DNA Economics

What do we know about SADC trade in construction services?

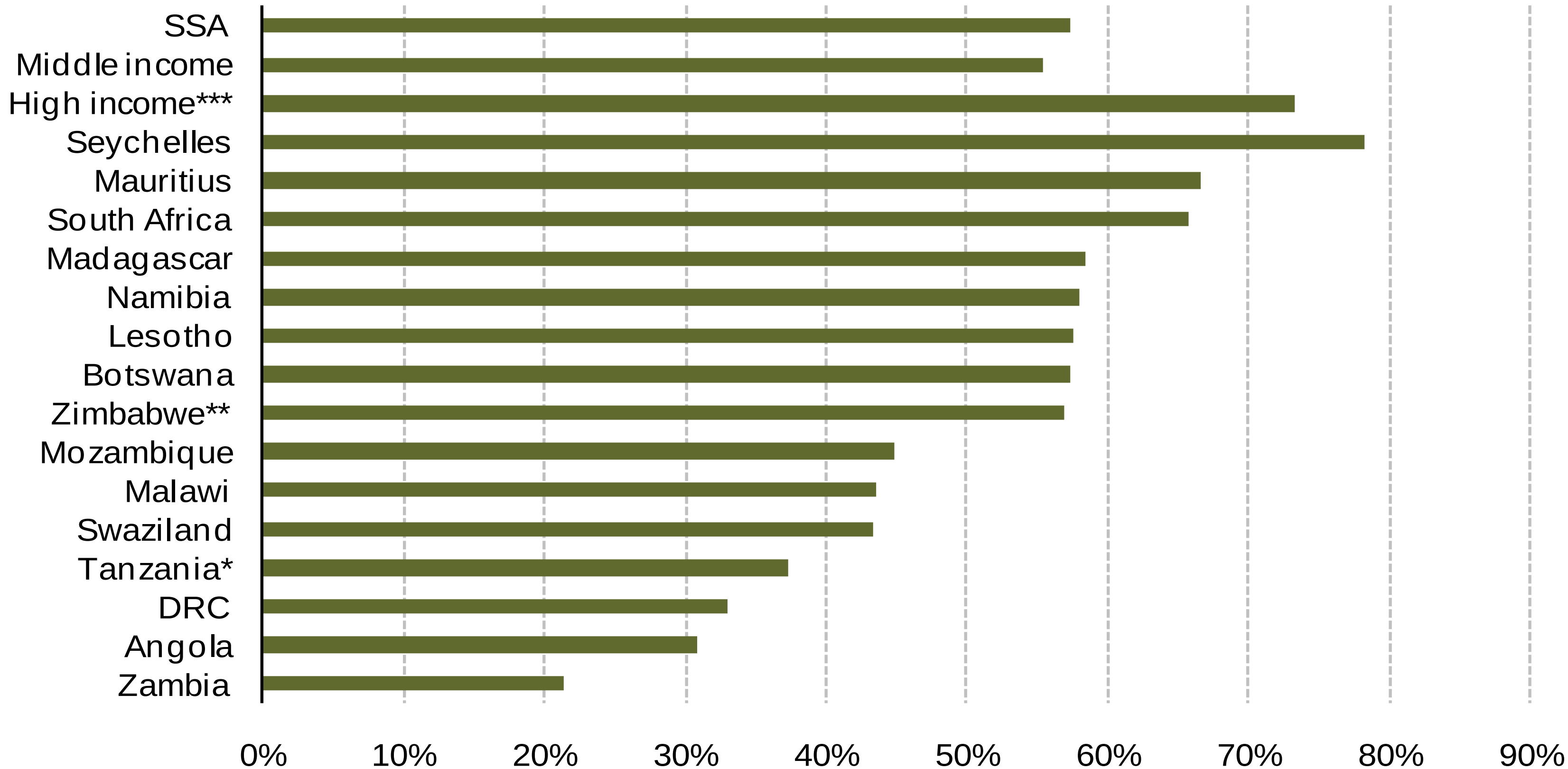
10 March 2014

Outline

- **Context – the state of services competition in SADC**
- SADC commitments in construction services
- SADC trade in construction services – some examples
- Concluding observations

Context

Services explain a large part of SADC GDP (2009)…



Data source: World Bank

Context

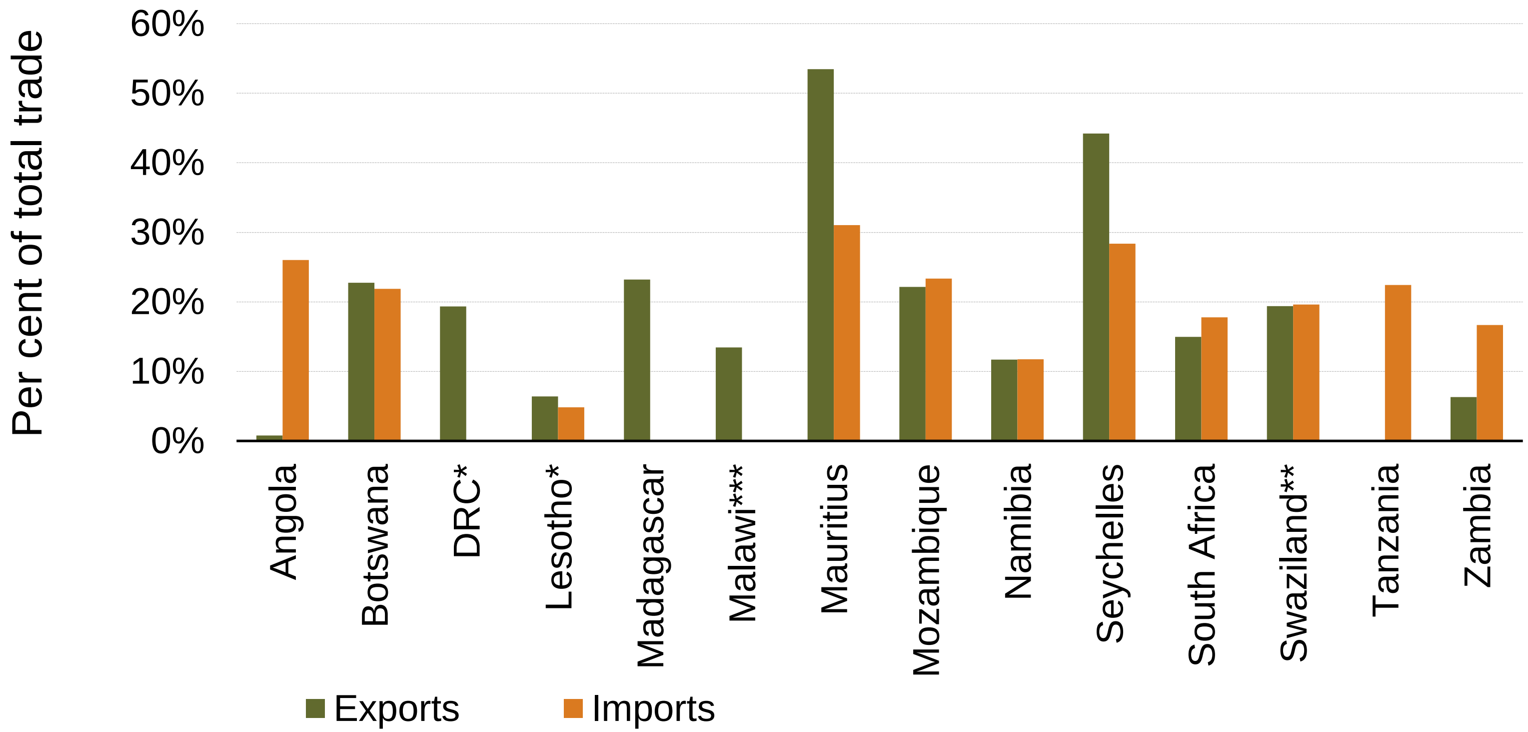
….and an increasing share of overall employment

	Agriculture		Industry				Services	
			Total		Manufacturing			
	1980	1997	1980	1997	1980	1997	1980	1997
Angola	76	73	7,6	8,3	4	4,4	16	18,4
Botswana	63,9	36,7	10	26,1	1,3	7,4	26,1	37,2
DRC	71,6	65,5	12	14,2	7,6	8,7	16,3	20,3
Lesotho	40,2	39,8	34,2	23,7	2,5	1,7	25,6	36,4
Madagascar	81,6	76,1	5,6	7,4	3,5	5,4	12,7	16,5
Malawi	87,3	86,3	5,4	4,7	3,3	2,8	7,4	9
Mauritius	27,2	9,8	27,6	53,2	18,4	41,3	45,2	36,8
Mozambique	84,3	81,5	7,5	8,5	6,7	7,6	8,3	10
Namibia	56,4	44,2	15	15,5	4,8	6,3	28,6	40,3
South Africa	17,3	11,2	34,7	30,3	18,2	14,2	48,1	58,5
Swaziland	50	32,5	18,6	25	9,1	12,3	31,4	42,5
Tanzania	85,8	83,6	4,5	5,1	3,4	3,9	9,8	11,2
Zambia	76,1	73,7	8,1	8,7	3,2	3,6	15,8	17,6
Zimbabwe	72,4	65,9	12,3	6,2	8,3	4,2	15,3	28

Data source: *FAFO, 2000*

Context

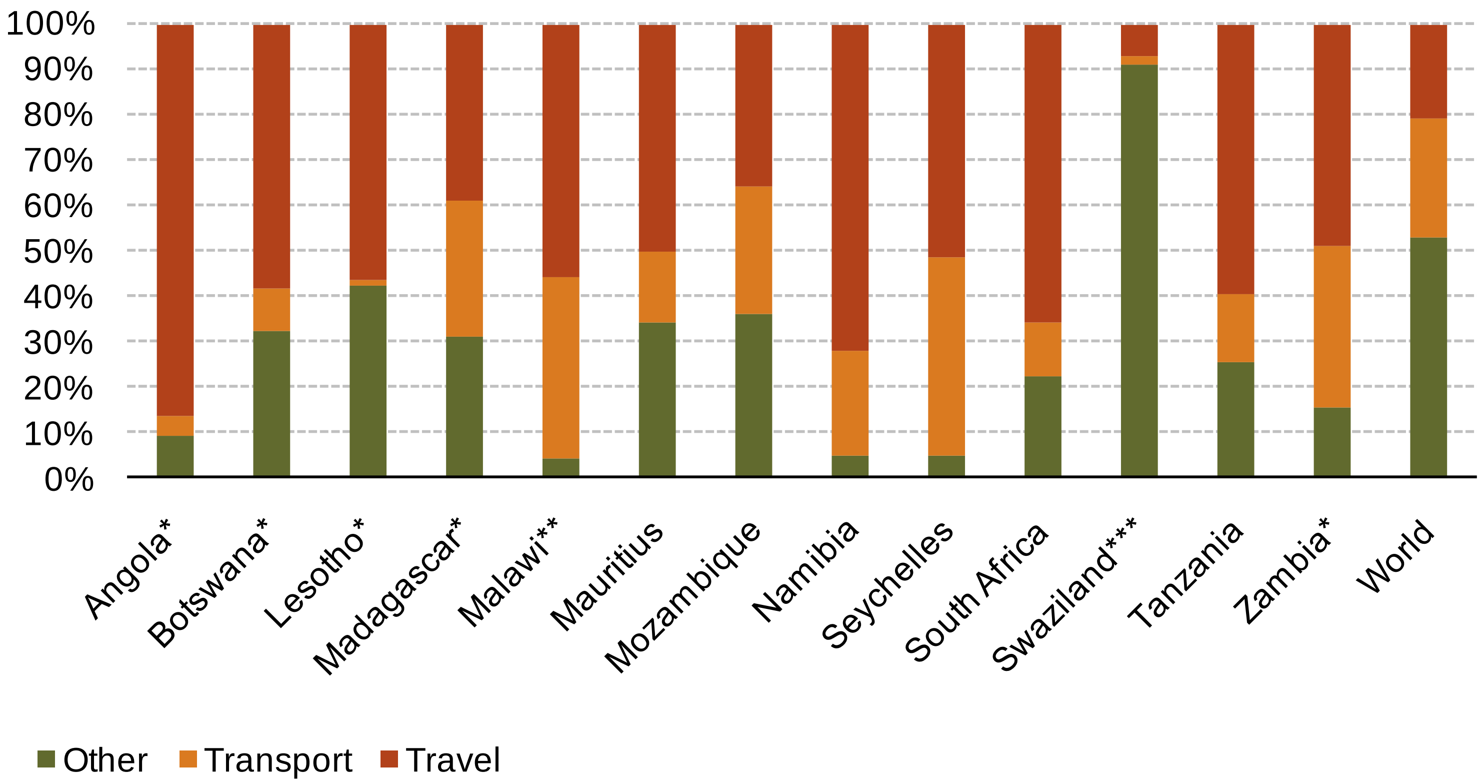
Trade in services is substantial…



Data source: WTO

Context

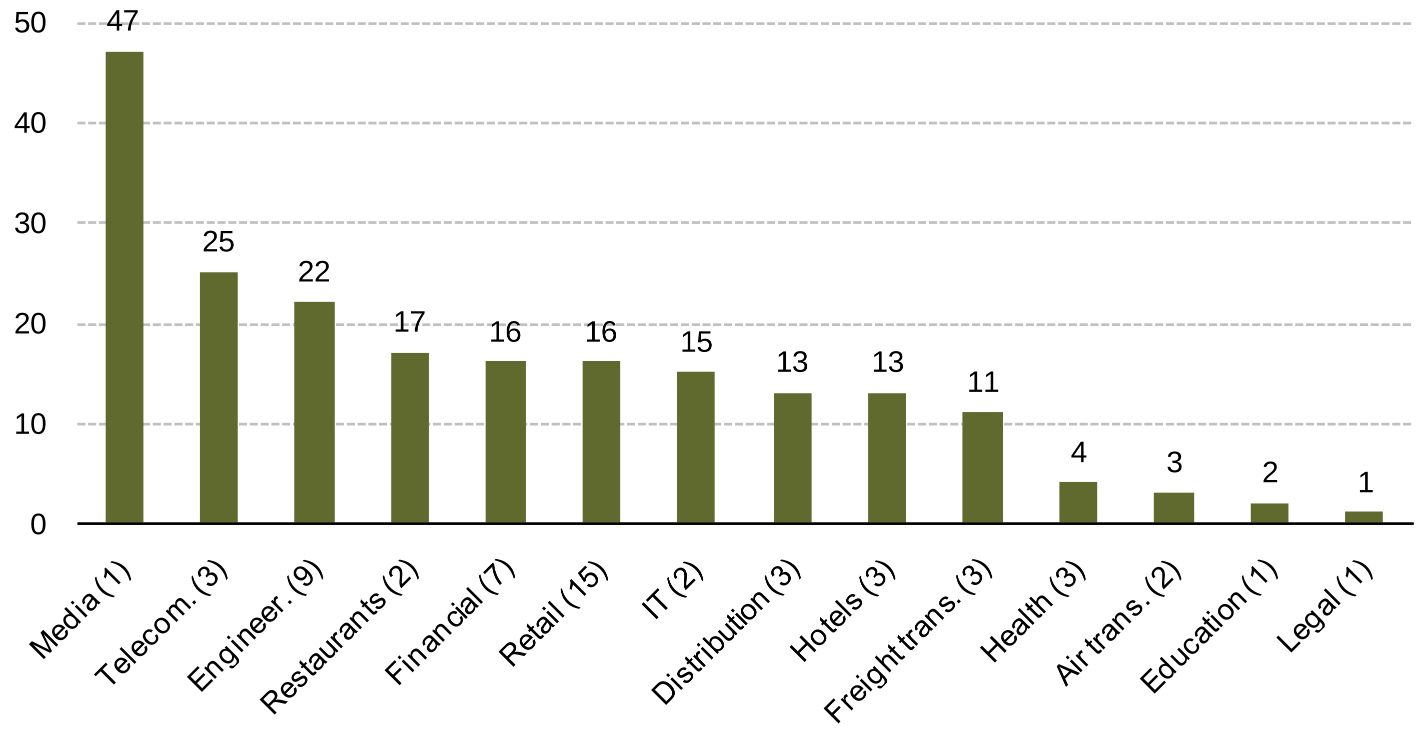
Though exports (and imports) appear highly concentrated



Data source: WTO

Context

FDI explains a large part of trade in this sector



Number of African country operations by sector (number of South African companies indicated in brackets)

Source: DNA and World Bank

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SADC WTO Commitments

Construction services

<table>
<tr><th></th><th>A. General construction work for building</th><th>B. General construction wok for civil engineering</th><th>C. Installation and assembly work</th><th>D. Building completion and finishing work</th><th>E. Other</th></tr>
<tr><td>The DRC</td><td>X</td><td>X</td><td></td><td></td><td></td></tr>
<tr><td>Lesotho</td><td>X</td><td>X</td><td>X</td><td>X</td><td></td></tr>
<tr><td>Malawi</td><td colspan="5">X</td></tr>
<tr><td>South Africa</td><td>X</td><td>X</td><td>X</td><td>X</td><td></td></tr>
<tr><td>Zambia</td><td colspan="5">X</td></tr>
</table>

SADC WTO Commitments

Construction services

- Mode 1
  - No limitation on electronic/cross-border trade in the DRC, Malawi and Zambia
  - Unbound (for technical reasons) in Lesotho and South Africa
- Mode 2 and 3
  - No limitations…including on investment!
- Mode 4
  - Refers to horizontal commitments

Source: World Bank (2002)

SADC WTO Commitments

Business services, professional services

	d. Architectural services	e. Engineering services	f. Integrated engineering services
Botswana	X	X	X
Lesotho	X	X	X
South Africa	X	X	X
Swaziland		X	X

SADC WTO Commitments

Professional services - architects

- Mode 1
  - Unbound in Botswana
  - Limited to local architects for buildings of less than 500 square metres in Lesotho and South Africa
- Mode 2
  - No limitations in Botswana
  - Limited to local architects for buildings of less than 500 square metres in Lesotho and South Africa
- Mode 3
  - Professional accreditation required for foreign companies and individuals in Botswana
  - No limitations in Lesotho and South Africa
- Mode 4
  - Refers to horizontal commitments

Source: World Bank (2002)

SADC WTO Commitments

Professional services - engineers

- Mode 1
  - Unbound in Botswana and Swaziland
  - No limitations in Lesotho and South Africa
- Mode 2
  - No limitations
- Mode 3
  - Professional accreditation required for foreign companies and individuals in Botswana
  - No limitations in Lesotho, Swaziland and South Africa
- Mode 4
  - Refers to horizontal commitments (except for Swaziland, which makes an exception for senior qualified chartered engineers)

Source: World Bank (2002)

SADC WTO Commitments

Summary

- Not many SADC countries have made commitments in the construction services sector (33% of SADC compared to 61% globally)
- In general, where commitments have been made, they are relatively open
  - No limitations on investment in construction services
  - Few limitations on investment in architectural and engineering services
- Much less so for cross border trade or the movement of individual engineers, architects and workers

Source: World Bank (2002)

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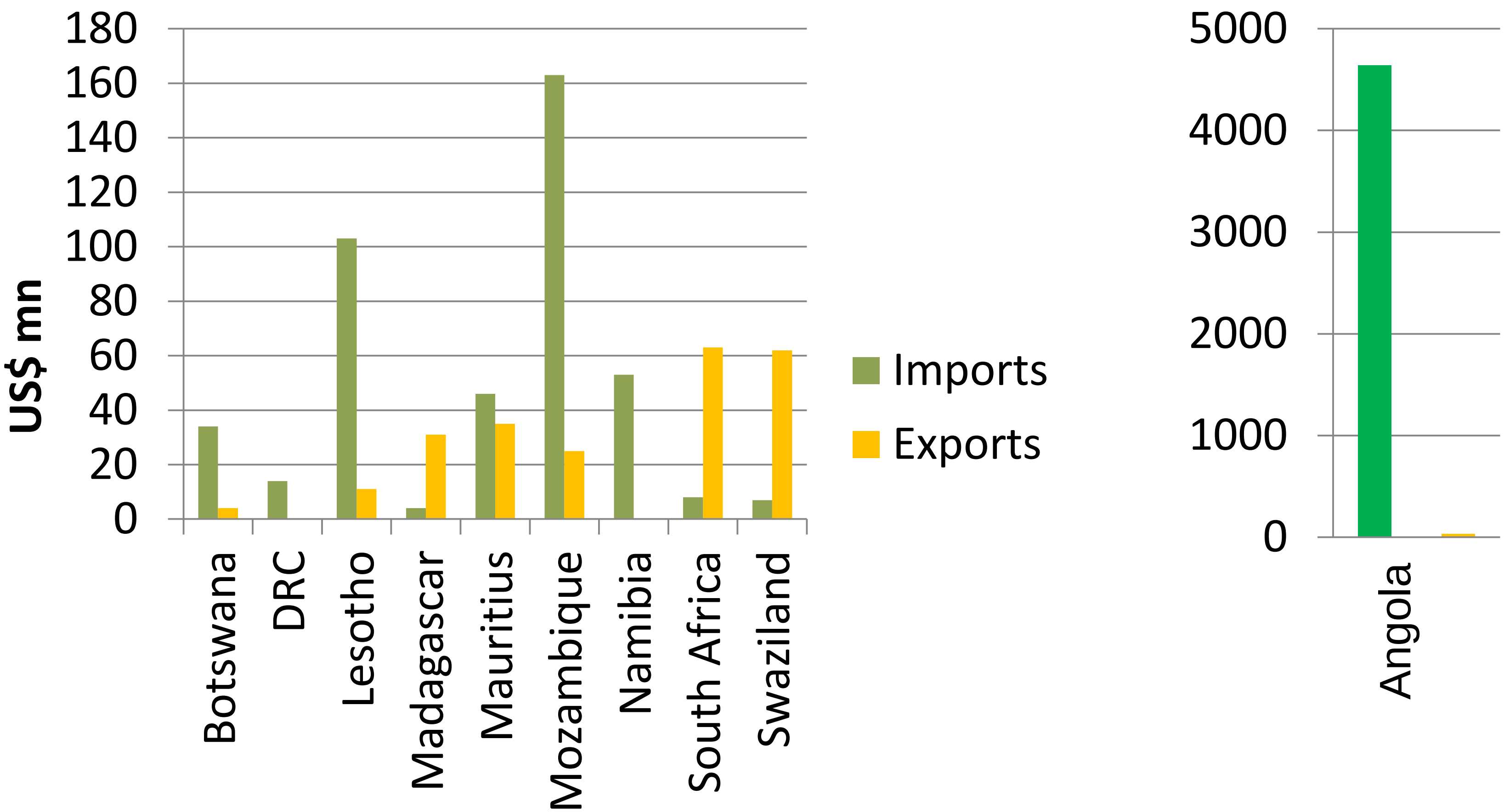
SADC Trade in Construction Services



Source: WTO/World Bank I-TIP Services

Example 1 - South Africa

Country	Aveng	Basil Read	Group Five	Murray And Roberts	Raubex	WBHO
Algeria			●			
Angola			●			
Botswana	●	●	●	●		●
Burkina Faso			●			
DRC		●				
Ghana	●		●			●
Guinea	●					
Kenya	●					
Lesotho	●	●	●		●	
Malawi	●		●		●	
Mali	●					
Mauritius	●	●	●			
Mozambique	●	●	●			●
Namibia	●	●	●	●	●	
Nigeria		●	●			
Sierra Leone		●	●			●
Swaziland	●	●	●			
Tanzania	●	●	●			
Uganda		●				
Zambia	●	●	●	●	●	●
Zimbabwe	●		●	●	●	

Source: DNA IDC/FRIDGE Study

Example 1 - South Africa

Company (figures for 2011 unless indicated)	Revenues (R millions)			
	Total	SA	Africa	Other
Aveng Ltd	34,324	17,503	3,415	13,405
Basil Read Hldgs Ltd	6,230			
Group Five Ltd*	8,783			
Murray And Roberts Holdings Ltd	30,535			
Raubex Group Ltd*	4,546	3,933	613	
Wilson Bayly Hlm-Ovc Ord	15,231			
Pretoria Port Cement (PPC)	6,826	5,633	1,193	

Source: 2011 and 2012 company annual reports

*** Figures for 2012 financial year**

Source: DNA IDC/FRIDGE Study

Example 2 - Zambia

- Most large projects are in roads and mining; and around 70% of all work is for Government.
- A large proportion of projects are financed by foreign funds (donors) and these usually come with stringent bidding conditions.
  - Requirements for performance bonds and financial guarantees
  - Different contract rules and construction standards.
- The majority of these projects have been executed by large and foreign-owned firms.
  - Mostly South African and Chinese
- Local firms tend to be smaller and lack the equipment and expertise to access larger contracts, except in partnership with these bigger companies
- There is little evidence of exporting taking place from Zambia.
  - Some Chinese companies operate across the border into Angola and the DRC
  - Zambian companies are generally short on skills, finance and even supplies
- There are insufficient qualified engineers in Zambia and most have been absorbed into the large construction companies

Source: DNA Zambia Trade in Services Strategy

Example 3 - SADC EPA Countries

COUNTRY	Export potential	Investment interest	Political / social sensitivity	Regulatory complexity
Mozambique	**Low:** Possibly prospects for exports of low-skilled workers across mode 4, but unlikely to receive serious concessions from the EU	**Moderate:** There is already a strong presence of international firms in this sector.	**Low:** No apparent sensitivities regarding the presence of foreign participants and further investment encouraged.	**Low:** No known limitations on market access or national treatment. Dual registration required (MIC and DPW)
Botswana	**Low:** limited export potential	**Low:** There is already a strong presence of foreign firms from South Africa and China. Limited scope for further growth as demand is mainly public sector driven.	**Low:** No apparent sensitivities regarding the presence of foreign participants	**Moderate:** some difficulties in securing work permits for construction engineers
Swaziland	**Low:** Possibly prospects for exports of low-skilled workers across mode 4, but unlikely to receive serious concessions from the EU	**Moderate:** There is already a strong presence of international firms in this sector.	**Medium:** Some sensitivities regarding the dominant role of foreign contractors in large civil project and local participation ecouraged.	**Low:** No known limitations on market access or national treatment.

Source: DNA SADC EPA Trade in Services Report

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Concluding comments

- Most SADC countries import significant construction services and investment in this sector contributes greatly to domestic employment and development
- In general, actual barriers to trade and investment in the construction industry are low, though there is increasing pressure to limit the influence of international (including South African companies)
- Engineering (and architectural) skills are scarce and mobility restricted in most countries; and restrictions on low-skilled workers are even more intense
- It could be useful to lock-in the favourable investment regime in this sector (mode 3); it is unlikely that much progress will be made across mode 4

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