Trade in Services Workshop

Trade in Services and Investment in the SADC EPA

The BMW Pavilion, V&A Waterfront, 23 February 2008

Tralac hosted, with the European Commission, a workshop last week focusing on trade in services and investment in the context of the SADC EPA. This provided a useful opportunity to take stock of where the SADC region stands with respect to the ongoing negotiations. The process up to now has been burdened with a number of challenges and there are complications related to the second phase of the negotiations. Namibia had reservations regarding certain provisions in the IEPA and the initialling of the agreement was done on the understanding that its concern would be addressed through the negotiations towards a comprehensive EPA. In response, the EU confirmed that a two track approach will be followed to tackle any unease about the agreed provisions: the first track will deal with the signing, ratification and implementation of the IEPA; the second track will run parallel and concentrate on negotiating a comprehensive EPA in which the Namibian concerns can be addressed.

The first phase is now complete and Member States are preparing themselves for the next round of negotiations. The framework for this phase is contained in Article 67 of the SADC IEPA; which sets out the agenda and procedure for these negotiations. The two immediate challenges for the SADC EPA group in 2008 are that each participating country is obliged to negotiate an Investment chapter and liberalise one services sector. There is however still uncertainty in the region on the precise configuration participating in the ongoing negotiations. South Africa which is a significant investor in particularly the services sectors, did not initial the interim IEPA. A significant reason for its refusal is the stance that South Africa has taken regarding the trade related issues, particularly trade in services. South Africa’s position is that there is no legal obligation contained in the TDCA or Cotonou to broaden the EPA negotiations to include trade in services. Instead of binding commitments, South Africa is only in favour of concluding cooperative arrangements.

South Africa has made extensive commitments under the GATS. South Africa has fully bound 39 sub-sectors, partially bound 50 sub-sectors with further liberalisation in the form of a revised offer in progress at a multilateral level. The motivation for not joining discussions on trade in services in the context of the EPA negotiations is not clear. While South Africa and Namibia do not want to negotiate services, other members of the SADC EPA group are keen to do so. These countries recognise a link between services, competitiveness and development. The high transaction costs of doing business in the region are often linked to the cost, quality and reliability of key services inputs to economic activities. And the smaller countries see the EPA negotiations as an opportunity to liberalise key services sectors to promote competition and competitiveness.

In the final analysis EPAs should contribute to development. While enhanced market access is important (and all countries which have initialled the Interim EPA have as from 1 January 2008 obtained duty free quota free market access, except for rice and sugar), this is not enough. Supply-side constraint and the lack of capacity to produce tradeables competitively mean that the benefits from a 'trade-in-goods only' agreement will be limited. Enhancing the capacity to produce tradeables necessarily requires focus on a broader agenda. From a development perspective, there are three pillars of sustainable growth for countries to become competitive:

1) Building a productive capital stock through investment in the production structure and infrastructure;
2) Investment in human capital with the emphasis on science and technology; and
3) Establish efficient institutions to determine and articulate appropriate policies.

Investment, and perhaps especially foreign direct investment, is essential for the development of the economies in southern Africa. There is a clear linkage between investment and development. Profits may be reinvested in the locally established business to grow and expand it operations. This will lead to increased employment opportunities, transfer of skills and knowledge and better infrastructure. Regional harmonisation is of further importance in order to create larger markets and economies of scale for the suppliers.

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