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AGRICULTURE IN AN INTERCONNECTED WORLD



**Increased Trade of Education Services for Regional Labor Market Integration**  
**Nadine El-Hakim, African Union Commission and Glenn Rogers, USAID/Tunisia<sup>1</sup>**

**Pre-Conference draft text to facilitate discussion at an Organized Symposium on  
Interconnectedness of Service Sectors for Farm to Non-Farm Employment Transition  
International Conference of Agricultural Economists, Milan, Italy, August 9-14, 2015**

Abstract

Services trade is crucial for growth of labor productivity and total factor productivity. Regional integration is growing the size of markets for trade in services and regional trade in education services promises to be an increasingly critical component of achieving the post-2015 development goals. This paper frames the role of trade in education services to accelerate inclusive economic growth as labor markets become regionalized. African regional integration efforts, growth of trade in education services, and the benefits of these trends are summarized in context of the global shift to a services-based economy. Selected questions for discussion at the Organized Symposium in Milan are included in the conclusions of this pre-conference paper.

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<sup>1</sup> The author's views expressed in this document do not necessarily reflect the view of the United States Agency for International Development or the United States Government or the African Union Commission.

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**By Nadine El-Hakim, African Union Commission and Glenn Rogers, USAID/Tunisia<sup>2</sup>**

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**1. Introduction:**

Services are the fastest area of growth, create the most employment, represent half of global trade on a value-added basis, and are an increasingly critical determinant of the competitiveness for trade in goods. Openness in services matters crucially for labor productivity and total factor productivity growth, which are two foundations for inclusive economic growth [Molinuevo and Saez, 2014]. However, there is not yet adequate effort to put in place the combination of skills, institutions, and regulatory and governance frameworks needed to take full advantage of these opportunities.

Services account for almost 70% of gross domestic product (GDP) in most developing countries. Services are important in their own right and they also provide essential support for trade in goods. Figure (1) shows that the structure of output globally is dominated by services as a percentage of global GDP [World Bank, 2015]. The “servicification” of manufacturing and a move to the “manu-service” economy refers to the increased use of services in the economy. Both the direct use of services in manufacturing and services used as inputs to create more complex producer and consumer services is growing [ILO 2015].

The U.S. exported \$606 billion in services in 2011 in addition to U.S. affiliates overseas with \$1.1 trillion in 2010 revenue. Every \$1 billion in U.S. services exports is estimated to support over 4,000 jobs in the U.S. and an unspecified number of jobs overseas [USTR website, accessed

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June 14, 2105]. Sub-Saharan Africa has followed a similar trend to the global economy, as services contributed an increasing proportion of regional GDP [Figures 1& 2]. The Middle East and Africa exported \$215 million and imported \$411 million in services

There are positive implications for employment creation of this transformation towards a skills-intensive service-oriented global economy. Lucas [2015] rejects the traditional consensus that human capital plays a very modest role in determining productivity levels and growth rates. In sharp contrast he concludes that nearly all growth is driven by schooling and on-the-job learning. The growth of trade in tasks (services) enables trans-border value chains to create skilled employment for those who stay in their own countries. Regional integration enables a sufficient market size to support increasingly specialized producer and consumer services. The implications of the services economy for education and training are staggering, as globalization of markets for professional skills raises the private returns to higher education even in poor countries.

Linking Lucas' conclusion with the global shift in trade from goods to trade in more skill-intensive tasks motivates the focus of this paper on the role of trade in education services to accelerate inclusive economic growth, especially for countries transitioning from agriculturally-dominated economies to higher income services-dominated economies. In context of the global shift to a services-based economy this paper outlines the trends of regional integration and the emerging markets for trade in services, driven by increased demand for adult learning. These trends are converging and interacting with each other in ways that the authors expect will make trade in education services an increasingly critical component of achieving the post-2015 development goals.

## **2. Regional Integration as an Accelerator for Trade in Education Services**

January 2012, the African Union Summit of Heads of State adopted an [Action Plan for Boosting Intra-African Trade](#) (BIAT) and a [framework to fast track the proposed Continental Free Trade Agreement](#) (CFTA). BIAT recognizes trade in services as one of its essential components as it

“is outpacing trade in goods over last two decades.” The CFTA aims to adopt a liberalization programme that will see the gradual reduction of impediments to trade in services Africa-wide.

Regional Economic Communities (RECs) are playing a critical role. For example, the Economic Community of West African States (ECOWAS), East Africa Community (EAC) and Southern African Development Community (SADC) have all embarked on initiatives to liberalize trade across borders of their member states, including for trade in services. The BIAT Action Plan called for support to RECs for establishment of frameworks for liberalization of intra-REC Trade in Services; to support member states to put in place conducive regulations; to mainstream services into national export strategies; and to improve statistics on services. At a regional level, integration efforts increasingly recognize that trade is dominated by tasks and services, not tangible products. The Common Africa Position for the Post-2015 Agenda identifies development of services as a top priority for the continent.

There is a strong correlation between performance of services sectors and manufacturing productivity, implying that next generation industrialization will even more crucially depend on availability of high quality services. The same can be said for development of agriculture and agribusiness, whose primary limiting factors are related, not only to investment and availability of capital, but also essentially to skills and service availability. Inadequate producer services hurt African firms and location. Sourcing as well as marketing decisions of firms are influenced by availability of these services. Policy reform that reduces costs of delivering services can have 8 times greater welfare effect than removing merchandise trade barriers [Francois and Hoekman, 2010:672]. In spite of this, the trade costs of services remained stable over the last decade while the trade costs of goods fell about 15%. [Molinuevo and Saez, 2014]

Research has shown that many African countries already have significant services exports and much greater export potential in services trade. Recent case studies conducted by the African Union Commission [Stephenson and Walusimbi-Mpanga, forthcoming, 2015] document examples of current services trade at a regional level within Africa and hint at the potential of intra-African trade in education, cultural services, air transport, energy, information technology, business services, and financial services. Konan and Maskus [2006] concluded that for Tunisia

the most important component of potential welfare gains from liberalization are from removal of barriers against FDI in services.

Africa's regional organizations are putting in place what Francois and Hoekman [2010] called an analytical framework that recognizes that much trade is now in tasks and services, not tangible products, as a way to help their member countries identify more effective interventions to expand employment and growth. Regional integration is leading to markets of an adequate size and complexity to enable the creation or expansion of more specialized service providers and to attract FDI to more quickly capture the benefits from growth of domestic and cross-border availability of services. Where there is data we see the private sector beginning to fill the roles that education services need to play in enabling the benefits from diversification in regional production and to engagement in regional and global value chains.

### **3. Emerging Markets for Trade in Education Services**

In developing countries there is an unprecedented increase in demand for secondary- and tertiary-level education and training. This is driven by the expanding size of the 15 – 35 year old age cohort, the dramatic increase in percentage of these youth completing primary school, rising consumer income, the rise of on-line and south-south low cost supply models for education services, and shifts toward more knowledge intensive economic activities, including services. Tertiary-level, compared to primary-level, education provides higher private returns to the individual student and to specific industries when skills acquired are workforce-relevant. In Africa during the 1990s the number of private higher education institutions overtook the number of public institutions; Africa now has 2,000 higher education institutions. The demand for marketable-skills through tertiary education is already increasing private investment in higher quality primary and secondary education, in part as a derived demand for students who can benefit from continued learning opportunities. How labor market skill-premiums might better inform education and training investment on a regional- rather than country-specific basis will be an important determinant of how well regional training markets work in the future.

The March 2015 African Higher Education Summit in Dakar, Senegal [Draft Declaration] projected in the coming decades a vision to achieve 50% higher education enrollment, from

current levels of 8% in SSA and 26% in Arab States. These trends portend continued explosive growth in tertiary education which will in large part be driven by private funding, supplied through private institutions, and increasingly supplied on a regional or cross-border basis. Given the fundamental role of education and training services in enabling the broader services economy, education and training should be considered a backbone service.

To inform policy and investment promotion efforts, the structure of these emerging regional markets for tertiary education services merits further research as do the likely blend of modalities for the supply of these education services. The British Council [2013] reported that few countries are producing data or have strategies in place, and quality assurance and qualification recognition are weak. They report that China, Malaysia and the UAE are using transnational education for building academic capacity in their national institutions and workforce. However, transnational education is still not a policy priority for many countries and it is not attracting FDI in terms of physical or equipment infrastructure.

#### **4. Public and Private Benefits**

Services in general and education services specifically are drivers of economic growth. Education enhances economic growth through both public and private benefits. Higher education can lead to economic growth through both private and public channels. The private benefits for individuals are in the form of higher salaries associated with better job opportunities, which in turn enhance their levels of consumption, savings, and private investment in human capital, including education and training. These benefits may enable individuals to work and earn for a longer time period, due to the positive correlation between education and enhanced health conditions.

Public benefits are in the form of higher tax revenues, as well as wider economic returns to the economy resulting from greater individual consumption (which impacts businesses and their supply chains positively); as well as individual saving (which provides much needed capital to finance development projects).



EMSI (2014) examined the multiplier effect of investing in education on productivity and national income. It found that in net present value terms, for every dollar earned by a graduate over her productive life, \$0.5 cents are generated in labor and non-labor income in the overall economy. This is a result of consumption and saving associated with the higher income brought about by education.

The same research estimated the multiplier effect of international trade in services. For every dollar spent by a foreign student studying in country, \$0.25 were generated, if we count the impact on local businesses and their supply chains. This analysis was done for community colleges in the United States. Similar analysis is not available for Africa so we do not have comparable estimates of multiplier effects for investment in trade in education services.

## **5. Education Services as a contributor to Economic Growth, Trade and Employment in Uganda:**

### *5.1. Contribution to Economic Growth*

The Ugandan economy is services-oriented. The proportion of services of total GDP grew from 48 percent in 2000 to 54 percent in 2013 [World Bank, 2015], although the service sector growth rate slowed down to 5.6 percent in 2013/14 compared to 6.5 percent in 2012/13 [Ugandan Bureau of Statistics, 2014]. Othieno and Nampewo (2012) demonstrate that – unlike other East African countries - Uganda’s GDP is much more correlated with services exports, implying that services exports have direct influence on GDP growth. Education services registered 6 percent of total GDP of Uganda. In 2010, the education service sector alone registered 11 percent contribution to the country’s share of total services. According to the Uganda Bureau of Statistics reports (2009 - 2015), the share of education in Uganda’s GDP declined in 2011/12 compared to previous years, when it was consistently above 5 percent. Since GDP growth rate in 2011/12 also declined compared to the previous year, the slowdown in growth in education share is safely attributable to the growth in the share of other services, specifically transport and communications. However, the education share of GDP started a new growth path the following year (2012/13), as it reached 4.7 percent in 2013/14.

### *5.2. Contribution to Trade*

The Ugandan education services sector is an important source of revenue and employment with significant future growth potential. Uganda exports education services in all four modes:

**Mode 1:** provides for cross-border supply of services from the territory of one member into the territory of any other member. An example of mode 1 trade in services for education would be distance learning higher education programs. Uganda's experience in this area is limited. Two universities in Uganda offer distance learning programs, but for local students. The most recent distance learning program involving cross-border service provision is provided by Makerere University through the African Union's [Pan-African Education Network](#), where the system was set up with Indian assistance. Educational programs are offered to Makerere students, including both Ugandan and foreign students.

**Mode 2:** covers consumption abroad, here, a service consumer of one partner country moving to the territory of another partner to consume services therein (example: foreign students enrolling in Ugandan educational institutions). This mode of service export has been the most prevalent in Uganda so far, as Uganda registers the highest inflow of foreign students in the East Africa region. This mode of export is responsible for making educational service exports the fourth foreign exchange earner in the country (from payment of foreign students tuition fees) [Othieno and Nampewo, 2012].

**Mode 3:** deals with commercial presence of a service supplier of one member in the territory of any other Member (example; a Ugandan university opens up branches in other African countries). This form of export exists to some extent. One example is the Kampala International University School of Health Sciences, which established branches in Kenya and Tanzania.

**Mode 4:** deals with the presence of natural persons (example: Ugandan professors moving to other countries to teach there).

### *5.3. Contribution to Employment:*

Return on investment in education based on human capital theory has been studied since the late 1950s. Authors such as Psacharopoulos and Patrinos (2004) have demonstrated that average returns to schooling are highest in under-developed regions, such as Sub-Saharan Africa and

Latin America and the Caribbean, where private returns are higher than ‘social returns on investment in education. The authors estimated the average rate of return on education in Sub-Saharan Africa to be 11.7 percent for each additional year of schooling. Figure (3) shows the average pay by education level, which demonstrates that higher education enables professionals in Uganda to earn significantly higher wages, on average.

Education has also had a significant direct contribution to job creation in Uganda, and provides crucial inputs for the rest of the economy. The education sector employed 270,000 people, making it the fourth-largest employer in the economy [Uganda Bureau of Statistics, 2005-06].

## 6. Conclusions

The discussion above shows the importance of the service sector in general to economic growth in Africa and in the world. Services are rightfully taking a front seat in the planning and negotiations for the African Continental Free Trade Area; the Action Plan for Boosting Intra-African Trade; and target-setting for the Post-2015 Development Agenda. Those global and regional instruments commit individual countries to facilitation and liberalization of services trade, but the manner in which they are “domesticated” will be of prime importance.

The above discussion also shows the specific importance of education services to developing economies and job creation. As the demand for tertiary education grows, the supply will need to come from a variety of sources – including trade driven by private funding and supplied through private institutions increasingly within a regional rather than global market structure.

In the case of Uganda, research and policy papers have identified options for expanding Ugandan export of education services as well as challenges that stand in the way of this expansion.

Uganda-specific suggestions, which may be relevant for a wider set of countries, include:

- Introduce more widely distance learning programs to benefit less advantaged areas in East Africa, including rural areas.
- Facilitate investment to improve physical facilities and attract and retain qualified academic staff necessary to compete in the regional markets.
- Introduce policies to facilitate free movement of persons, to increase the inflow of students.

- Introduce systems for quality control.
- Enhance the statistical base for trade in services in general and trade in education services specifically.

### **7. Points for Discussion at the Symposium, Milan, August 10, 2015**

1. What role can education services play in enabling countries to gain the growth benefits from diversifying their productive base and to engage in regional and global value chains?
2. What production and employment-related benefits do services stand to offer the agriculture and industry sectors?
3. To what extent is supply of skills a determinant of growth for the services market?
4. Should education and training be considered a backbone service as these services are increasingly traded themselves and embedded in trade of other services and goods?
5. How can labor market skill-premiums better inform education and training industries on a regional- rather than country-specific basis?

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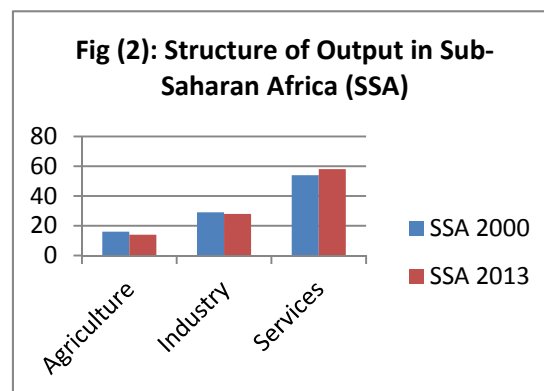
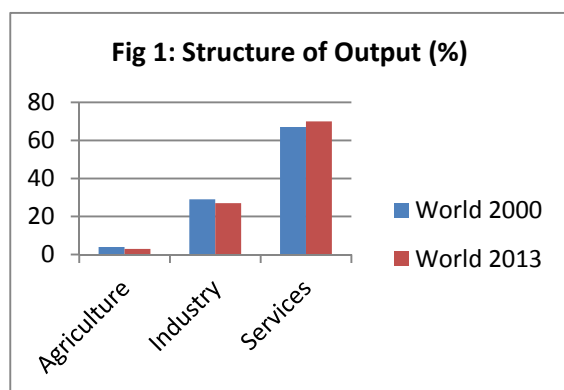
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## List of figures



**Fig (3) Median monthly nominal wages<sup>3</sup>**

Education	Wage (UgShs)
No formal schooling	66,000
Primary	70,000
Secondary	160,000
Post-primary specialization	290,000
Post-secondary specialization	310,000
Degree and above	610,000

<sup>3</sup> Uganda National Household Survey (2012-13)