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Why COMESA Trade In Services Should Be Cushioned From The Impacts Of Covid-19 Pandemic

Special Report

By Benedict Musengele & Jane Kibiru

Trade and Customs Division
COMESA Secretariat.



This article provides an anecdote of the role of services in reducing the effects and mitigation measures of the COVID-19 in the COMESA region

By Benedict Musengele & Jane Kibiru

Trade and Customs Division
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Introduction

The services sector accounts for more than half of COMESA's Gross Domestic Product and over a third of employment, outpacing manufacturing and agriculture in terms of generating growth, income and jobs. In the context of the international value chains, services sectors provide vital inputs to manufacturing and agriculture and can help in increasing the overall efficiency of the COMESA economy. The servicification of manufacturing phenomenon is at the top of the policy agenda, because many goods consist to a significant extent of value addition originating in services sectors, while other goods bundle services to make the product more appealing or useful to consumers. From a trade perspective, recent analysis shows that production fragmentation is taking place not only in goods but also in services markets. According to De Backer and Miroudot (2013), while many services are still produced and consumed primarily by small firms within national borders, Global Value Chains (GVCs) are already very active in sectors like business services, where back office operations, call centers, and professional services are frequently provided across borders within a GVC-like structure. Similarly, financial services have seen significant production fragmentation in recent years.

Projections are showing that the Covid-19 pandemic and measures Member States have put in place will lead to reduced growth, unemployment, and reduction in export of goods and services in COMESA. Amidst restrictions of mobility, lockdowns, curfews and social distancing, services aided by technological advancements (ICT) such as communications (mobile telephony and internet) have made it possible for various activities to continue. Regulatory restrictions in the infrastructure services – transport and construction as well as financial services may raise the costs of production and consumer prices making them beyond the reach of majority, especially the vulnerable groups.

Africa's first Covid-19 cases were recorded in Egypt on 14th February and since then it has spread to more than 200 countries across the world. All COMESA Member States have reported covid-19 cases. As at 23 June 2020, there were 99,785 confirmed cases, 3,534 deaths, 33,535 recoveries and 62,716 active cases. COMESA has developed and published regional guidelines on the movement of goods and services to facilitate movement of goods and services during the pandemic period. Given the critical role trade in services plays in the COMESA region, it's imperative to develop appropriate policies and measures to mitigate against the adverse effects in the sector.

Overview of Services Trade

World services exports have grown at a faster rate than merchandise export. Services exports grew by 119.9 percent from \$ 2.7 trillion in 2005 to \$ 5.8 trillion while merchandise exports grew by 85.4 percent from \$ 10.5 trillion in 2005 to \$ 19.5 trillion in 2018. In 2018, the world services exports and imports were worth \$ 5.8 trillion and \$ 5.6 trillion respectively. The world's top services exporter in 2018 was the United States of America, at US\$828 billion, followed by United Kingdom (\$376b), Germany (\$331b), France (\$291b) and China (\$ 267b). The leading importer was the USA, (\$559b), followed by china (\$525b), Germany (\$351b), France (\$257b) and UK (235B).

In COMESA, services value added accounted, on average for 52.5 % of GDP while services contributed 37.2 % of the total employment in 2018. The leading countries in services value added in GDP were, Djibouti (79.1%), Seychelles (70.4%), Mauritius (67.4%), Tunisia (59.1% and Zambia (51.4%). The leading countries in services employment contribution were Mauritius (68.2%), Eswatini (63.3%), Libya (58.6%), Tunisia (53.9% and Djibouti (53.2).

COMESA services exports grew by 81.6 percent from \$26.9 billion in 2005 to \$48.9 billion in 2018 compared to 54.5 percent growth in merchandise exports from \$76.9 billion in 2005 to \$118.8 billion in 2018. The services imports were worth \$45.2 billion in 2018. Egypt and Kenya were among the top five exporters in 2018 with exports worth \$24 billion and \$5 billion respectively. Egypt was among the top importers at \$19 billion.

In 2018, travel was the top services export sector \$20,767 million and accounted for 42.5% of the total services exports, followed by transport (\$16,459 million), government goods and services(\$1,643 million), other business services(\$1,517 million) and telecommunications (\$977 million). Transport was the top services imports at \$19,494 million accounting for 43.1% of the total imports followed by travel (\$5,579 million), other business services (\$5,323), insurance (\$2,334) and government goods and services (\$1,354).

Transport and travel services accounted for 83% of the total exports and 66% of the total imports implying that they are the major traded services in the region. The other major sector in imports is other business services which accounted for 18%.

Effect of COVID-19 on Trade in Services

The services sector is heavily affected by the Covid-19 outbreak. Disruptions in services supply have a broad economic and trade impact due to the sector's role in providing inputs for other economic activities, including facilitating supply chains and trade in goods. According to World Trade Organization (WTO), services generate more than two-thirds of economic output, attract over two thirds of foreign direct investment, provide most jobs globally and account for over 40 percent of world trade. Furthermore, since services account for most of women's employment globally and a large share of micro, small and medium-sized enterprise (MSME) activity, the disruption in services supply also impacts on social and economic inclusiveness.

The expected decline in world trade volume (goods and services) by 11 percent in 2020 as predicted by the WTO will result in a decline in demand for service exports. The projected depressed growth in 2020 especially in advanced economies some of which are among the leading service exporters such as USA, UK, Germany and France which are also the worst hit by the pandemic will most likely lead to a reduction in service exports.

The General Agreement on Trade in Services (GATS) provides for four modes of services supply; cross-border supply

(mode 1); consumption abroad (mode 2); commercial presence (mode 3); and presence of natural persons (mode 4)¹. The Covid-19 measures and especially lockdowns, curfews and social distancing have adversely affected supply of services through mode 2,3 and 4. According to WTO, 60% of commercial services were supplied through mode 3, 10% via mode 2 and 3% via mode 4 in 2017. Services that rely on physical proximity between suppliers and consumers have been most impacted by mobility restrictions and social distancing measures. Although direct contact can sometimes be substituted by remote supply, this is not necessarily the case in all services sectors or countries. Sectors such as distribution (especially retailing services), tourism and air and road passenger transport services have been heavily affected. Mobility-related measures have created significant disruptions in air, maritime and land transportation, with severe repercussions on goods trade and supply chains.

As a result, trade in certain modes of supply has experienced severe downturns. According to United Nations Conference on Trade and Development (UNCTAD) supply under mode 2 (consumption abroad), which is particularly relevant for tourism, has been paralyzed. Travel restrictions have also severely limited mode 4, which involves the temporary movement of natural persons across borders. The pandemic has negatively affected supply of services through mode 3 (commercial presence), due to its impact on existing operations in foreign markets including; scaling down of operations, closure of firms and reduced consumption demand as well as its influence on decisions concerning the set-up of new establishments.

The crisis has shifted the focus of Member States from the traditional services sectors of transport and travel-related services. Advancements in digital technologies has led to greater attention on online supply in sectors such as retail, health, education, telecommunications and audiovisual services, accelerating companies' efforts to expand online operations, and creating new consumer behaviour that are likely to contribute to a profound and long-term shift towards online services. In the future, the increased supply of services through digital networks will be expected to strongly impact trade, leading to increased supply through cross border supply (mode 1).

In health services, telemedicine could have a major impact on the prospects for expanding the supply of online health services, with possible implications for trade. The Covid-19 crisis has stimulated a surge in the use of telemedicine services.

Mode 1: Cross-border supply

Cross-border supply takes place when a service is produced in one country but consumed in another one. Similar to traditional trade, when a good is delivered across a border both the supplier and the consumer remain in their respective countries.

Mode 2: Consumption abroad

Consumption abroad, takes place when services are consumed in the country where they are produced. The consumer or his/her property are abroad when the service is supplied.

Mode 3: Commercial presence

Commercial presence takes place when a service supplier establishes a presence abroad in order to provide services.

Mode 4: Presence of natural persons

Presence of natural persons takes place when an individual is present abroad in order to provide a commercial service. The service is produced in the country where it is consumed.

In China, for example, it substantially accelerated the growth of online medical platforms, with some experiencing three-digit growth rates between December 2019 and January 2020. Easing access to telemedicine services, even on a provisional basis, could help to slow the spread of Covid-19 in affected economies, as well as assist in the sharing of knowledge and experiences in detection of the virus, monitoring and response. However, international telemedicine remains a challenge given the wide regulatory diversity and differing national capabilities. For instance, these services often face geographic regulations, such as requiring the health professional to reside in the jurisdiction of the patient. Poor internet penetration in Africa and COMESA region in particular remains a key challenge in adopting telemedicine and online supply in services.

COMESA Member States like other countries worldwide have put in place measures to contain the spread of the pandemic such as international and domestic travel restrictions, social distancing, lockdowns, curfews, restriction on public gatherings and closure of business, learning institutions, borders and tourist attraction sites among others. The effect in the region is mostly felt on tourism and travel, air passenger transport, distribution, construction, personal, cultural and recreational and other business services. Financial services may be less affected due to the digitization that have taken place such as internet and mobile banking. However, some services such as telecommunication may benefit from the pandemic due to work from home arrangement and embracing of e-commerce as people observe social distancing. Greater liberalization of financial and telecommunication services would help to reduce costs of services provisions which are currently high. The health sector services demand has increased against a limited supply. This provides an opportunity for the region to increase investments in the sector and embrace technology in the supply of professional health services.

Effects of Covid-19 on Travel and Tourism

According to the United Nations World Travel and Tourism Council (UNWTTTC), travel and tourism sector grew by 3.5 % compared to 2.5% global growth and accounted for 10.3 percent of GDP and 330 million jobs globally in 2019. In COMESA, the sector contributed on average, 9.7% of GDP and 9.9 % of employment. In some countries, the contribution to GDP was higher than the regional average.

Most of the inbound arrivals in COMESA are from countries most hit by covid-19 such as US, UK, France, China, Germany and Italy. Some countries have a higher share of inbound arrivals from the above countries such as Comoros (57%), Seychelles (42%), Mauritius (41%), Kenya (38%), Ethiopia (35%) and Madagascar (32%). According to the UNWTTTC, there will be a 58-78% decline in international tourist arrivals in 2020 which would imply a loss of between \$ 910 billion to \$1.2 trillion in export revenues from tourism. This may have a negative effect in COMESA since travel and tourism accounts for more than 40% of the services exports in addition to its contribution in GDP and employment. Seychelles is likely to be most affected since the sector contributes more than a quarter of its GDP and employment. With the expected contraction of global economy and mostly in advanced economies by -6.1% in 2020, the likely loss of employment may result into a shift in discretionary consumer spending away from travel and tourism towards basic necessities.

Effect of Covid-19 on Transport Sector

In COMESA, transport was the leading import service sector valued at US \$19.5 billion and the 2nd top service export sector with US\$ 16.4 billion in 2018. The sector accounted for 43.1% and 33.6% of the total services imports and exports respectively in 2018.

Aviation is the most hit transport subsector due to travel restrictions and suspension of international flights except for cargo flights. This is likely to have a negative effect on trade, tourism and economies at large. The International Air Transport Association (IATA) estimates that African airlines could lose US\$6 billion in passenger revenue, 3.1 million jobs in aviation and related industries, GDP could fall by US\$28 billion from US\$56 billion while traffic is expected to drop by 51% in 2020 compared to 2019. Ethiopia, Kenya and Mauritius are among the hardest hit in Africa and COMESA; Ethiopia has experienced a 2.5 million reduction in passengers resulting into US\$430 million revenue loss, risking 500,000 job losses and US\$1.9 billion in contribution to the economy. Kenya has recorded 3.5 million fewer passengers resulting in US\$730 million revenue loss, risking 193,300 jobs and US\$1.6 billion in contribution to the economy while Mauritius has had a reduction of 2.1 million passengers resulting in a US\$540 million revenue loss, risking 73,700 job and US\$2 billion in contribution to the economy.

With the grounding of aircrafts and loss of revenue, airlines in COMESA are struggling. For example, Air Mauritius has entered voluntary administration, Kenya airways has applied for a state bailout, and has sent home most of its workers on unpaid leave while management team has taken 75%-80% pay cut. Ethiopian Airlines has also sent some of its staff on leave and suspended non-essential staff. To recoup the lost revenues, Ethiopian airlines and Kenya Airways have used passenger planes for transportation of Covid-19 essential products and export of some horticultural exports such as fruits and flowers. Some of the airlines have also been involved in repatriation flights in and out of the region.

The road transport sub-sector which accounts for over 80% passenger traffic and 76% freight in most of the COMESA Member States, has not been spared by the Covid-19 prevention measures. Most of the Member States have banned cross-border road transport for passengers and restricted movement of cargo to Covid-19 essential products. This has led to loss of revenue and employment in the road transport sub-sector which is the commonly used transport service by cross border traders in COMESA. This has had trickle down negative effects on the livelihoods of majority of traders who rely on the road transport to move their goods or acquire inputs across COMESA borders. The delay in border crossing occasioned by screening of Covid-19 has also led to increased cost of doing business.

Way forward

Most of COMESA Member States have put in place policy measures to minimize the effects of Covid-19 as well as support to post crisis recovery in the services sector. Such measures include stimulus packages, tax holidays, granting of grace periods for postponement of bookings and relaxing the liquidity requirements for commercial banks. Besides, Member States have adopted guidelines on movement of goods and services during the Covid-19 pandemic. As countries develop

exit strategies, there is need to reduce restrictions and/or liberalize services sectors to:

- i. Ease movement of professionals like medical personnel, engineers, technicians, essential goods and services across borders;
- ii. Reduce costs of communication – mobile, internet and financial services to increase/expand the benefits of digital technology;
- iii. Safeguard and ensure smooth and continued operation of the logistics networks that serve as the backbone of regional supply chains;
- iv. Consider improving digital infrastructural foundations to improve internet; and
- v. Consider the inclusion of internet service workers within ‘essential services’ not subject to work from home restrictions to avoid disruptions over the period of Covid-19.

In addition to the measures enshrined in the guidelines, Member States should:

- i. Provide support to businesses in the service sectors since they are likely to be most affected by the pandemic;
- ii. Enhance investments in internet infrastructure and penetration to promote online supply of services;
- iii. Adopt regional policies and regulations on telemedicine;
- iv. Embrace e-commerce in trade in services;
- v. Scale up incentives to boost domestic and foreign tourism by offering promotional discounts, relaxation of visa restrictions and restrictions on movements;
- vi. Encourage and promote regional tourism by negotiating and allowing tourism without the need for quarantine in certain corridors; and
- vii. Support the recovery of the aviation industry through direct financial support, loans, loan guarantees and support for the corporate bond market and tax relief.



COMESA SECRETARIAT
COMESA Center
Ben Bella Road
P.O. Box 30051. Lusaka, Zambia



+260 211 229 725



www.comesa.int



info@comesa.int



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