia, Mozambique, Kenya, Egypt and Nigeria. There is a trade deficit with Liberia and Mauritius in this sector.

When it comes to Charges for the use of intellectual property for the countries shown in Table A5.1 in the appendix, Mauritius is the only country with whom South Africa has a significant amount of trade however it is a negative trade balance. There are trade deficits in South Africa's Telecommunications, computer and information services trade with many of the selected African countries. These countries include Mauritius, Egypt, Kenya, Tanzania, Angola, Liberia and Namibia.

What this data suggests is that South Africa currently has low bilateral trade in total services with other African countries, even with its biggest trading partners on the continent. Trade with its biggest African counterparts is marginal compared to trade with the world in total services and also in Financial and related services. There is currently a dominance in Travel and Transport services trade between South Africa and its largest trading partners however there is a promising move towards trading more in the Other business services sector especially in South Africa's exports into Nigeria, Mozambique, Ghana and Namibia.

Although marginal, the existence and growth of Financial services and Insurance and pension services where South Africa holds a trade surplus with many African countries is encouraging. There is also promising competition in these sectors from countries like Mauritius, Nigeria and Tanzania for Financial services and Liberia and Mauritius in the Insurance and pension services sectors. Manufacturing and physical inputs owned by others and Telecommunications, computer and information services also appear to have become a niche area of imports from certain African countries which could be explored further.

As explained earlier, BaTIS bilateral trade flows are indicative and should be interpreted with caution, hence the next section focuses on computing trade potential between South Africa and selected partners on the continent using the structure of trade flows with the whole world, instead of bilateral estimates.

5.4 Trade potential between South Africa and selected trade partners and regions in financial and related services

The analysis so far has suggested marginal but growing services trade between South Africa and selected partners on the rest of the continent on both the export and the import side. The main traded sectors bilaterally remain Travel and Transport services, but there has been some significant growth in South Africa's Other business service trade with the rest of Africa. Trade

in financial and finance-related services, as captured by the BOP services trade data (i.e., excluding commercial presence or Mode 3 services trade) appears to have remained quite low, although there is some notable growth in Financial services and Telecommunications, computer and information services trade.

As noted in Chapter 4, the prospects for South Africa's finance-related services trade in the context of the AfCFTA trade in services negotiations can be examined using trade complementarity indices (TCIs) as a measure of trade potential. TCIs investigate the structure of a country's exports to the world in comparison to the structure of a partner country or region's imports from the world, whether or not there is existing trade between the countries in question (Baccheta *et al*., 2012: 30; Tang *et al*., 2024: 1081-1082). This is a significant advantage as it does not require bilateral trade data to be obtained between the partner countries or regions.

In this sub-section, TCIs are computed and reported in order to determine the African countries and regional groupings with which South Africa has significant trade potential in the specified cluster of finance and ICT-related (FICT) services sub-sectors of interest in the present study. As set out in Section 4.2 of Chapter 4, the cluster is comprised of Financial services; Insurance and pension services; Charges for the use of intellectual property; and Telecommunications, computer and information services.

Table 5.6 below reports the results of the calculation of South Africa's export and import TCIs that will indicate the potential for South Africa to expand trade in these services with the selected regions and countries. The formulas used to compute the TCIs were set out in Section 4.2 of Chapter 4. The computations are based on reported trade flows from the ITC *et al*. (2023) Trade in Services Database.

Table 5.6: Trade complementarity indices between South Africa and selected regions and partners in Africa (%)

	Partner							
Trade complementarity index	**Rest of SADC**		**COMESA**		**EAC**		**Non-TFTA**	
	2019	**2022**	**2019**	**2022**	**2019**	**2022**	**2019**	**2022**
South Africa's export TCI	68.13	73.76	38.07	48.71	62.94	49.26	58.79	71.10
South Africa's import TCI	67.15	66.21	72.10	79.89	64.32	60.33	71.61	75.06
	Algeria		**Egypt**		**Ghana**		**Kenya**	
South Africa's export TCI	53.51	55.77	29.93	36.22	72.29	74.46	60.43	72.71
South Africa's import TCI	32.84	33.34	69.73	81.23	27.64	15.95	72.89	73.00
	Mauritius		**Morocco**		**Nigeria**		**Tunisia**	
South Africa's export TCI	59.96	88.39	59.41	47.08	42.70	63.58	53.27	55.37
South Africa's import TCI	59.13	51.97	68.47	69.55	34.40	36.27	74.88	79.44

Source: Author's computations based on services trade flows from ITC et al. (2023)

Notes:
Ghana data for Financial services trade in the 2019 TCI calculation is for 2020
Ghana, Kenya and Tunisia data for 2022 TCI calculation is for 2021
Nigeria missing data for the Charges for the use of intellectual property category

TCIs measure the extent to which trade profiles match between countries for the sectors or cluster of sub-sectors in question. As noted in Section 4.2, TCIs range between 0 and 100. The further the index is from 0, the greater the overlap between the structure of one country's export (import) trade and the partner's import (export) trade and the more likely it is that the two are "natural trading partners" (Baccheta *et al*., 2012: 30). For this analysis South Africa's export and import structure has been compared with the import and export structure of four African regions and eight countries. The regions are SADC, COMESA, the EAC and the "non-TFTA" region,[21] while the individual countries included are Algeria, Egypt, Ghana, Kenya, Mauritius, Morocco, Nigeria and Tunisia.

Beginning with South Africa's export TCIs with the various regions, the results suggest that, in 2019, the export structure of South Africa's finance-related services trade matched the best with the import structure of the SADC region's finance-related services trade, as indicated by the TCI of 68.13 percent (Table 5.6). This is followed by the next highest match with the EAC of 62.94 percent and then with the non-TFTA region of 58.79 percent. As shown in top panel of Table 5.6, South Africa's export TCI to the various regions was higher in 2022 than in 2019, except in the case of the EAC. This suggests growing complementarity between South Africa's

[21] The "non-TFTA" region consists of African economies that are not in SADC, the EAC or COMESA (i.e. not in the Tripartite Free Trade Area).

export structure in the FICT sectors and the import structure of SADC, COMESA and the non-TFTA group of countries. For example, in the case of SADC, South Africa's export TCI increased from 68.13 percent in 2019 to 73.76 percent in 2022. Notably, the country's export TCI with the non-TFTA group became the second highest at 71.1 percent. This indicates growing potential for increased South African exports in the FICT services sub-sectors on implementation of an AfCFTA services trade agreement.

When it comes to South Africa's export TCIs with the individual countries in 2019, Ghana and Kenya were the highest matches at 72.29 percent and 60.43 percent respectively. Other good potential importers of South Africa's finance-related services were Mauritius with a match to South Africa's export structure of 59.96 percent, Morocco 59.41 percent, Algeria 53.51 percent and finally Tunisia 53.27 percent. In 2022 there were noticeable changes in these results. Mauritius became the highest match, with an overlap of 88.39 percent between the structure of South Africa's exports and the structure of Mauritius's imports in the FICT cluster of services sub-sectors. This was followed by Ghana, with a match in its import structure with South Africa's export structure of 74.46 percent, then Kenya 72.71 percent, Nigeria 63.58 percent, Algeria 55.77 percent and Tunisia 55.37 percent.

For South Africa's import TCIs, the results for 2019 showed the highest matches regionally to be with COMESA, where the structure of South Africa's imports in the cluster of FICT sub-sectors were a surprising 72.1 percent match with the structure of COMESA's FICT exports. The match with the non-TFTA group of countries was next highest at 71.61 percent. South Africa also had a strong import TCI of above 60 percent with the other selected regions. South Africa's import TCIs with the COMESA and non-TFTA group were even higher in 2022 (at 79.89 and 75.06 percent respectively), while those with SADC and the EAC were slightly lower than before (Table 5.6).

Among the individual trading partners, South Africa's FICT import structure matched most significantly with Tunisia's FICT export structure, with an import TCI for South Africa of 74.88 percent. This was followed by an import TCI with Kenya of 72.89 percent, Egypt 69.73 percent, Morocco 68.47 percent and Mauritius 59.13 percent. In comparison, in 2022, South Africa's import TCI Was highest with Egypt at 81.23 percent, followed by Tunisia at 79.44 percent, Kenya 73.00 percent, Morocco 69.55 percent and Mauritius 51.97 percent.

It is noticeable in some cases that South Africa's export and import TCIs are lower than expected. This is because of a mismatch in South Africa's export and the trading partner's import shares and vice versa in some of the FICT sub-sectors sectors included in the calculations whilst the rest of the FICT sub-sectors are more balanced in their export and import shares. In the regional matches, South Africa's export TCI with COMESA is 38.07 percent in 2019 and 48.71 percent in 2022. In 2019, the driver of this is that the highest share of South Africa's exports in the FICT sub-sectors is 56.87 percent in Financial services. COMESA on the other hand has a 7.3 percent share of imports in the Financial services sector whilst their biggest share of FICT imports is in Insurance and pension services of which South Africa only exports 0.5 percent.

This occurred again in 2022 where South Africa's export shares in Financial services of 47.12 percent and Insurance and pension services exports of 4.9 percent in the FICT sub-sectors were not matched by COMESA's larger import share of 56 percent in Insurance and pension services and low import share of 6.9 percent in Financial services. With the low export TCI of 49.26 percent with the EAC in 2022, there was notable mismatch in South Africa's exports and the EAC's imports of Insurance and pension services and Charges for the use of intellectual property.

With the individual countries, South Africa's export TCI with Egypt was unexpectedly low at 29.93 percent for 2019 and 36.22 percent for 2022. The mismatches behind the low export TCI in 2019 was a high export share of 56.87 percent in Financial services for South Africa compared to a 0.81 percent share of Financial services imports for Egypt. There was also a 69.16 percent share of imports in Insurance and pension services for Egypt compared to a 0.53 percent share of Insurance and pension services exports for South Africa amongst the FICT sub-sectors. Charges for the use of intellectual property joined Financial and insurance services in the mismatch in 2022 with Egypt having a larger share of imports than South Africa's share in exports for the Charges for the use of intellectual property sub-sector.

South Africa's import TCIs were very low in the case of Algeria and Ghana and Nigeria but most unexpected with Ghana. The import TCI with Ghana was 27.64 percent in 2019 and 15.95 percent in 2022. In 2019 Ghana's Financial services export share was 79.24 percent, 7 percent for Charges for the use of intellectual property and 9.7 percent for the Telecommunications, computer and information services sub-sectors. In contrast, South Africa's import shares in

these sectors were 6.8 percent for Financial services, 30.34 percent for Charges for the use of intellectual property and 56.03 percent for the Telecommunications, computer and information services sub-sectors. The same type of mismatch occurred in 2022 with Ghana's Financial services export share being larger than South Africa's import share and its export shares in the other two sub-sectors being lower than South Africa's import share in the same sub-sectors.

It is evident that there is potential to increase finance-related services trade with all the selected regions and countries. Based on the 2022 TCI results, there is greater potential for South Africa to increase finance and related services exports to the SADC and non-TFTA regions. In the case of individual countries, Mauritius and Ghana stood out having a high potential demand for South African financial and finance-related services. On the other hand, South Africa is most likely to increase imports of financial and finance-related services from the COMESA and non-TFTA regions. Financial and finance-related services imports to South Africa will most likely increase from Egypt, Tunisia, and Kenya individually.

5.5 South Africa's Mode 3 financial services trade with Africa: a preliminary view

As explained in Chapter 1, trade in services takes place through various modes of supply including through commercial presence (Mode 3). Because Mode 3 is an important mode of supply, solely depending on BOP data is inadequate and does not give a complete picture of existing services trade. As explained in Chapter 4, Foreign Affiliates Statistics (FATS) are useful for measuring services trade through commercial presence. FATS data is however hard to come by in the case of developing countries, and more so in the case of African countries. The Investment Map Database (ITC, 2023) provides data on FATS, however when it comes to South Africa the data available is scanty and incomplete. Countries often use FDI data as a substitute for FATS data as FDI serves as an indicator of countries' trade through commercial presence. The focus in this section is therefore on FDI statistics.

According to the 2023 World Investment Report, global direct investment declined in 2020, recovered in 2021 and declined again in 2022 by 12 percent (UNCTAD, 2023: 3). There has been a continued negative outlook for global FDI investments following the effect of the Ukrainian war on commodity prices, rising interest rates and uncertainty in the financial markets of some developing countries (UNCTAD, 2023: 3). These issues have caused an aversion in foreign investors towards engagement in FDI.

FDI inflows into Africa reportedly peaked at $80 billion in 2021 after a Covid-19 pandemic slump to $39 billion in the year 2020. The geographical composition of this large increase in investment inflows was however skewed towards Southern Africa as much of the increase recorded was as a result of a single intra-firm transaction in South Africa (UNCTAD, 2023: 10). In 2022, following the global trend, investment into Africa declined to $45 billion, however this was still above the $39 billion recorded in 2020.

The percentage of FDI inflows coming into Africa compared to the world has been considerably low, but the same can be said for outflows from African countries. According to Morgan *et al*. (2022: 7) Africa's share of inflows from global FDI investment from 2014-2018 was approximately 3 percent. In 2021 this share had increased to 5.4 percent and decreased to 3.5 percent in 2022. Africa's share in global FDI outflows was at 0.2 percent in 2021 and increased to 0.4 percent in 2022 (WIR, 2023: 6). From the inflows coming into Africa, the countries with the biggest average annual stock value of FDI investments on the continent (about 65 percent of total FDI stock) in 2014-2018 were Mauritius, South Africa, Nigeria and Egypt (Morgan *et al*., 2022: 8). South Africa has also dominated as a recipient of inward FDI (in terms of projects) from the world mainly from the US and UK who were South Africa's largest investors in 2022. Switzerland, Germany, and the UAE are also large investors into the country. According to EY (2023: 16) FDI into South Africa has been driven by Business services and Technology. Telecommunications more than doubled in project numbers in 2022.

Table 5.7 below is a compilation of South Africa's inward FDI stock from the world in 2022. Although the South African Reserve Bank (SARB) does not provide FDI data by both sector and partner simultaneously, it is useful to see how prominent inward FDI investment is in these sectors for the country. When looking at services, it is evident that Manufacturing; Mining and quarrying and Finance, insurance, real estate and business services together hold the biggest share of South Africa's total inward FDI stock in 2022, followed by Transport, storage and communication; Wholesale and retail trade, catering and accommodation and Community, social and personal services. This data is too aggregated, however, to provide a clear picture of the share of Financial services alone in South Africa's inward FDI stock.

Table 5.7: South Africa's FDI by sector (inward stock), 2022

	Inward stock	
Sector	**R millions**	**Share (%)**
Agriculture, forestry, hunting & fishing	5020	0.17
Mining and quarrying	707297	24.17
Manufacturing	1126528	38.50
Electricity, gas & water	4403	0.15
Construction	2633	0.09
Wholesale & retail trade, catering & accommodation	113481	3.88
Transport, storage & communication	339699	11.61
Finance, insurance, real estate & business services	584161	19.96
Community, social & personal services	43114	1.47
Total inward stock	2926336	100

Source: Author's compilation from SARB (2023)

When it comes to where FDI stock on the continent originates from, Europe has been the biggest source of inward FDI stock in Africa from 2004 to 2018. Although intra-African FDI has increased over that period, African countries still remain amongst the smallest sources of FDI for Africa alongside Asia, North America, Latin America and the Caribbean and Oceania (Morgan *et al*., 2022: 7). South Africa dominated as a source FDI investment stock on the continent in 2004-2008, 2009-2013 and 2014 to 2018. South Africa and Morocco have been amongst the top 15 Greenfield FDI investors in Africa, each holding a 2.4 percent share in total Greenfield FDI into Africa in 2016-2020 (Morgan *et al*., 2022: 14). According to EY (2023: 27) Kenya and Nigeria have since overtaken South Africa as the largest intraregional investor on the continent. South Africa's recent decline as an investor on the continent has been attributed to the country's slow growth and the withdrawal of South African corporates from the rest of Africa due to problems in securing an encouraging business environment with good supply chains, logistics and profit enabling exchange rate and tax regimes (EY, 2023: 27). In 2022 the largest intra-regional FDI investors on the continent by project were Kenya, Nigeria, South Africa, Mauritius and Tunisia. The largest beneficiaries on the continent from the FDI projects emerging from these countries were Tanzania, South Africa, Ghana, Kenya, Egypt, Nigeria, Zimbabwe and Algeria (EY, 2023: 28).

It is important to note that the SARB does not provide data on South Africa's *outward* FDI stocks (or flows) *by sector* that could complement the data provided in Table 5.7 above. However, it can be noted that South Africa's outward FDI stock in the aggregate has grown significantly since the mid-2000s, from R196 313 million in 2005 to R3 533 882 million in 2022, exceeding the country's inward FDI stock by some margin (SARB, 2024). The country's

largest investment destinations were the Netherlands, UK, US and Mauritius. Approximately 15.8 percent of outward FDI stock resides on the African continent (SARB, 2023). Prominent destinations on the continent for South Africa's FDI in the aggregate include Mauritius, Mozambique and Zimbabwe. Some sectoral detail, available from alternative sources and reports other than the SARB, is discussed further below.

According to Luiz and Charalambous (2009: 307) South Africa's outward FDI into Africa increased dramatically during the period 1996-2004 after regulations on exchange controls were relaxed post-Apartheid. Although these investments were initially prominent in the primary and secondary sectors, they soon began to encompass services, notably retail, telecommunications, and financial services. South Africa has been a massive contributor to development on the continent through FDI and, at that time, held a comparative advantage over non-African multinationals in terms of geographical, cultural and regulatory proximity to other African countries (Luiz and Charalambous, 2009: 307).

Looking at more recent South African outward FDI into the rest of Africa, Cattaneo, N. (2020: 37) found that above 50 percent of South Africa's FDI on the continent was in the services sector in 2018. During the period 2003 to 2016, Communications which accounted for 20% and Financial services accounting for 4% of the total were significant contributions to total outward FDI (DTI, 2018: 84). Financial services are an important outward investment sector for South Africa which is evidenced by the hegemonic presence of South African banks in Africa (Minney, 2023). Minney (2023) reports that South African banks dominate Southern Africa's listings with Standard Bank leading as the top bank amongst the regional top 20 banks in Southern Africa followed by Nedbank, FirstRand, Absa Bank, Investec Bank and Capitec Bank which are all South African banks. Banks from Mauritius, Angola and Mozambique follow in these rankings.

According to EY (2023: 32), services were the largest driver of Africa's FDI in 2022 at 51.6 percent of total FDI on the continent. Amongst these services, Technology and Business services were the leading sectors in Africa's FDI. Financial services and Telecommunications held considerable scores as leading sectors however were not as important as Technology and Business services (EY, 2023: 33). The importance of Technology in Africa's FDI is relevant for Financial services trade through other modes of supply. For instance, development in Africa's digital infrastructure creates more opportunities in FinTech and other innovative

services on the continent (EY, 2023: 35). The Business and financial services sector as well as the Communications and information technology sector attracted a considerable number of projects into Africa when looking at the number of projects that were announced as Greenfield FDI investments from 2006 to 2020 (Morgan *et al*., 2022: 13). However, when looking at the value of announced and opened Greenfield investments, these two sectors accounted for a very low value of Greenfield investment into the continent (Morgan *et al*., 2022: 12). Financial services are however an important sector in terms of listed services companies in many African stock exchanges (Cattaneo, N. 2020: 37)

Although Africa's inward and outward FDI is relatively low, there is evidently a growing interest in high value services trade via commercial presence on the continent. Telecommunications, Business services, Financial services and Technology all seem to be growing in trade by Mode 3. Although most of this trade is inward investment from developed countries outside the continent, South Africa, alongside a few prominent African countries are making strides in their FDI into the continent. South Africa's current FDI presence on the continent in Financial services is promising.

5.6 Conclusion

This chapter set out to provide an analysis of the growth, structure and potential for South Africa's trade in financial and finance-related services sectors. This was done through the depiction of South Africa's services trade as a whole with the world and financial services as a part of that trade. Section 5.2 highlighted the importance of South Africa's financial services trade for the country, especially on the export side, as a fairly significant share of its total services trade with the world. It also established evidence of a growing trend towards increasing trade in non-traditional services sectors, where South Africa holds a trade surplus in the Financial and Other business services sectors.

Section 5.3 made use of bilateral trade estimates from the BaTIS Database to examine the nature and structure of South Africa's bilateral financial services trade with other African countries and regions. It found there to be low bilateral services trade between South Africa and the rest of Africa. However, in the trade that exists, there was an apparent dominance of Transport and Travel services in South Africa's exports and imports on the continent. It was also found that the Other business services has emerged as another dominating services export from South Africa to its biggest African trading partners. Although Financial services and

Insurance and pension services trade with African counterparts was marginal, South Africa held trade surpluses in some instances. Trade in the Telecommunications, computer and information services were an area of deficit with many African countries however the larger imports in this sector from certain African countries showed the clear importance of this sector.

Section 5.4 computed and interpreted TCIs for a cluster of financial and finance-related (FICT) services sub-sectors between South Africa and selected regions and countries. The analysis found that there was promising potential to increase exports in FICT services sub-sectors to the SADC and non-TFTA regions and particularly Mauritius and Ghana. Imports are likely to increase from the COMESA and non-TFTA regions and particularly Egypt, Tunisia and Kenya.

Section 5.5 established that South Africa is a catalyst for investment on the continent and an important source and destination for FDI investments in financial services. Although African countries have notable financial services trade through commercial presence, the share of financial services in total FDI on the whole continent is still low compared to other upcoming sectors like Telecommunications and Business services. Moreover, investors into the continent are largely European countries. There is therefore room for more intra-regional FDI investments in the financial services sector with South Africa as one of the leading investors. Following these findings, the determinants of financial services trade on the continent is investigated in Chapter 6, particularly the impact of the formation of the AfCFTA and membership of other regional groupings on financial services trade in Africa.

Chapter 6

Determinants of trade in financial services, with a focus on the effect of membership of the AfCFTA and other economic groupings

6.1 Introduction

As indicated in Chapter 5, South Africa's financial services trade with world is growing in relation to other services sub-sectors. There is currently marginal intra-African trade occurring on the continent in financial services as measured by the BOP data, although there is some notable financial services activity taking place via Mode 3, commercial presence. There is however promising potential between South Africa and a number of regions and countries within the continent to increase trade with each other in Financial and other finance-related services sub-sectors.

The aim of this chapter is to investigate the determinants of financial services trade involving African countries with a focus on the impact of the formation of the AfCFTA and membership of other regional groupings on bilateral financial services trade using a gravity model. The gravity model is a common method used to investigate the determinants of bilateral trade flows. The chapter sets out and examines the results of the gravity model estimations specified in Section 4.2 of Chapter 4. As noted in Chapter 4, the focus of the gravity model in this chapter is more specifically on the determinants of bilateral trade in financial services, as measured by the BOP data, and does not include the other FICT sectors discussed in Chapter 5.

The rest of the chapter is structured as follows. Section 6.2 revisits the gravity model specifications that were described in detail in Chapter 4. Section 6.3 presents and discusses the estimation results for the various specifications and sample sizes, while Section 6.4 concludes the chapter and reiterates some of the qualifications of the approach adopted and the data limitations.

6.2 Gravity model specifications

As explained in Chapter 4, the baseline gravity model for the study (Model 1) is specified as:

$$\ln FINSERVX_i = \beta_0 + \beta_1 \ln GDPIMP_i + \beta_2 \ln GDPEXP_i + \beta_3 FINSTRI_i + \beta_4 CONTIG_i + \beta_5 LANG_i + \beta_6 \ln DIST_i + U_i$$

In the baseline model (Model 1):

$FINSERVX_i$ stands for the financial services exports of the exporter country to the African importer country in current US dollars millions for 2021.

$GDPIMP_i$ is the GDP of the African importing country in current US dollars millions for 2021.

$GDPEXP_i$ is the GDP of the exporting country in current US dollars millions for 2021.

FINSTRI is the measure of restrictiveness in a country's Financial services trade sub-sector, measured as a percentage.

$CONTIG_i$ is a dummy variable set equal to 1 if the two countries have a common border, 0 otherwise.

$LANG_i$ is a dummy variable set equal to 1 if the two countries share a common official language, 0 otherwise.

$DIST_i$ is the distance between the largest cities across the two countries measured in kilometers.

The following dummy variables for trade agreements were also specified:

$AFCFTA_i$ is a dummy variable set equal to 1 if the importing and exporting countries are both part of the AfCFTA and 0 otherwise.

$NS\text{-}EPA_i$ is a dummy variable set to 1 if the trading relationship is between an African importing country that is an EPA signatory and an EU/UK exporter and 0 otherwise.

$SADC_i$ is a dummy variable equal to 1 if the importing and exporting countries are both part of SADC and 0 otherwise.

ESA_i is a dummy variable set equal to 1 if the importing and exporting countries are both part of SADC or both part of the EAC or both part of COMESA, and 0 otherwise.

Recall from Chapter 4 that, apart from the baseline model, five further models are estimated to investigate the implications of participation in various trade agreements for bilateral financial services trade.

Model 2 includes the NS-EPA dummy, where the importer is an African economy that has signed an EPA and the exporter is an EU country or the UK:

$$\ln FINSERVX_i = \beta_0 + \beta_1 \ln GDPIMP_i + \beta_2 \ln GDPEXP_i + \beta_3 FINSTRI_i + \beta_4 CONTIG_i + \beta_5 LANG_i + \beta_6 \ln DIST_i + \beta_7 NS\text{-}EPA_i + U_i$$

Model 3 includes the AfCFTA dummy variable, for which the importing and exporting countries are both AfCFTA signatories, but omits the NS-EPA dummy:

$$\ln FINSERVX_i = \beta_0 + \beta_1 \ln GDPIMP_i + \beta_2 \ln GDPEXP_i + \beta_3 FINSTRI_i + \beta_4 CONTIG_i + \beta_5 LANG_i + \beta_6 \ln DIST_i + \beta_7 AFCFTA_i + U_i$$

Model 4 includes both NS-EPA and AfCFTA dummies:

$$\ln FINSERVX_i = \beta_0 + \beta_1 \ln GDPIMP_i + \beta_2 \ln GDPEXP_i + \beta_3 FINSTRI_i + \beta_4 CONTIG_i + \beta_5 LANG_i + \beta_6 \ln DIST_i + \beta_7 NS\text{-}EPA_i + \beta_8 AFCFTA_i + U_i$$

Model 5, as an alternative to Model 4, replaces the AfCFTA with the SADC dummy variable, whereby both partners are SADC member states:

$$\ln FINSERVX_i = \beta_0 + \beta_1 \ln GDPIMP_i + \beta_2 \ln GDPEXP_i + \beta_3 FINSTRI_i + \beta_4 CONTIG_i + \beta_5 LANG_i + \beta_6 \ln DIST_i + \beta_7 NS\text{-}EPA_i + \beta_8 SADC_i + U_i$$

Model 6, as another alternative, replaces the AfCFTA with the ESA dummy variable, for which both partners are either SADC members or EAC members or COMESA members:

$$\ln FINSERVX_i = \beta_0 + \beta_1 \ln GDPIMP_i + \beta_2 \ln GDPEXP_i + \beta_3 FINSTRI_i + \beta_4 CONTIG_i + \beta_5 LANG_i + \beta_6 \ln DIST_i + \beta_7 NS\text{-}EPA_i + \beta_8 ESA_i + U_i$$

6.3 Gravity model estimation results and discussion

Tables 6.1 to 6.3 provide the results of the gravity model estimations that present evidence on the effect of selected variables on bilateral financial services trade for 2021, based on the three sample options set out in Section 4.2 of Chapter 4. As noted in Chapter 4, the estimations were repeated for 2019 for the three samples, since 2021 was the second year of the COVID-19 pandemic. The regression results for 2019 appear in Appendix Tables A6.1 to A6.3 for comparative purposes. The differences between the two sets of results are highlighted later in this section.

Table 6.1 below presents the results of the estimations of Models 1 to 6 based on Sample A. As discussed in Chapter 4, Sample A consists of 3992 bilateral trading relationships after zero bilateral trade flows were removed, following the common approach explained by Baccheta *et al*. (2012: 58) and Shepherd *et al*. (2019: 51).

Table 6.1: Regression results for 2021 using Sample A (n=3992)

ln (FINSERVX)	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
c	-29.909***	-30.786***	-23.193***	-26.851***	-30.733***	-30.345***
ln (GDPIMP)	1.0574***	1.0572***	1.0528***	1.0546***	1.0566***	1.0523***
ln (GDPEXP)	1.2714***	1.1226***	1.0577***	1.0218***	1.1221***	1.1173***
FINSTRI	-0.0221***	-0.0220***	-0.0216***	-0.0217***	-0.0219***	-0.0210***
CONTIG	-0.6864**	-0.1107	-0.9038***	-0.3135	-0.1035	-0.0634
LANG	0.8485***	0.9077***	1.0715***	1.0262***	0.9089***	0.9237***
ln (DIST)	-0.0886	0.1767*	-0.4903***	-0.0881	0.1720*	0.1368
NS-EPA		2.2152***		1.9101***	2.2124***	2.1849***
AFCFTA			-1.7323***	-0.9839***		
SADC					-0.0787	
ESA						-0.4042**
Adjusted R^2	0.488	0.513	0.500	0.516	0.513	0.513
F-statistic	634.486***	601.279***	570.847***	533.304***	526.015***	527.304***

Source: Author's estimations using EViews 13, based on own gravity model dataset described in Chapter 4.[22]

***Significant at the 1% level.
**Significant at the 5% level.
*Significant at the 10% level.

As noted in Section 6.2, Model 1 (the baseline model) includes all the traditional gravity model variables without the various trade agreement dummy variables. The latter are included in Models 2 to 6 in the various combinations described in Section 6.2 above. Given the focus of the research on the impact of trade agreement participation on financial services trade, the discussion begins by looking at the effects of the inclusion of the various trade agreement dummy variables in Models 2 to 6. In Model 2, firstly, just the NS-EPA dummy variable is added. As shown in Table 6.1 above, the coefficient of the NS-EPA dummy is found to be positive and statistically significant for Sample A. This finding applies in all the other models in Table 6.1 for which NS-EPA is included, i.e. Models 4 to 6 as well. This means that bilateral financial services trade is on average higher than otherwise if the trade relationship in question is occurring between a European/UK exporter and an African importing country that has signed an EPA, holding all else constant.

To look at the impact of membership of African regional groupings on bilateral financial services trade by contrast with the NS-EPA relationship, the AFCFTA dummy was added next: first on its own in Model 3 (without the NS-EPA dummy included), and then together with the

[22] All estimations reported in Chapter 6 were undertaken using EViews 13, with HAC (Newey-West) standard errors to account for autocorrelation and heteroscedasticity.

NS-EPA dummy, in Model 4. The results in Table 6.1 show that the coefficient of the AFCFTA dummy variable is negative and statistically significant in both Models 3 and 4. This indicates that, on average, bilateral financial services trade is lower if the trading partners are both members of the AFCFTA than otherwise (i.e. compared to when the importer is an African country but the exporter is not), all other factors constant. This result is unsurprising as the discussion in Section 5.3 of Chapter 5 suggests that intra-African services trade has generally been low historically relative to trade with external partners. This seems to be particularly the case in comparison to North-South trading relationships where the financial services exporting country is the UK or part of the EU. Furthermore, as discussed in Section 5.5, a notable part of financial services trade on the continent takes place via Mode 3 (commercial presence), which is not captured in the BOP data.

In addition to the factors above, the AfCFTA services trade agreement is still undergoing negotiation and has not yet come into effect, as discussed in Chapter 3. It is therefore interesting to look at the impact of other regional groupings on the continent that have gone further with services trade negotiations. Focusing on eastern and southern African regional groupings, the SADC dummy variable is included in Model 5 in place of the AFCFTA dummy. Next, the ESA dummy (for which both partners are members of SADC or COMESA or the EAC) is included in Model 6 as an alternative to the AFCFTA dummy.

The SADC coefficient in Table 6.1 is negative and not significant. In this instance there is no strong evidence of SADC membership by both partners having an impact on bilateral financial services trade. The coefficient of the ESA dummy variable is negative and significant at the 5% level. Therefore, holding other factors constant, bilateral financial services trade between any two countries who both have membership of the SADC or COMESA or EAC regional trade agreements will be lower on average than between countries where at least one partner is not a member of the relevant African regional group. These results show that even for eastern and southern African regional groupings that have gone further in promoting intra-regional services trade, bilateral financial services trade is on average lower than otherwise, or (in the case of SADC alone) not significantly different than otherwise, holding all else constant.

The traditional gravity variable coefficients have the expected sign and statistical significance in the case of coefficient of ln GDP of the importing country, ln GDP of the exporting country and the language coefficient. The ln GDP coefficient is positive and statistically significant for

both importer and exporter. This is as expected for all the estimated models reported in Table 6.1. The coefficients of the GDP variables are elasticities in the double log context, and hence reflect the percentage increase in bilateral financial services trade resulting from a one percent increase in the importer or exporter's GDP, holding all else constant. The coefficient of the LANG dummy variable is also positive and statistically significant for all the estimated models in Table 6.1. As expected, bilateral financial services trade is on average higher between countries who share a common language than otherwise.

The coefficient of the financial services trade restrictiveness variable FINSTRI is negative and statistically significant across all the estimated models in Table 6.1. The results suggest that (holding other factors constant) a one percentage point increase in the importing country's restrictions on financial services trade (as measured by FINSTRI) results in a decrease of about 0.02 percent in bilateral financial services trade on average. Although statistically significant, this is not a very large impact.

The coefficient of the ln DIST variable is expected to be negative and statistically significant in the traditional gravity model. However, distance as a determinant of trade is less applicable with many types of services trade, including financial services, compared to goods trade. Digital delivery of financial services is an important factor, as noted in Chapter 5. Distance as a determinant is also less applicable in the context of a lot of African countries that have more trade with the EU and other developed economy partners compared to their other African counterparts. Because African countries' trade patterns do not typically conform to the theory suggesting that countries are more likely to have more trade with neighbouring countries, the distance variable is evidently not as reliable a determinant as it would be in other cases.

It is thus not surprising that the sign and significance of the coefficient of the ln DIST variable fluctuates across the different specifications. It may be plausible that the unreliability of this determinant is revealing of the distinctive feature of African trading patterns where the more distance there is between an African country and its trading partner (like the EU/UK and some other developed countries) the more trade in financial services there is. By contrast, there is less or negligible trade in financial services between many African countries who are closer in proximity. It is unsurprising then that the coefficient of the distance variable is unable to explain bilateral trade in financial services in these instances.

More specifically, in Models 1, 4 and 6, the coefficient of the distance variable is statistically insignificant. It is however interesting to see in Table 6.1 that the specification in Model 2 that includes only the NS-EPA dummy variable has a ln DIST coefficient that is both positive and weakly significant at the 10% level. It is also positive and weakly significant in Model 5 when the NS-EPA and SADC dummies are both included. The coefficient is negative and statistically significant only in Model 3, when the NS-EPA dummy is omitted and the AFCFTA dummy is included by itself.

The coefficient of the CONTIG dummy variable is statistically insignificant in most cases (Models 2, 4, 5 and 6) and does not support the theory that countries with an adjacent border are more likely to have more trade than with countries that do not share an adjacent border. Even in the specifications where the coefficient is statistically significant as an explanation of bilateral financial services trade (Model 1 at the 5% level and Model 3 at the 1% level), the coefficients are negative, suggesting that on average bilateral trade in financial services is lower when countries have an adjacent border than without (all other factors constant). This is not surprising, given the earlier discussion about the current trading patterns of African countries which are trading less with each other and more with the EU and other developed partners.

For comparative purposes, Models 1 to 6 were re-estimated using Sample B. As explained in Chapter 4, Sample B converts all zeros in the bilateral financial services trade flows to USD 1 to avoid omitting true zero trade flows, leaving the original sample size of 4416 pairs (Baccheta *et al*., 2012: 112). Table 6.2 below depicts the estimation results based on Sample B.

In Table 6.2 (Sample B), the results indicate a stronger positive effect for the NS-EPA relationship (Models 2, 4 and 5). This could be due to the inclusion of more negligible intra-African trade flows in the sample, compared to Sample A. The results for the AFCFTA variable are very similar to those for Sample A, with a slightly stronger negative impact in Model 4. The coefficient of the SADC dummy variable remains negative and not significant for Sample B (Model 5 in Table 6.2), as it was when Sample A was used. The ESA coefficient has a slightly stronger negative impact in the case of Sample B (Model 6, Table 6.2), but remains significant at the 5% level. Again, the inclusion of more negligible intra-African bilateral trade flows is a factor here.

Table 6.2: Regression results for 2021 using Sample B (n=4416)

ln (FINSERVX)	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
c	-32.372***	-33.111***	-25.589***	-29.100***	-32.962***	-32.582***
ln (GDPIMP)	1.1522***	1.1505***	1.1465***	1.1475***	1.1488***	1.1451***
ln (GDPEXP)	1.3727***	1.2199***	1.1529***	1.1133***	1.2187***	1.2144***
FINSTRI	-0.0200***	-0.0199***	-0.0199***	-0.0199***	-0.0198***	-0.0188***
CONTIG	-0.6635**	-0.1046	-0.8894***	-0.3092	-0.0839	-0.0500
LANG	0.8992***	0.9566***	1.1088***	1.0699***	0.9597***	0.9764***
ln (DIST)	-0.1076	0.1476	-0.5033	-0.1146	0.1340	0.0982
NS-EPA		2.3465***		2.0348***	2.3387***	2.3101***
AFCFTA			-1.7455***	-1.0071***		
SADC					-0.2045	
ESA						-0.4620**
Adjusted R^2	0.518	0.540	0.529	0.544	0.540	0.541
F-statistic	792.004***	742.795***	708.193***	658.056***	650.015***	651.758***

Source: Author's estimations using EViews 13, based on own gravity model dataset described in Chapter 4.

***Significant at the 1% level.
**Significant at the 5% level.
*Significant at the 10% level.

The results in terms of sign and statistical significance are the same for ln GDPIMP, ln GDPEXP, FINSTRI and CONTIG using Sample B, with the coefficients also having similar magnitudes. The coefficient of the distance variable is not statistically significant at all with Sample B, whereas with Sample A, as discussed earlier, the coefficient had varying signs and degrees of significance across the different models. This difference is reflective of the significant number of insignificant intra-African trade flows despite the proximity of intra-African trading partners compared to their counterparts beyond the continent. The adjusted R-squared statistic is a bit higher across the board when using Sample B as opposed to Sample A, however the F-statistic for all models is highly significant in both instances.

Finally, Models 1 to 6 were estimated using Sample C. As Chapter 4 indicates, Sample C has a threshold of USD 10 000 in bilateral financial services trade, omitting trade flows below this level and leaving a sample size of 1505. The estimation results appear in Table 6.3 below.

Table 6.3: Regression results for 2021 using Sample C (n=1505)

ln (FINSERVX)	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
c	-12.421***	-14.900***	-9.148***	-13.344***	-15.175***	-15.150***
ln (GDPIMP)	0.4977***	0.5289***	0.5022***	0.5273***	0.5361***	0.5326***
ln (GDPEXP)	0.6167***	0.5473***	0.5098***	0.5129***	0.5532***	0.5533***
FINSTRI	-0.0088**	-0.0094**	-0.0088**	-0.0094**	-0.0098**	-0.0097**
CONTIG	-0.8820***	-0.0207	-0.7130**	-0.0488	-0.1617	-0.0884
LANG	0.8901***	0.9450***	1.0061***	0.9845***	0.9179***	0.9323***
ln (DIST)	-0.2371***	0.0781	-0.4353***	-0.0342	0.0929	0.0930
NS-EPA		1.1260***		1.0025***	1.1453***	1.1442***
AFCFTA			-1.0524***	-0.4129**		
SADC					1.0473**	
ESA						0.3916
Adjusted R^2	0.285	0.328	0.302	0.330	0.331	0.329
F-statistic	100.701***	105.979***	94.032***	93.610***	93.903***	93.043***

Source: Author's estimations using EViews 13, based on own gravity model dataset described in Chapter 4.

***Significant at the 1% level.
**Significant at the 5% level.
*Significant at the 10% level.

In Table 6.3 the Sample C omission of all trade flows below the threshold of USD 10 000 would have significantly reduced the number of intra-African trade flows. What it also did was to leave only the African pairings with relatively larger bilateral trade flows in the sample. This explains the positive and significant coefficient at the 5% level of the SADC grouping dummy variable in Model 5 of Table 6.3 (using Sample C) compared to the negative and insignificant SADC coefficient in Model 5 of Table 6.1 (using Sample A). The ESA dummy coefficient in Model 6 (Table 6.3) is likewise positive with the smaller intra-African trade flows removed in Sample C, but it is not statistically significant.

The NS-EPA, GDP and LANG coefficients remain significant at the 1% level for Models 1 to 6 using Sample C. The FINSTRI coefficient is still negative and statistically significant, although its significance is now at the 5% rather than 1% level. CONTIG and ln DIST remain unreliable determinants of bilateral financial services trade using Sample C. Although the F-statistic remains highly significant across the Sample C specifications, the adjusted R-squared is somewhat lower than for Samples A and B.

As indicated at the start of this sub-section, the estimations of Models 1 to 6 across all three samples were repeated for 2019 in order to ascertain whether the use of the year 2021 for the cross-sectional study (the year for which most recent data were available for most of the variables) could be distortionary because of the COVID-19 pandemic. The estimation results for 2019 appear in Tables A6.1 to A6.3 in the Appendix below. It was found that there was no substantive difference in the results for 2019 compared to 2021.

6.4 Conclusion

Chapter 5 indicated the possibility of increasing the low levels of intra-African trade in financial services between South Africa and other African countries. It was found that despite marginal intra-African trade on the continent as measured by the BOP data, signs of growing trade in this sector and complementarity in South Africa's export and import structures with the export and import structures of most of its biggest African trading partners in this sector showed potential to increase the levels of intra-African trade on the continent. The purpose of this chapter was therefore to investigate the effect of the AfCFTA and other regional trade agreement memberships on bilateral financial services trade in Africa.

Chapter 6 finds that membership of African regional groupings whether it be the newest AfCFTA or the older regional trade agreements (SADC, COMESA and EAC) do not as yet have a positive effect on African bilateral financial services trade. Despite membership in these groups, intra-African trade has historically been and is presently at very low levels in the Financial services sector for many African country pairs. African importing countries that are EPA signatories have more significant bilateral financial services trade with European countries and the UK, and also, more generally, with other non-AfCFTA partners than with AfCFTA partners. It should be noted, however, that the AfCFTA services trade negotiations are ongoing, and the existence of trade potential, as measured by the TCIs, is an encouraging sign for the future. The services trade negotiations of SADC, COMESA and the EAC are also still ongoing with some groupings beginning to move beyond the initial priority areas designated for negotiation.

The results from the gravity estimations in Chapter 6 also suggest, as expected, that larger countries in terms of GDP will have more bilateral financial services trade, as will countries with lower restrictions in financial services trade, as measured by FINSTRI. As the latter effect was appears to be comparatively small, an interesting avenue for further research would be to

investigate the suitability of the FINSTRI variable as an indicator of financial services trade restrictions in the developing country context. Finally, the results suggest that countries that share a common language are also more likely to trade in financial services while, for the present study, distance and the presence of a common border were not useful determinants of bilateral financial services trade due to historical trading patterns and uneven levels of development on the continent.

Although the results of the gravity estimations set out in this chapter are useful and indicative, the limitations of the data and estimation methods used, discussed in detail in Section 4.3 of Chapter 4, are important to keep in mind. Furthermore, while the current extent of intra-African financial services trade, as measured in the BOP, is low, the TCIs computed in Chapter 5 do suggest some significant trade potential between South Africa and its AfCFTA trading partners as services trade agreements progress further and as levels of development improve across the continent. In addition, much financial services trade activity on the continent takes place via Mode 3 services trade (commercial presence) which is not captured in the BOP data. This is another important area for future research.

Chapter 7

Conclusion and directions for future research

7.1 Summary of the study

The main goal of this thesis was to examine the importance and prospects for growth of South Africa's trade in financial services in the context of the AfCFTA. This goal was addressed through the following three sub-goals. Firstly, the share and growth performance, as well as the some of the characteristics, of South Africa's financial services trade in the aggregate and with selected partners and regions was identified and measured, with a focus on financial services trade with the rest of Africa. Secondly, South Africa's trade potential in financial and finance-related services trade in the context of the AfCFTA services trade negotiations was computed. Finally, the impact of the formation of the AfCFTA and membership of other regional groupings on financial services trade was estimated using a gravity model.

As a background to the empirical analysis, Chapters 2 and 3 reviewed literature on services trade theory and empirical studies on services and financial services trade. Chapter 2 focused on services trade theory and policy. It first looked at the relevance of the concept of comparative advantage in the context of services trade and found that similar to goods trade, comparative advantage in the case of services trade applies to differences in the factor inputs required in the provision of services. Differences in factors like skills, technology, institutions and regulatory systems will often also lead to trade in services. FDI in services is however not compatible with comparative advantage theory.

It then considered the applicability of new trade theory to the services trade context, finding that contrary to comparative advantage theory, trade in services is also found to occur between countries in the same industry without the need for specialisation in one industry due to differences in factors. It was found that some two-way trading in services occurs naturally as a result of the nature of the service. In some instances, IIT is caused by a variety of factors, including the presence of imperfect competition and firms pursuing a market niche. The demand by consumers is also an important factor as it reflects the similarities in per capita income which is found to be a determinant of intra-industry trade. The higher the similarity in high per capita income between two countries the more likely it is for demand structures to be similar which would incentivise firms to pursue a niche in the market. FDI investments also lead to higher IIT as long as those affiliates do not engage in inter-firm trade.

Given the importance of services in the global value chain (GVC) context, the chapter moved on to discuss the increasing role of services in GVCs as enablers, inputs and bundled together with some manufactured goods in certain instances. It was found that the increasing servicification of GVCs and the emerging importance of service led growth and employment should be seen as an opportunity for developing countries especially the pursuit of high-value services led growth. It was also found that developing services sectors creates an opportunity for developing countries to industrialise through the upgrading of the productivity and efficiency of their manufacturing industries. Developing countries are therefore under pressure to further liberalise their services sectors in order to benefit from competition led growth.

In order to provide a clearer picture of what liberalisation in services trade entails, the chapter then provided a discussion on the barriers to services trade and the debate on liberalising services, especially in the context of GVCs. It found that barriers to services trade exist in various forms including discriminatory regulations, licencing, certification requirements and quantitative restrictions. Although these interventions are distortionary to trade, they are often times used by governments as protective measures, corrections for market failure and preventative measures for practices amongst competing firms that may be detrimental to consumers. Regional trade agreements involving services, discussed in the last part of the chapter, are found to be beneficial for members in the context of developing countries due to the trade creation effects of preferential trade agreements.

Chapter 3 reviewed empirical studies in services and more specifically financial services trade. Looking at previous studies on services trade agreements it found that although a number of African countries made GATS commitments to liberalise services, many of the least developed countries made limited commitments under the provision that these commitments would later increase under services RTAs. The rising pressure to liberalise financial services in North-South trade agreements is however found to be a threat to policy space for developmental objectives and the domestic financial systems of the LDCs. Regional trade agreements with developmental objectives are found to be more accommodating with the policy space of lesser developed countries. South Africa and Nigeria who are much bigger in terms of GDP on the continent have notably made commitments under the GATS to fully liberalise Mode 3 services but did not fully liberalise their banking services in Modes 1 and 2. This leaves room for making further commitments under these modes in services RTA negotiations. Looking at the

state of play of the AfCFTA services trade negotiations, Chapter 3 found that services trade negotiations have not yet been concluded and that negotiations regarding its five priority sectors which is inclusive of financial services are still ongoing. In contrast SADC, COMESA and the EAC regions have largely concluded negotiations in priority services sectors which all included financial services.

The chapter went on to review empirical literature done on services trade in Africa and found that only a few countries were prominent intra-regional exporters on the continent. Reportedly between 2017 to 2019 these were Egypt, Morocco, South Africa, Ghana, Nigeria, Kenya, Tanzania, Ethiopia, Tunisia and Algeria accounting for 79 percent of exports on the continent. The lesser contributors to intra-regional exports by only 0.5 percent collectively were LDCs which included Liberia, Burundi, Lesotho, Guinea-Bissau, São Tomé and Príncipe, Sierra Leone, Guinea, eSwatini, the Democratic Republic of Congo and Comoros. Between 2005 and 2013 growth in services trade amongst a sample of 18 African countries which included upper-middle, lower-middle and low-income countries (including LDCs) was found to be in imports from the world resulting in almost a decade of a services trade deficit which only began to shrink when imports declined from 2013-2017. Angola and Nigeria were reportedly the biggest the biggest importers of services on the continent at the time with imports mainly in Technical, trade related, and other business services. Egypt, South Africa, Algeria, Ghana, Morocco, Ethiopia, Libya and Mozambique followed in tow as other major importers of services from the world.

A study using trade complementarity indices to compute trade potential on the continent found significant potential for increased services exports from South Africa to Tanzania, Mauritius and Nigeria. There was reportedly significant potential to increase imports from Kenya, Egypt, Tanzania, Ethiopia, Morocco and Nigeria. Another study investigating services trade in Africa based on data from 2003-2007 using a gravity model found that commonality/cultural similarity in language and colonial history had a positive effect on intra-African services trade whilst distance was found to have a negative impact on intra-African services trade. A more recent study based on data from 2005 to 2019 reviewed under Chapter 3 found time-zone difference to have a positive effect on intra-African services trade and trade in specific sectors such as Transport, Construction, Financial and Personal, cultural and recreational services. In reviewing empirical studies on financial services trade in Africa, a recent gravity model found that trade restrictiveness as measured by the STRI decreased financial services trade on the

continent whilst ICT infrastructure increased financial and insurance services trade. When it comes to Mode 3 financial services trade it was found that South African financial services firms were looking to invest into the rest of Africa provided that receiving countries had political stability, significant market size, complementary infrastructure and good macro-economic performance.

Chapter 4 of the thesis outlined and explained the methods, empirical techniques and data sources used in the study. It started by outlining the structure of the descriptive statistics addressing the first sub-goal of the study. It explained that the data used covers the years 2005-2022 and was BOP data sourced from the ITC, UNCTAD and WTO Trade in Services Database. Bilateral services trade data sourced from the OECD-WTO Trade in services Database was used to further address Sub-goal 1, with a focus on financial services and finance related services trade. In addition to BOP data on financial services trade information on FDI investments were sourced from recent reports in order to conduct a brief analysis of Mode 3 financial services trade on the continent. FDI data is used as an alternative to FATS data as there is inadequate FATS data available to conduct this analysis.

To address the second sub-goal of the thesis, TCIs were computed in Chapter 5. Trade potential was computed for a cluster of four finance-related services sub-sectors including Financial services, Insurance and pension services, Charges for the use of intellectual property and Telecommunications computer and information services (collectively described using the acronym FICT). The gravity model employed in Chapter 6 was also explained under this chapter with a breakdown of the variables used, including the standard gravity model variables and additional variables, namely the STRI and dummy variables for the different regional trade agreements investigated. The specifications of the model were outlined, and the different sample sizes used to account for zero trade flows in the data were justified. The chapter then moved on to state and explain the limitations of the techniques and data used.

Chapter 5 addressed the first and second sub-goals of the study by providing a descriptive view of the growth and structure of South Africa's services trade. The analysis of the descriptive statistics started in the aggregate and showed that South Africa's services sector experienced a long period of decline in trade between 2011 and 2020, with both exports and imports of services plummeting during the COVID-19 pandemic. The long period of decline reflected sluggish growth in the Transport and Travel services sectors over the years although these two

still remain very dominant in South Africa's services exports and imports. On the export side, Telecommunications, computer and information services, Other business services, Charges for the use of intellectual property, Financial services, Personal, cultural and recreational services and the Maintenance and repair services sub-sectors have been growing quite well over the years. On the import side, Telecommunications, computer and information services, Charges for the use of intellectual property, Personal, cultural and recreational services had good import growth over the last two decades. South Africa has significant trade surpluses in the Travel, Financial services and Other business services sectors.

Chapter 5 moved on to investigate South Africa's financial services trade with selected AfCFTA partners using BaTIS estimates. The results indicated low bilateral financial services trade, however South Africa had significant financial services trade surpluses when it came to Angola, Egypt, Ghana, Mozambique, Namibia and Mauritius. There were trade deficits with Nigeria and Tanzania by a small margin. Trade potential computations between South Africa and selected trade partners and regions were subsequently analysed. When it came to regions, there was significant potential for South Africa to increase exports in financial and finance-related services trade to the SADC and non-TFTA regions. Exports were also found to have significant potential in increasing with Mauritius and Ghana. On the import side, significant potential partners include Egypt, Tunisia, Kenya and the COMESA and non-TFTA regions. In order to provide a more complete analyses of financial services trade in Africa, information regarding Mode 3 financial services trade was analysed. Africa's intra-continental FDI was found to be relatively low compared to the FDI flows with the rest of the world, with most of its inward FDI coming from European countries. South Africa is however an important regional FDI investor on the continent with an encouraging presence in financial services firms (banks) on the continent.

Chapter 6 investigated the impact of membership of the AfCFTA and other regional economic groupings on financial services trade on the continent using a gravity model. The results of the estimations discussed found that the AfCFTA, SADC, COMESA and EAC regional trade agreements did not have a positive impact on financial services trade. Intra-African trade in financial services was found to be low despite membership of these trade agreements. However, it was noted that the AfCFTA services trade negotiations have not yet been concluded and that there is trade potential in the various FICT sub-sectors for intra-African

trade to develop further. It was concluded from the findings that higher levels of GDP and low trade restrictiveness were significant determinants of financial services trade on the continent.

7.2 Limitations of the study

Due to the unavailability of adequate FATS data the scope of the study was focused on financial services trade as measured in the balance of payments data. Although some useful information was obtained on FDI on the continent, there could have been a more detailed analysis of Mode 3 financial services trade either through company reports or more disaggregated sectoral FDI data.

With respect to the descriptive statistics in Chapter 5, data obtained for the TCIs sourced from the ITC, UNCTAD and WTO database was limited in the pool of African countries to choose from. This is because of the scanty records of sub-sectoral data for some African countries. The BaTIS database used for the bilateral financial services trade in the gravity model was also used cautiously with acknowledgement of the database's reliance on mirrored data and estimates for some data points.

As discussed in Chapter 4, when it comes to the variables used in the gravity model, the model could have made use of import data as opposed to export data. Secondly, sectoral GDP of the exporting country could have been used in the gravity model as opposed to aggregate GDP as the focus of bilateral trade in the study is on a particular sector of the economy. Thirdly, the STRI indices sourced for each African country were unavailable for the required year in some instances, therefore the closest year available for each was used.

Due to the inconvenience of having zero trade flows while using a double log model, given the data available, adjustments were made to the sample sizes used for the gravity model. These were justified in Chapter 4, with reference to the empirical literature, however the possible bias this may cause was also acknowledged. Finally, due to feasibility and data constraints, the gravity model is cross-sectional and uses the standard log-linear OLS estimation method. A more dynamic approach using panel data and an estimation method like the Poisson pseudo maximum likelihood (PPML) method could have otherwise been used.

7.3 Key findings and recommendations

The aim of the study was to investigate the prospects of increasing financial services trade on the continent under the new African Continental Free Trade Area. Although existing empirical literature has indicated increasing trends in global financial services trade, financial services trade on the African continent has been marginal. This study found that out of the African countries observed on the continent, only a few, including South Africa, Nigeria, Egypt and Kenya, had relatively advanced financial services sectors. As this study was primarily focused on South Africa's position as a potential net exporter of financial services on the continent, it was an important finding that South Africa already had a surplus in financial services trade with the world and with many other African countries. This suggests that South Africa has a clear comparative advantage in this sector. There is also a clear hegemonic presence of South African banks on the continent showing that there is some notable intra-African FDI in financial services on the continent via Mode 3, although at present FDI into the continent is predominantly from European countries.

Based on BOP data the existing top three importers of financial services from South Africa were Nigeria, Mozambique and Ghana. The trade complementarity indices computed also showed that South Africa had significant potential to increase exports to these countries as Ghana and Nigeria are part of the non-TFTA countries and Mozambique is also a SADC member. South Africa had high export TCIs with both these regions. The top three exporters to South Africa in the financial services sector were reportedly Ghana, Egypt and Tanzania. South Africa's import TCIs revealed that South Africa had significant potential to increase imports from the COMESA and non-TFTA regions which include Egypt and Ghana respectively. This was an interesting and important finding as it shows that South Africa has the potential to increase financial services trade with these countries in the future.

Whether increased trade with the above countries will occur as a result of membership in the AfCFTA is uncertain due to the newness of the trade agreement, however the results of the gravity model indicate that the main positive determinants of financial services trade on the continent based on current bilateral trade data include the size of the economies and low restrictions on financial services trade. This suggests that increased financial services trade under the AfCFTA is only likely to occur with more reduction in financial services trade barriers across the continent. Trade is also more likely to occur between the bigger African economies whilst the least developed economies remain on the sidelines with underdeveloped

financial services sectors. This is already the case as can be seen with most of the countries listed above. In order for all African countries including LDCs to benefit from the developmental benefits of services trade, development-oriented trade agreements need to specially cater to the smaller economies in the group.

The empirical studies consulted in Chapter 3 were not in agreement on the effect of financial trade restrictions on financial services trade. Whilst some argued that low levels of financial services regulations did not increase financial services trade in Africa, others, including this study, found otherwise. Distance was also found to have a positive effect on financial services trade whilst this study found that distance was not useful in explaining financial services trade. Contrary to the results of this study, one of the empirical studies found that trade agreements had a small and significant impact on financial services trade. That was however a study based on the United Kingdom and financial services in that context. Although it is interesting to compare these results, it should be kept in mind that the number of African countries observed, sample sizes used in the gravity models, approaches used, and general scope of the studies are not the same. Comparison of the results should therefore be undertaken with caution.

Recommendations for policy in the face of ongoing AfCFTA services trade negotiations is for special consideration to be given to the least developed economies in terms of policy space to allow them to reduce regulations in line with their developmental objectives. Liberalisation in services sectors can be gradual as long as doing so is in the best interests of the countries.

More regional value chains should be created with emphasis on services to be provided whether in the low-value or higher-value services depending on the capabilities of the countries involved. When it comes to financial services trade, many African countries will not have the capacity to be exporters of financial services to South Africa in the short run because of their underdeveloped financial services sectors. It is also important to note that their imports of financial services from South Africa are also not likely to increase substantially especially if their income levels are low.

In the interest of regional development however, South Africa still needs to direct more financial services FDI towards these countries in order to increase much needed financing for investment projects. All this suggests that South Africa's stance be more offensive and LDCs to be less defensive when it comes to financial services in these AfCFTA negotiations.

Intervention is recommended in the form of incentives for private financial institutions to comply with such developmental objectives. FDIs in the financial sector for instance are subject to political and economic stability of the receiving country, market size and demand conditions. Attention to these areas in will help to facilitate new investment.

Recommendations for future research are, firstly, for an improvement in the collection and computation of data for African sub-sectoral services trade. Given more comprehensive data, future studies on sub-sectoral trade in services could be more detailed, especially with Mode 3 services trade where more attention to FATS and FDI data is needed. Alternative approaches to the gravity model could also be explored with the same trade agreement variables to examine whether trade agreements like the AfCFTA and other African regional trade agreements lead to increased trade in financial services on the continent in the future. Sectoral GDP could be used instead of aggregate GDP, subject to data availability. The FINSTRI variable could be investigated in its suitability as an indicator of financial services trade restrictions in the context of developing countries.

As this study was conducted in the immediate years following the COVID 19 pandemic, it would be interesting to see what a similar study in the future would find in terms of the trade trends. Finally, the Manufacturing and physical inputs owned by others and Telecommunication, computer and information services sectors are interesting sectors that could be investigated in South Africa's trade with selected African countries.

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APPENDICES

Appendix Table A4.1: Importing and exporting countries included in the gravity model

	Importers (African)	**Exporters (African)**	**Exporters (non-African)**
1	Algeria	Algeria	Argentina
2	Angola	Angola	Australia
3	Benin	Benin	Bangladesh
4	Botswana	Botswana	Belgium
5	Burkina Faso	Burkina Faso	Bolivia
6	Burundi	Burundi	Brazil
7	Cabo Verde	Cabo Verde	Cambodia
8	Cameroon	Cameroon	Canada
9	Central African Republic	Central African Republic	Chile
10	Chad	Chad	China
11	Comoros	Comoros	Chinese Taipei
12	Congo	Congo	Colombia
13	Côte d'Ivoire	Côte d'Ivoire	Costa Rica
14	Djibouti	Djibouti	Ecuador
15	DR Congo	DR Congo	France
16	Egypt	Egypt	Germany
17	Equatorial Guinea	Equatorial Guinea	Greece
18	eSwatini	eSwatini	India
19	Ethiopia	Ethiopia	Indonesia
20	Gabon	Gabon	Ireland
21	Gambia	Gambia	Italy
22	Ghana	Ghana	Japan
23	Guinea	Guinea	Korea
24	Guinea-Bissau	Guinea-Bissau	Luxembourg
25	Kenya	Kenya	Malaysia
26	Lesotho	Lesotho	Mexico
27	Liberia	Liberia	Myanmar
28	Libya	Libya	Nepal
29	Madagascar	Madagascar	Netherlands
30	Malawi	Malawi	New Zealand
31	Mali	Mali	Pakistan
32	Mauritania	Mauritania	Peru
33	Mauritius	Mauritius	Philippines
34	Morocco	Morocco	Portugal
35	Mozambique	Mozambique	Russian Federation
36	Namibia	Namibia	Singapore
37	Niger	Niger	Spain
38	Nigeria	Nigeria	Sri Lanka
39	Rwanda	Rwanda	Sweden
40	Senegal	Senegal	Switzerland
41	Seychelles	Seychelles	Thailand
42	Sierra Leone	Sierra Leone	Turkey
43	South Africa	South Africa	United Kingdom
44	Tanzania	Tanzania	United States of America
45	Tunisia	Tunisia	Vietnam
46	Uganda	Uganda	
47	Zambia	Zambia	
48	Zimbabwe	Zimbabwe	

Table A5.1: South Africa's services trade by sub-sector with selected African countries (USD millions)

Partner	Angola				Egypt				Ghana			
	Exports to		Imports from		Exports to		Imports from		Exports to		Imports from	
	2005	2021	2005	2021	2005	2021	2005	2021	2005	2021	2005	2021
Total services	38.3184	30.9343	10.1659	10.7433	22.9449	30.7909	46.7430	93.0064	16.2900	48.6993	12.6426	97.2571
Manufacturing services on physical inputs owned by others	0.0000	0.0000	0.0000	0.0000	0.0000	0.0034	0.0000	0.0000	0.0000	0.0000	0.0000	17.9271
Maintenance and repair services n.i.e.	0.0044	0.1314	0.0002	0.0019	0.0484	0.2702	0.0054	0.0003	0.0000	0.0000	0.0007	0.2254
Transport	6.4569	9.9043	0.5072	0.6002	7.4358	9.2791	16.7998	45.9372	2.5851	4.4398	0.4197	8.6137
Travel	21.4910	8.8478	9.0020	6.9638	7.8042	4.4026	24.6197	26.7066	12.4128	31.5366	11.2285	25.8106
Construction	3.5542	2.1459	0.0074	0.0135	0.1686	0.0826	0.3335	0.4944	0.0000	0.0001	0.0000	0.0001
Insurance and pension services	0.0406	0.3667	0.0032	0.0110	1.4056	2.8951	0.2662	1.5561	0.0079	0.0398	0.0025	0.0478
Financial services	0.7543	2.8459	0.0002	0.0013	0.4835	2.6707	0.2891	0.6133	0.1131	2.0040	0.0001	0.0156
Charges for the use of intellectual property n.i.e.	0.0000	0.0000	0.0000	0.0000	0.0408	0.0833	0.1129	0.2045	0.0166	0.2633	0.0048	0.3478
Telecommunications, computer, and information services	0.2226	1.0632	0.4379	2.1439	0.6169	1.9916	1.6458	10.2215	0.0964	1.7922	0.0002	0.3129
Other business services	5.7702	5.5850	0.0357	0.5390	3.2669	6.5413	1.9389	4.5497	0.9292	8.2021	0.9759	43.3693
Personal, cultural, and recreational services	0.0128	0.0335	0.0000	0.0000	0.1351	0.6738	0.2094	0.6199	0.0061	0.3212	0.0002	0.4747
Government goods and services n.i.e.	0.0114	0.0106	0.1721	0.4687	1.5389	1.8973	0.5223	2.1029	0.1229	0.1001	0.0100	0.1123

Partner	Kenya				Liberia				Mali			
	Exports to		Imports from		Exports to		Imports from		Exports to		Imports from	
	2005	2021	2005	2021	2005	2021	2005	2021	2005	2021	2005	2021
Total services	26.2337	28.4465	17.2721	28.5665	6.7583	5.7350	41.1719	52.6207	5.3561	9.5739	5.6216	43.4151
Manufacturing services on physical inputs owned by others	0.0000	0.0000	0.0000	0.0429	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0218
Maintenance and repair services n.i.e.	0.1390	0.4117	0.0127	0.0717	0.0015	0.2184	0.0407	0.0013	0.0000	0.0000	0.2270	0.0718
Transport	10.4377	12.6029	8.1836	17.6430	4.2516	1.4383	25.0515	39.4483	4.4214	6.6636	2.8199	30.5827
Travel	9.8872	3.7500	6.8392	4.8351	0.1736	0.0324	7.1565	2.2896	0.5096	0.4085	2.0560	7.8959
Construction	0.1401	0.8367	0.0015	0.0016	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0001	0.0000
Insurance and pension services	1.1512	1.4903	0.0308	0.0995	0.0913	0.5380	0.0639	8.3742	0.0000	0.0001	0.0151	0.0342
Financial services	0.1127	0.5735	0.0009	0.0899	0.0163	0.0209	0.0025	0.0114	0.0105	0.0490	0.0010	0.0084
Charges for the use of intellectual property n.i.e.	0.0375	0.0351	0.0361	0.0925	0.0420	0.0787	0.0007	0.0024	0.0000	0.0000	0.0001	0.0007
Telecommunications, computer, and information services	0.8049	0.7050	1.4544	4.8504	0.0363	0.0548	0.0288	1.0238	0.0211	0.0888	0.0003	0.0046
Other business services	2.2499	5.8115	0.0924	0.3012	1.6372	2.9296	0.2340	0.8822	0.2015	1.1286	0.0614	0.1118
Personal, cultural, and recreational services	0.2863	1.7542	0.0023	0.0773	0.0199	0.0362	0.0000	0.0000	0.0360	0.1750	0.0001	0.0004
Government goods and services n.i.e.	0.9873	0.4755	0.6182	0.4614	0.4886	0.3876	8.5933	0.5875	0.1560	1.0603	0.4406	4.6829

Source: Author's table compiled from OECD and WTO (2023)

Table A5.1continued

Partner	Mauritius				Mozambique				Namibia			
	Exports to		Imports from		Exports to		Imports from		Exports to		Imports from	
	2005	2021	2005	2021	2005	2021	2005	2021	2005	2021	2005	2021
Total services	29.4230	22.2517	22.9198	48.4369	27.0962	50.3146	6.9114	23.0705	41.1565	45.9218	20.2759	37.5372
Manufacturing services on physical inputs owned by others	0.0000	0.0004	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0022	0.0000	7.5535
Maintenance and repair services n.i.e.	0.0004	0.0778	0.0264	0.0114	0.0019	0.0193	0.0359	0.0037	0.0002	1.4783	0.0075	0.6000
Transport	7.7989	5.3467	4.7310	9.1650	5.9676	12.8526	3.9942	19.7788	8.3955	7.9017	0.8017	8.7863
Travel	13.4441	2.7864	13.6313	9.4609	19.5384	23.4223	2.5294	2.4578	30.0397	24.7034	19.1367	16.7380
Construction	0.1143	0.0722	0.1764	0.0261	0.0006	0.0011	0.0005	0.0000	0.3093	0.0490	0.0000	0.0013
Insurance and pension services	0.8859	1.6169	0.6106	1.9054	0.0632	2.0656	0.0231	0.3536	0.3054	1.8385	0.0003	0.0027
Financial services	2.3983	3.5931	0.3005	3.4221	0.1390	1.2619	0.0079	0.0015	0.1046	0.8311	0.0000	0.0001
Charges for the use of intellectual property n.i.e.	0.0057	0.0109	0.1348	0.5942	0.0001	0.0003	0.0002	0.0001	0.0000	0.0002	0.0000	0.0002
Telecommunications, computer, and information services	0.3643	0.9995	0.7061	10.6702	0.1351	0.9147	0.0019	0.0067	0.2560	1.7250	0.2853	2.0137
Other business services	3.7788	7.0242	1.7422	9.8046	1.1511	9.5707	0.2507	0.3598	1.5813	6.2589	0.0443	1.8412
Personal, cultural, and recreational services	0.1713	0.3759	0.0167	0.2867	0.0132	0.0554	0.0049	0.0227	0.0039	0.0617	0.0000	0.0001
Government goods and services n.i.e.	0.4610	0.3477	0.8438	3.0905	0.0860	0.1506	0.0627	0.0858	0.1607	1.0717	0.0000	0.0000

Partner	Nigeria				Tanzania				Zambia			
	Exports to		Imports from		Exports to		Imports from		Exports to		Imports from	
	2005	2021	2005	2021	2005	2021	2005	2021	2005	2021	2005	2021
Total services	44.2276	59.9114	17.6081	26.6399	15.2212	12.8330	18.4166	68.5186	14.5138	23.7495	12.0029	8.0869
Manufacturing services on physical inputs owned by others	0.0000	0.0029	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
Maintenance and repair services n.i.e.	0.0235	0.0781	0.0010	0.0000	0.0000	0.0000	0.0003	0.0001	0.0000	0.0000	0.0166	0.0004
Transport	14.2353	14.6643	11.2484	16.2691	3.3880	6.0001	7.9955	46.3427	5.8112	9.4692	0.4405	1.0572
Travel	19.5878	19.7342	4.3475	1.6596	11.5097	5.8128	9.7833	17.9338	7.2686	7.8518	11.4632	6.5910
Construction	0.4678	0.2057	0.0292	0.0322	0.0531	0.1155	0.0079	0.0642	0.0000	0.0000	0.0000	0.0000
Insurance and pension services	0.0676	1.2148	0.0955	0.5520	0.0040	0.0259	0.0041	0.0328	0.8864	2.9026	0.0015	0.0043
Financial services	0.4399	1.6251	0.0637	1.6718	0.0042	0.0182	0.0036	0.0263	0.0525	0.2924	0.0000	0.0000
Charges for the use of intellectual property n.i.e.	0.0191	0.0680	0.0101	0.0370	0.0115	0.0408	0.0006	0.0079	0.0000	0.0000	0.0155	0.0630
Telecommunications, computer, and information services	0.8883	3.6641	0.1779	2.1815	0.0366	0.0748	0.2316	1.6191	0.0257	0.1125	0.0360	0.2935
Other business services	7.9139	17.4557	0.8967	3.0619	0.1177	0.6092	0.1145	0.9873	0.4693	3.1201	0.0271	0.0759
Personal, cultural, and recreational services	0.1087	0.6230	0.0112	0.4278	0.0091	0.0448	0.0012	0.0019	0.0000	0.0008	0.0000	0.0000
Government goods and services n.i.e.	0.4756	0.5756	0.7269	0.7468	0.0872	0.0911	0.2740	1.5026	0.0001	0.0001	0.0026	0.0016

Source: Author's table compiled from OECD and WTO (2023)

Appendix Table A6.1: Regression results for 2019 using Sample A (n=3972)

ln (FINSERVX)	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
c	-29.943***	-30.885***	-23.295***	-27.114***	-30.863***	-30.344***
ln (GDPIMP)	1.0766***	1.0769***	1.0730***	1.0749***	1.0767***	1.0724***
ln (GDPEXP)	1.2787***	1.1264***	1.0616***	1.0270***	1.1262***	1.1203***
FINSTRI	-0.0194***	-0.0195***	-0.0191***	-0.0193***	-0.0195***	-0.0184***
CONTIG	-0.6389**	-0.0437	-0.8430***	-0.2330	-0.0409	0.0111
LANG	0.8880***	0.9448***	1.1032***	1.0556***	0.9453***	0.9634***
ln (DIST)	-0.1301	0.1456	-0.5212***	-0.1048	0.1436	0.0950
NS-EPA		2.2728***		1.9779***	2.2716***	2.2333***
AFCFTA			-1.7307***	-0.9500***		
SADC					-0.0345	
ESA						-0.5129**
Adjusted R^2	0.490	0.517	0.502	0.520	0.517	0.518
F-statistic	637.938***	607.920***	573.791***	538.657***	531.801***	533.937***

Source: Author's estimations using EViews 13, based on own gravity model dataset described in Chapter 4.

Appendix Table A6.2: Regression results for 2019 using Sample B (n=4416)

ln (FINSERVX)	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
c	-32.550***	-33.330***	-25.876***	-29.572***	-33.182***	-32.635***
ln (GDPIMP)	1.1979***	1.1956***	1.1930***	1.1932***	1.1942***	1.1899***
ln (GDPEXP)	1.3654***	1.2080***	1.1456***	1.1066***	1.2070***	1.2014***
FINSTRI	-0.0227***	-0.0226***	-0.0227***	-0.0226***	-0.0225***	-0.0213***
CONTIG	-0.5099	0.0681	-0.7275**	-0.1219	0.0886	0.1392
LANG	0.9199***	0.9776***	1.1241***	1.0826***	0.9808***	1.0044***
ln (DIST)	-0.1127	0.1514	-0.4992***	-0.0929	0.1375	0.0847
NS-EPA		2.4183***		2.1230***	2.4100***	2.3678***
AFCFTA			-1.7276***	-0.9482***		
SADC					-0.2067	
ESA						-0.6159***
Adjusted R^2	0.515	0.539	0.526	0.542	0.539	0.541
F-statistic	783.606***	739.441***	700.070***	654.130***	647.085***	650.349***

Source: Author's estimations using EViews 13, based on own gravity model dataset described in Chapter 4.

Appendix Table A6.3: Regression results for 2019 using Sample C (n=1476)

ln (FINSERVX)	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
c	-12.760***	-15.305***	-9.244***	-13.608***	-15.468***	-15.442***
ln (GDPIMP)	0.5382***	0.5736***	0.5407***	0.5705***	0.5768***	0.5754***
ln (GDPEXP)	0.6059***	0.5375***	0.4921***	0.5001***	0.5412***	0.5408***
FINSTRI	-0.0091**	-0.0097**	-0.0086**	-0.0094**	-0.0098**	-0.0098**
CONTIG	-0.7223**	0.1173	-0.5094	0.1043	0.0240	0.0587
LANG	0.9584***	1.0266***	1.0916***	1.0717***	1.0126***	1.0182***
ln (DIST)	-0.2356***	0.0773	-0.4511***	-0.0450	0.0866	0.0855
NS-EPA		1.1780***		1.0407**	1.1899***	1.1883***
AFCFTA			-1.1548***	-0.4600**		
SADC					0.5907	
ESA						0.2612
Adjusted R^2	0.284	0.334	0.306	0.337	0.335	0.334
F-statistic	98.667***	106.866***	93.719***	94.597***	93.879***	93.594***

Source: Author's estimations using EViews 13, based on own gravity model dataset described in Chapter 4.