



DNA Economics
Making economic sense of common problems

Services and Value Chains in SADC

Cooperation for the Enhancement of SADC
Regional Economic Integration (CESARE)



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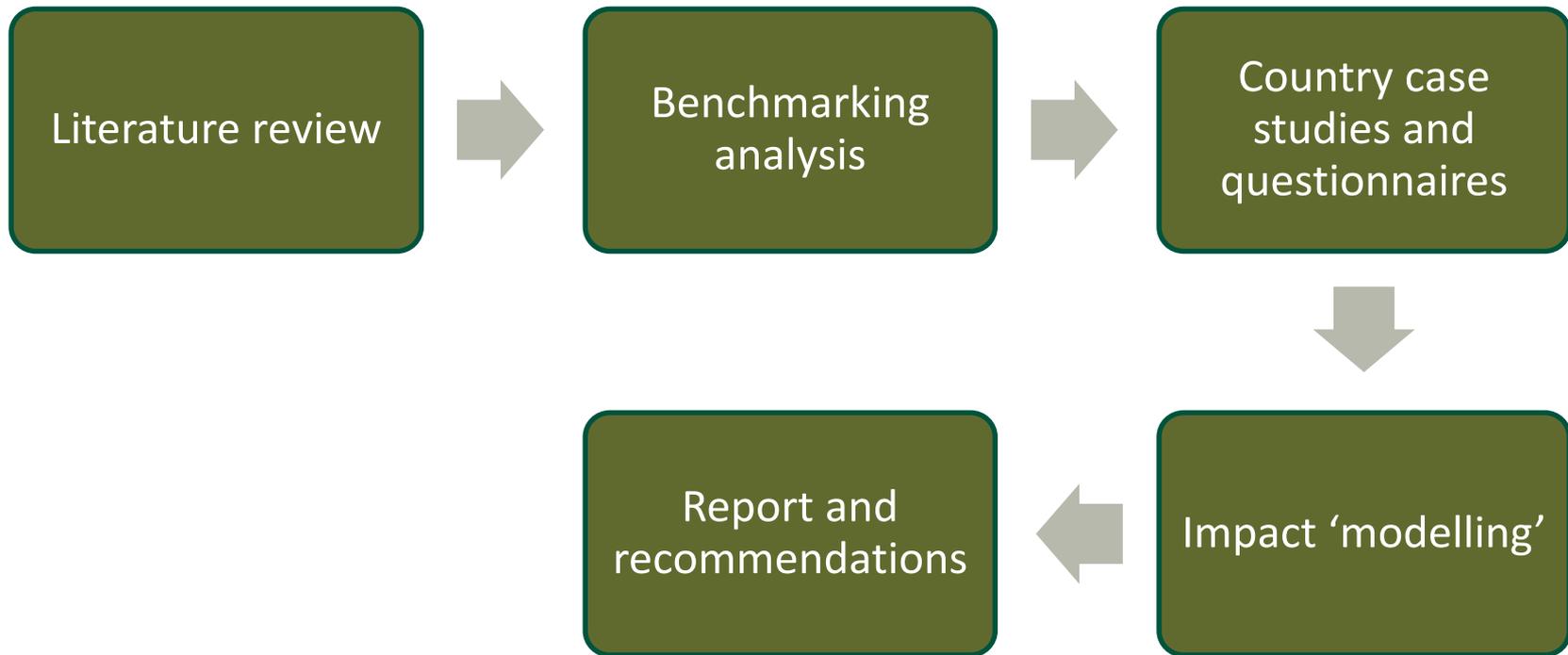
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Background to study

- SADC has prioritised industrialization; and the deepening of the agro-processing, mining and pharmaceutical value chains in particular
- Internationally, it is recognised that services play an increasingly important role in global value chains and the manufacturing process
- In looking to develop priority industries insufficient attention has been paid to the role of services in value chains, and the barriers that exist to accessing or importing these services
- This study seeks to analyze the contribution made by services in the production of goods and identify any service-related barriers to the development of efficient regional value chains

Approach



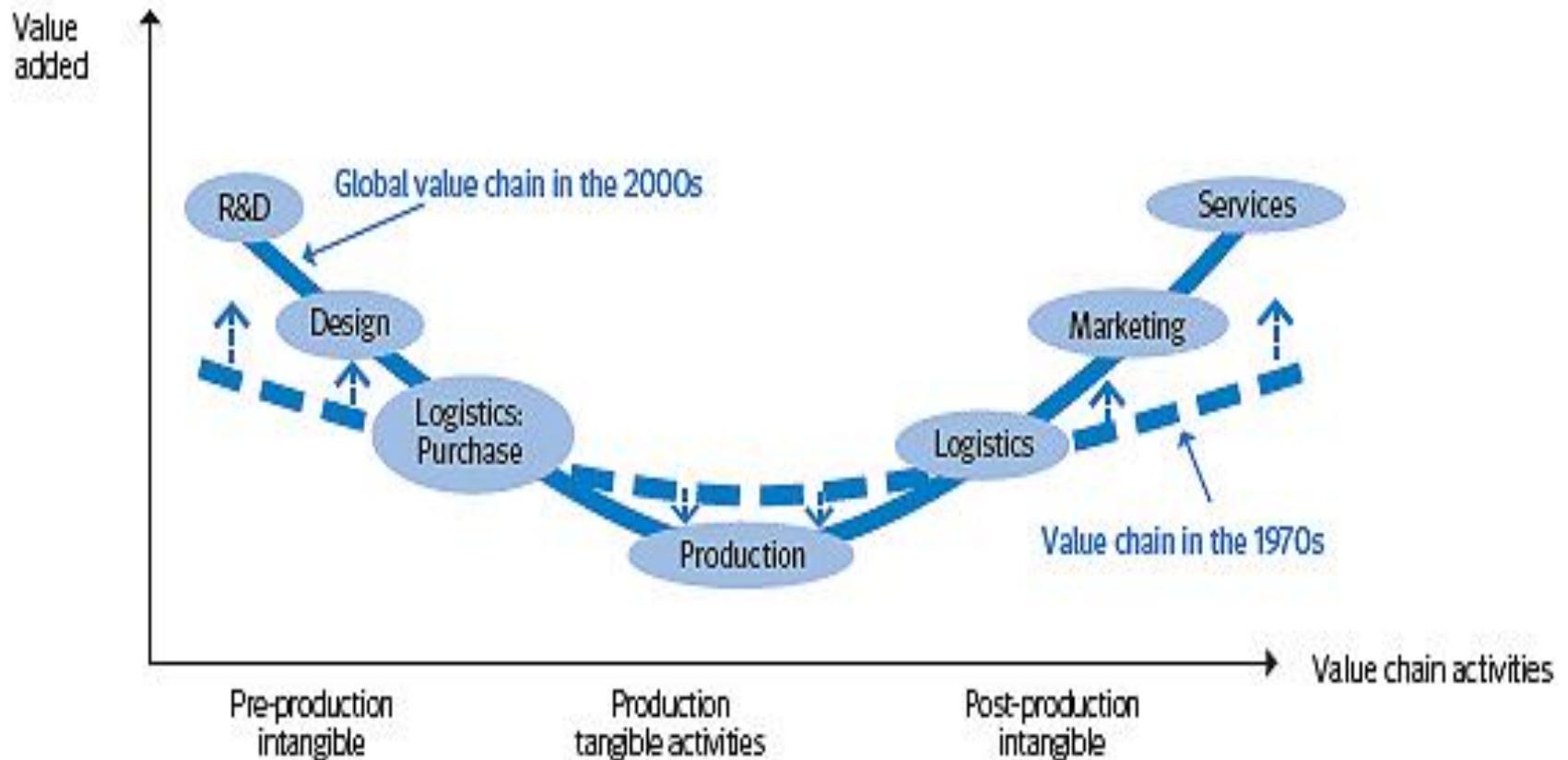
Findings

The increasing importance of services

- Services already account for 70% of GDP and around 20% of world trade
 - Services account for 50% of gross exports in the EU and US (Lodefalk,2015)
- Moreover, the use of services in manufacturing is becoming increasingly important
 - In value added terms services embodied in exports account for 40% of world trade
 - Described as the ‘servicification’ of manufacturing

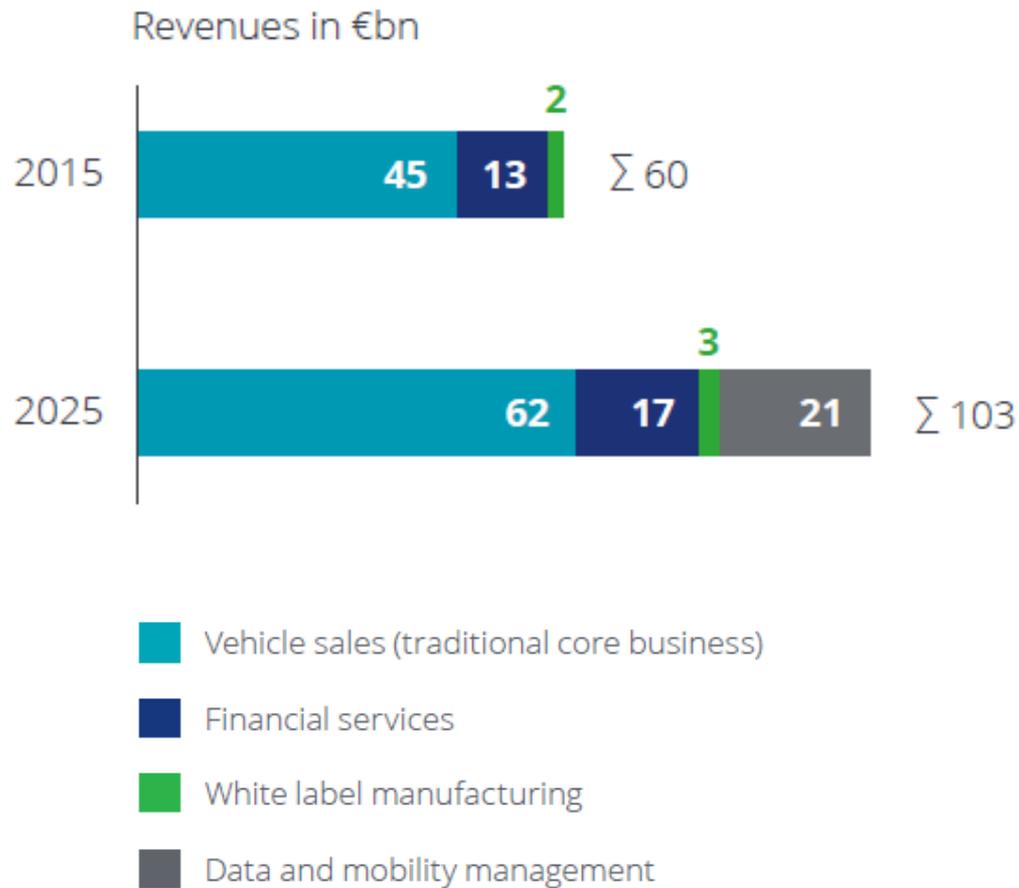
The smiling curve

Value distribution along the global value chain



Source: "Interconnected Economies Benefiting from Global Value Chains", OECD 2013.

E.g. The changing automotive value chain *



Data and mobility management



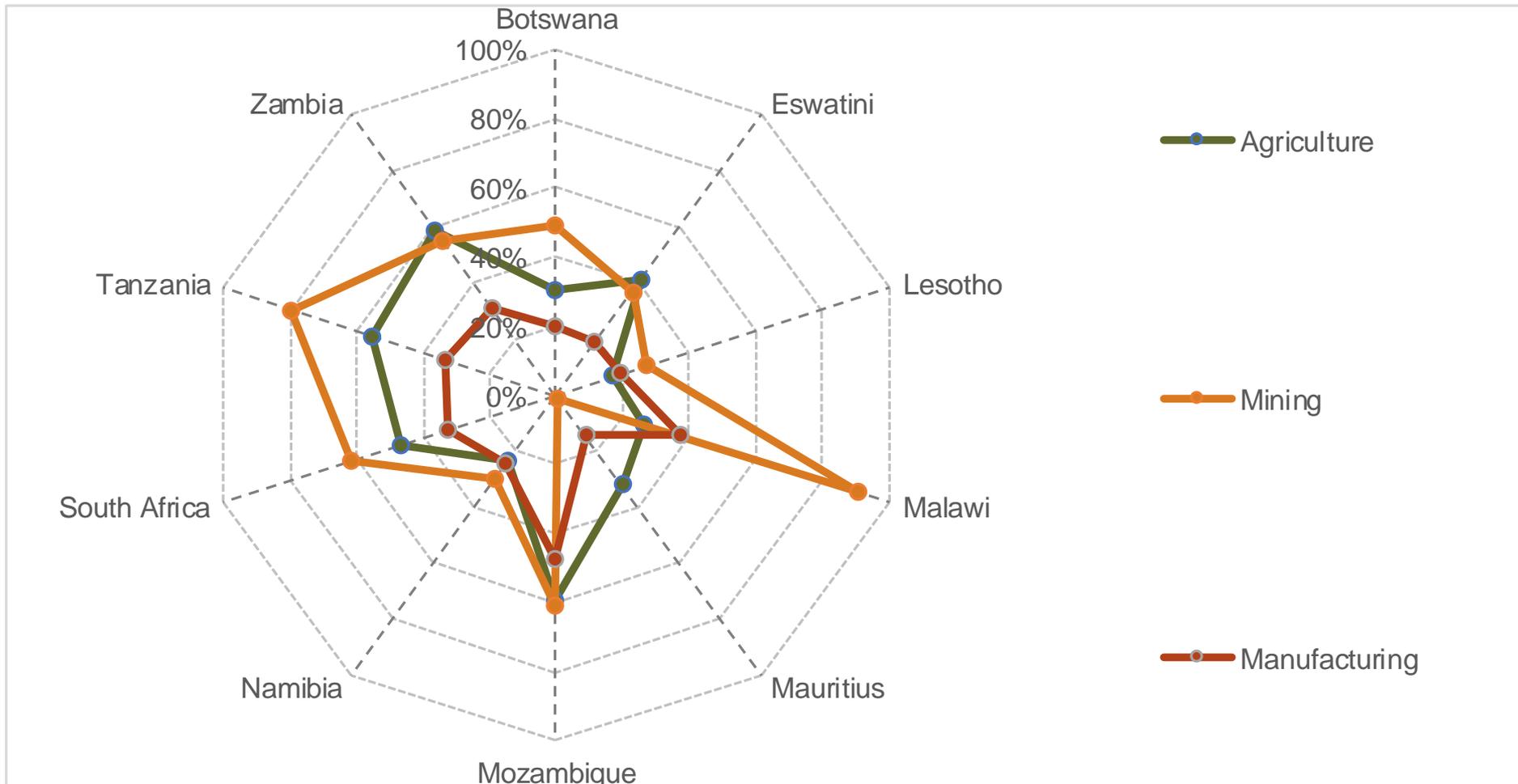
Sharing economy (car and ride sharing), infotainment subscriptions, advertising and further ways of monetizing data

* Deloitte: <https://www2.deloitte.com/content/dam/Deloitte/us/Documents/consumer-business/us-auto-the-future-of-the-automotive-value-chain.pdf>

Contribution of services to manufacturing in SADC

- The available data (from country social accounting matrices) suggest that the contribution of services, to priority value chains in SADC, are important.
- This is most notable in the mining sector, where service inputs account for more than half of overall inputs in Botswana, Malawi, Mozambique, South Africa and Zambia.
- In the agriculture sector, services make up more than 50% of intermediate inputs in Mozambique, Tanzania and Zambia, while the proportion of services in intermediate inputs is also close to 50% in South Africa.
- In general, manufacturing has the lowest proportion of services to intermediate inputs, though its share of intermediate inputs is high for countries such as Mozambique (where the share is close to 50%).

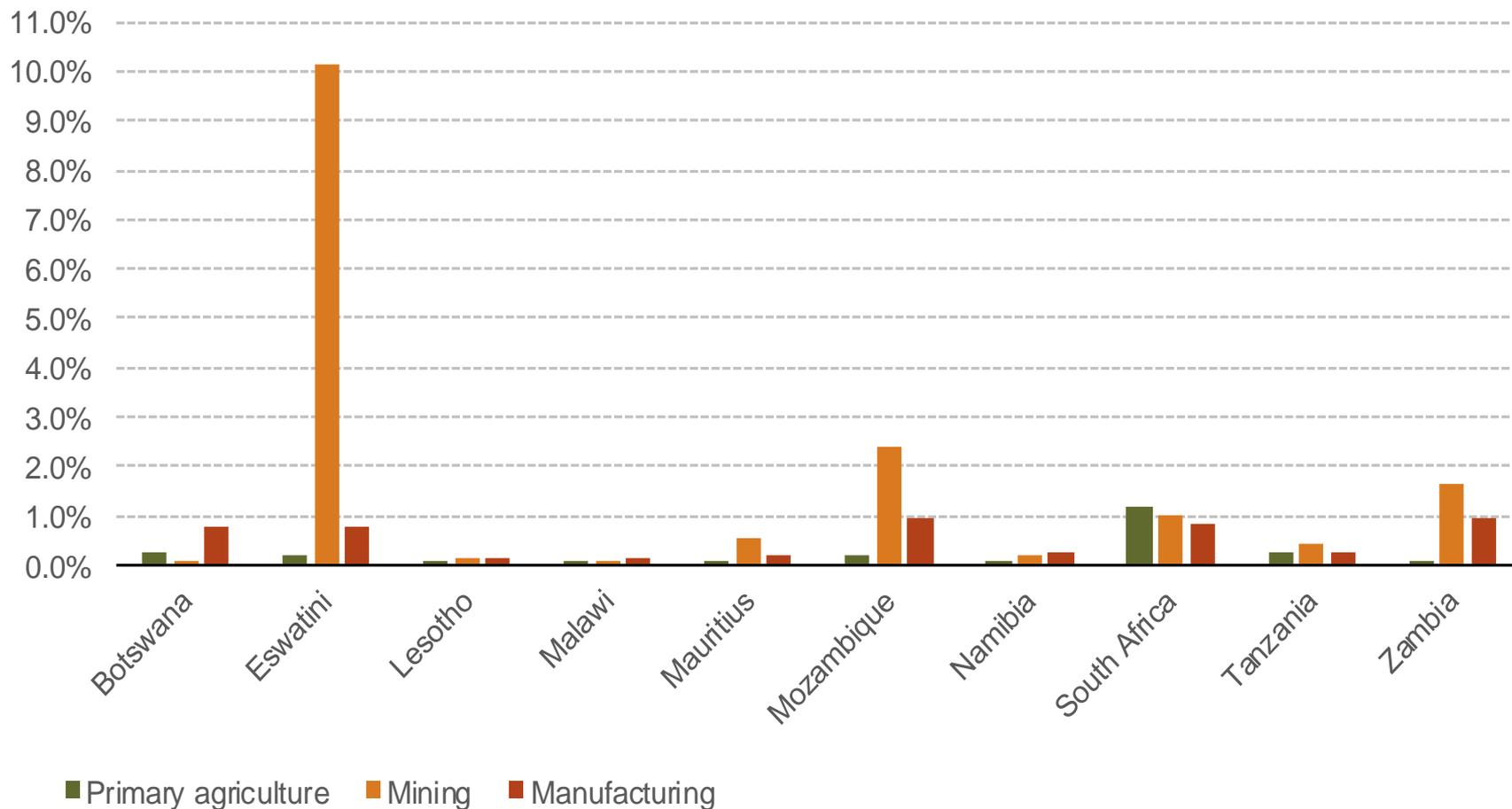
Contribution of services to intermediate inputs



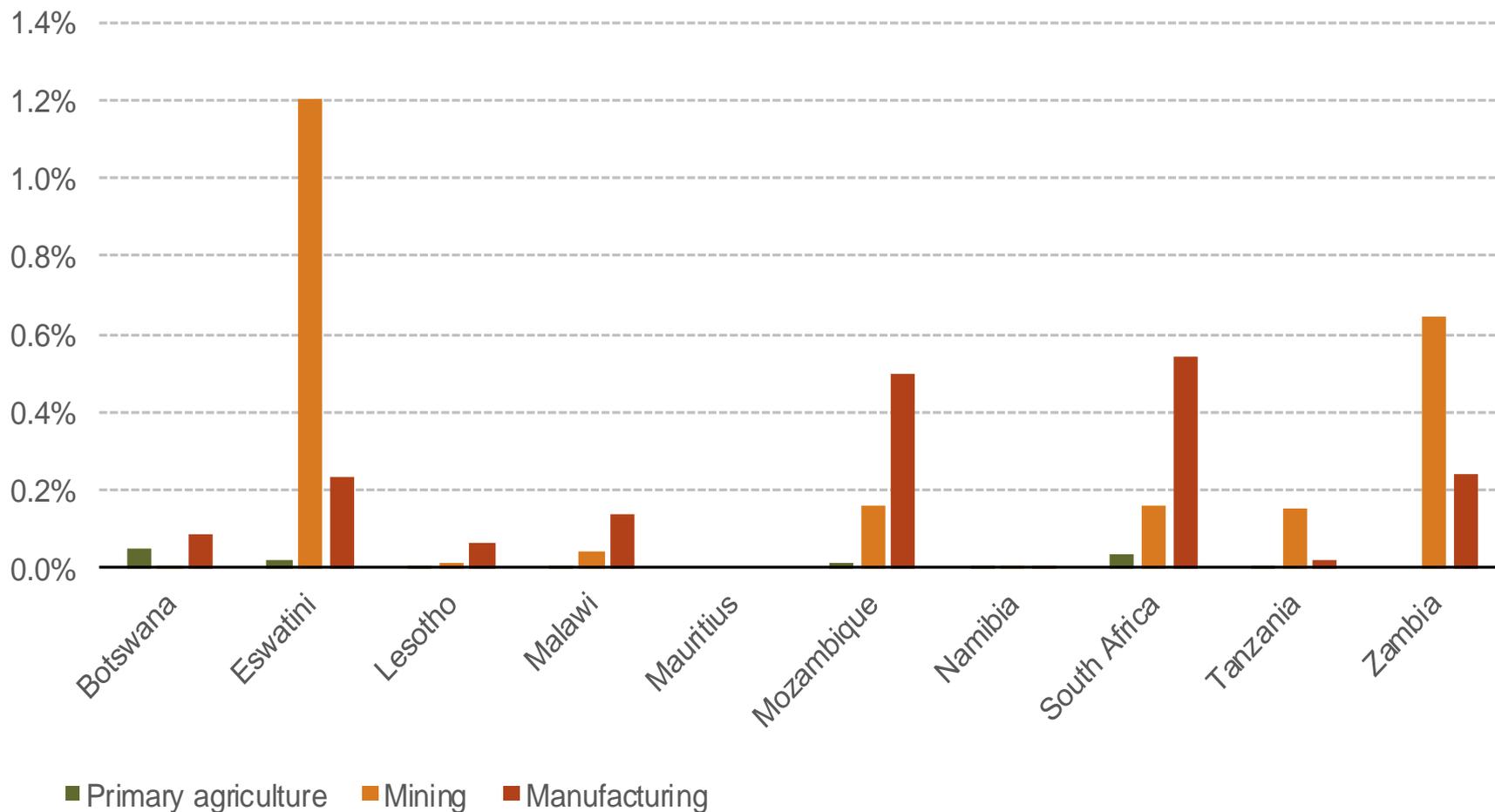
The price and availability of services in SADC

- Telecommunications, transport and financial services costs are generally high, compared to global competitors
- Construction costs are significantly lower (but in line with income levels in SADC MS).
- The cost of energy varies significantly across SADC Member States.
- There is evidence of skills shortages in some countries, most notably in ICT, accounting and engineering.

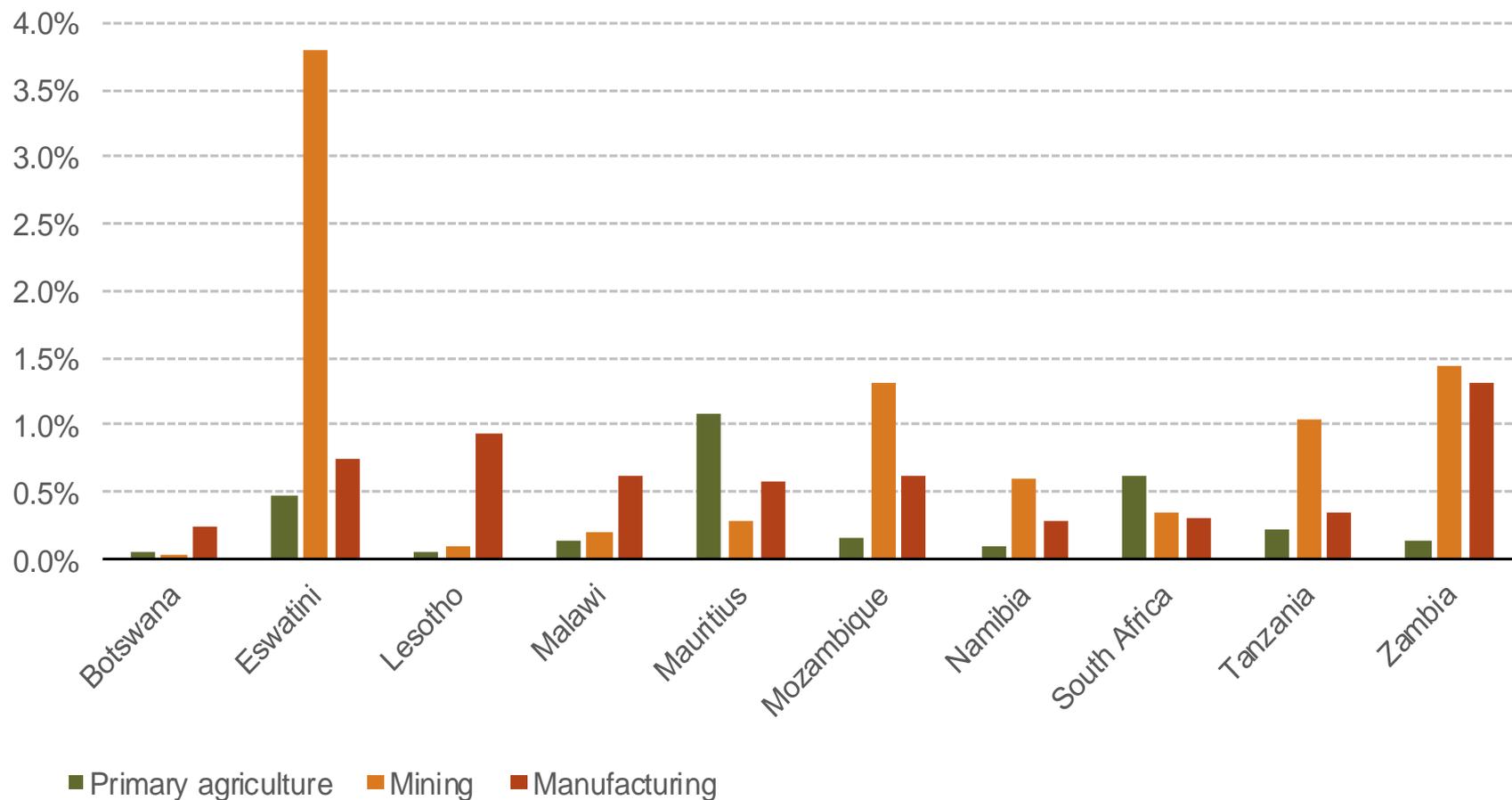
Impact of a 5% reduction in transport costs (main sectors)



Impact of a 5% reduction in communication costs (main sectors)



Impact of a 5% reduction in finance and business service costs (main sectors)



Case studies (Eswatini, Zambia and Mauritius)

- All firms make extensive use of service inputs in production, with transport services particularly important for export-orientated industries.
- Whilst core services, such as IT, communication and financial services, are available in all three countries, the costs of these services are considered to be relatively expensive.
- Key and common barriers to accessing competitive services domestically or from within the region include:
 - Differences in taxation (VAT and withholding taxes)
 - Delays in the issuance of work permits for professional and technical workers
 - A lack of regional standards and mutual recognition agreements for service professionals
 - Local content requirements, which favour the use of domestic service providers.
 - A lack of adequate infrastructure and domestic capacity, especially in IT and telecommunications service

Conclusion

The importance of services in manufacturing

- Services play an increasingly important role in the development and integration of industrial value chains, including in SADC Member States
- Services contribute a particularly high share of intermediate inputs (and output) in the SADC mining sector, and to a lesser extent, the agricultural and manufacturing sectors
- Those countries that cannot access competitive services domestically or externally will struggle to participate in regional and global value chains in these sectors

The benefits of services reform

- Finance and business services, transport services and communications services are generally important inputs in all three sectors
- The price of these services, in most SADC countries, is well above competitive benchmarks
- A relatively small reduction in the cost of these inputs could contribute to a significant increase in regional value-added, though the impact differs markedly by country and sector

Recommendations

- Business services (both professional and technical) and trade services (retail and wholesale) should be considered for priority attention in the next round of SADC services negotiations.
- Additional sector-specific annexures should be pursued, as an integral part of the SADC Protocol on Trade in Services.
- Consideration should be given to the development of a more open regional work permit regime and the extension of mutual recognition agreements across SADC.
- Further analysis and consultations (with the private sector) are required to understand the specific constraints to the development of a competitive services sector in SADC.
- Increased cooperation is needed between SADC Member States in developing data and tools for trade and industrial policy analysis, especially in the services sector.