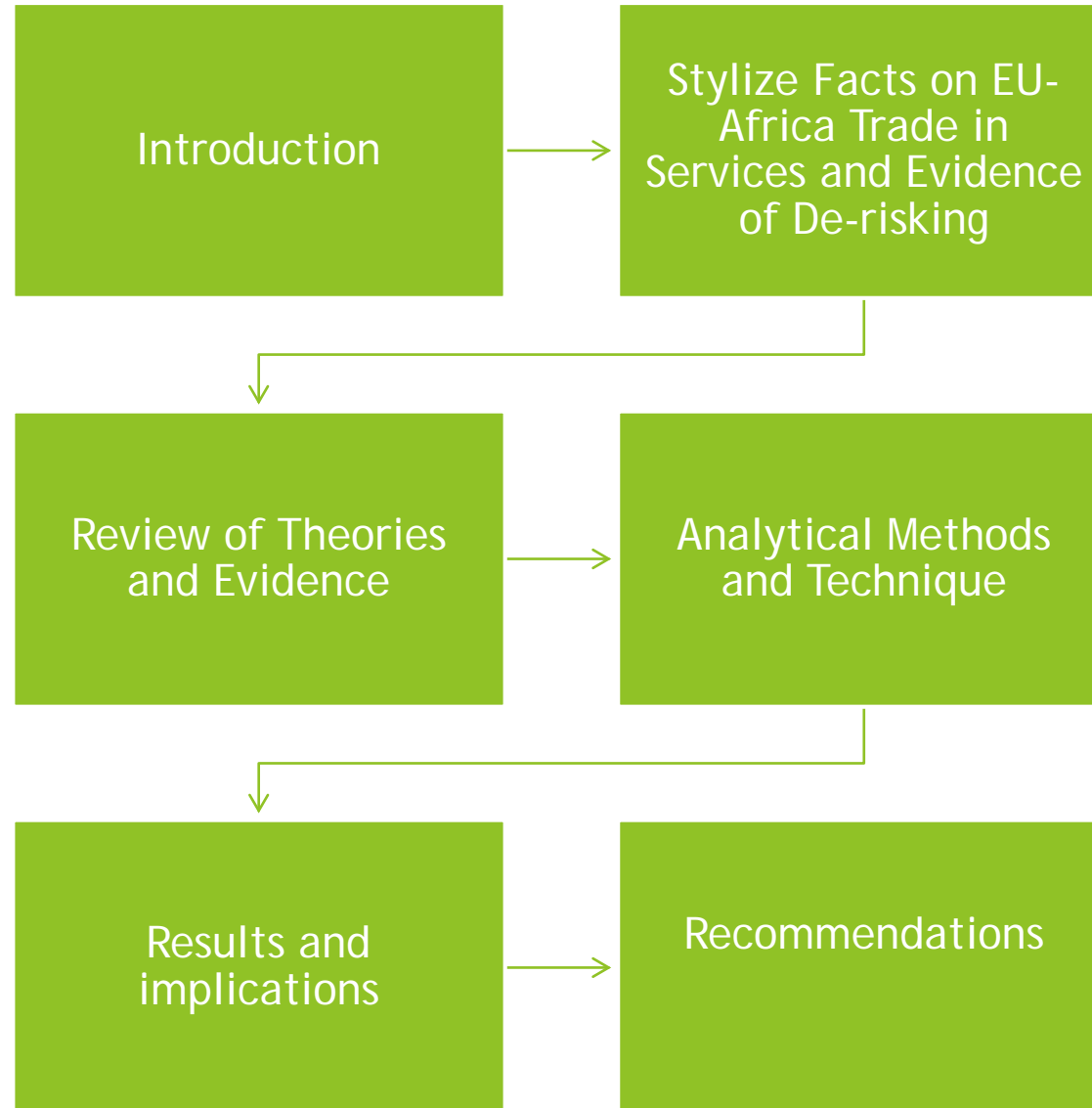


Corresponding Banking Relationships and EU-African Services Trade Flows

Solomon Olakojo
&
Olaronke Onanuga

Outline of the Presentation

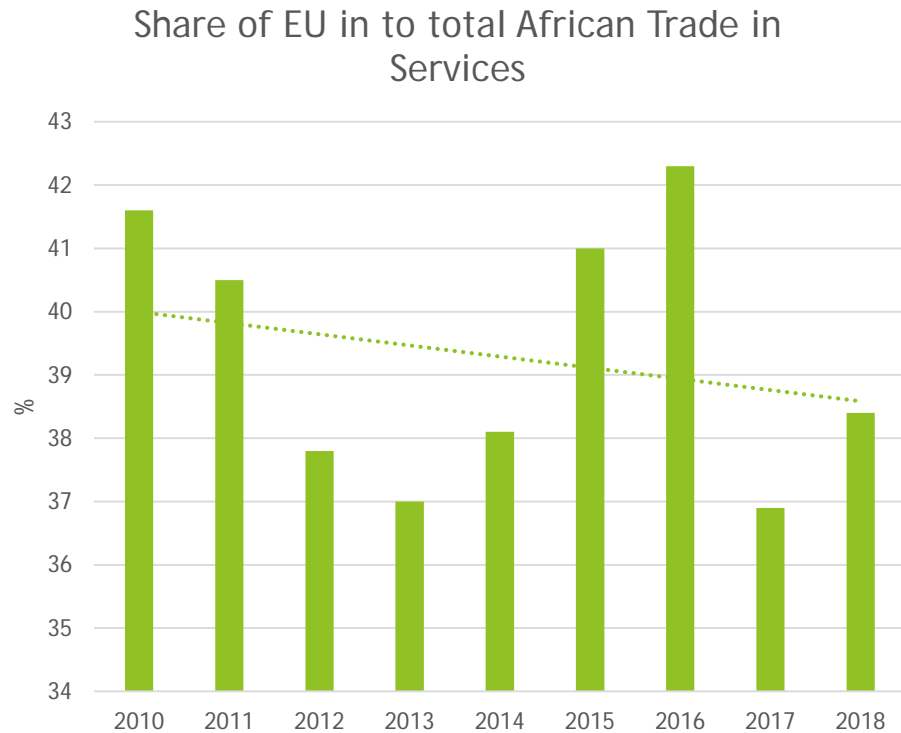


Introduction: The motivation!

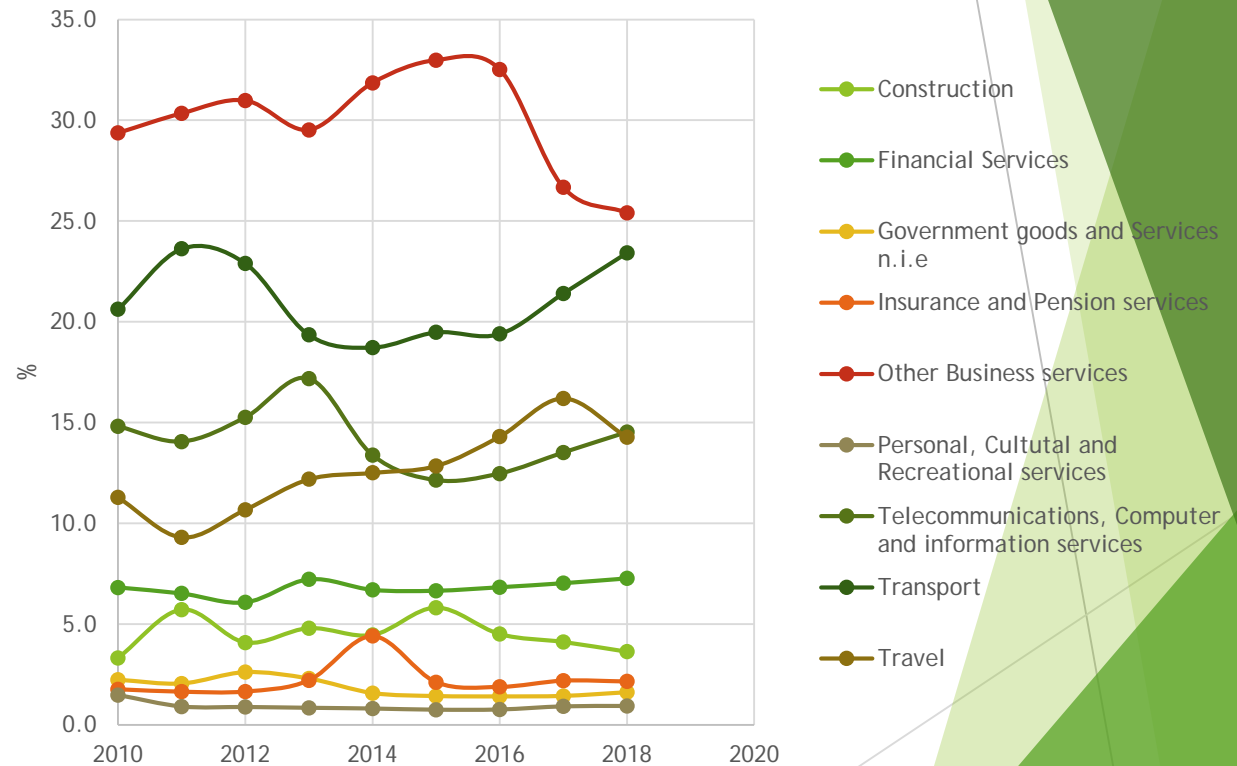
- ▶ Services value added and trade in services occupy important positions in African GDP averaging 46.8% and 18.3%, respectively between 2010 and 2018
- ▶ However, cross-border exchange of goods and services have come under threat in the recent time due to de-risking (??)
- ▶ De-risking (reducing relationships with clients considered “high risk” of money laundry, terrorism and other forms of corrupt financial practices) leads to increase in compliance costs by the FI
- ▶ This has implications not only for services trade but also for the overall economic growth of the continent.

Stylize Facts on EU-Africa Trade in Services and Evidence of De-risking

► .Services trade trend

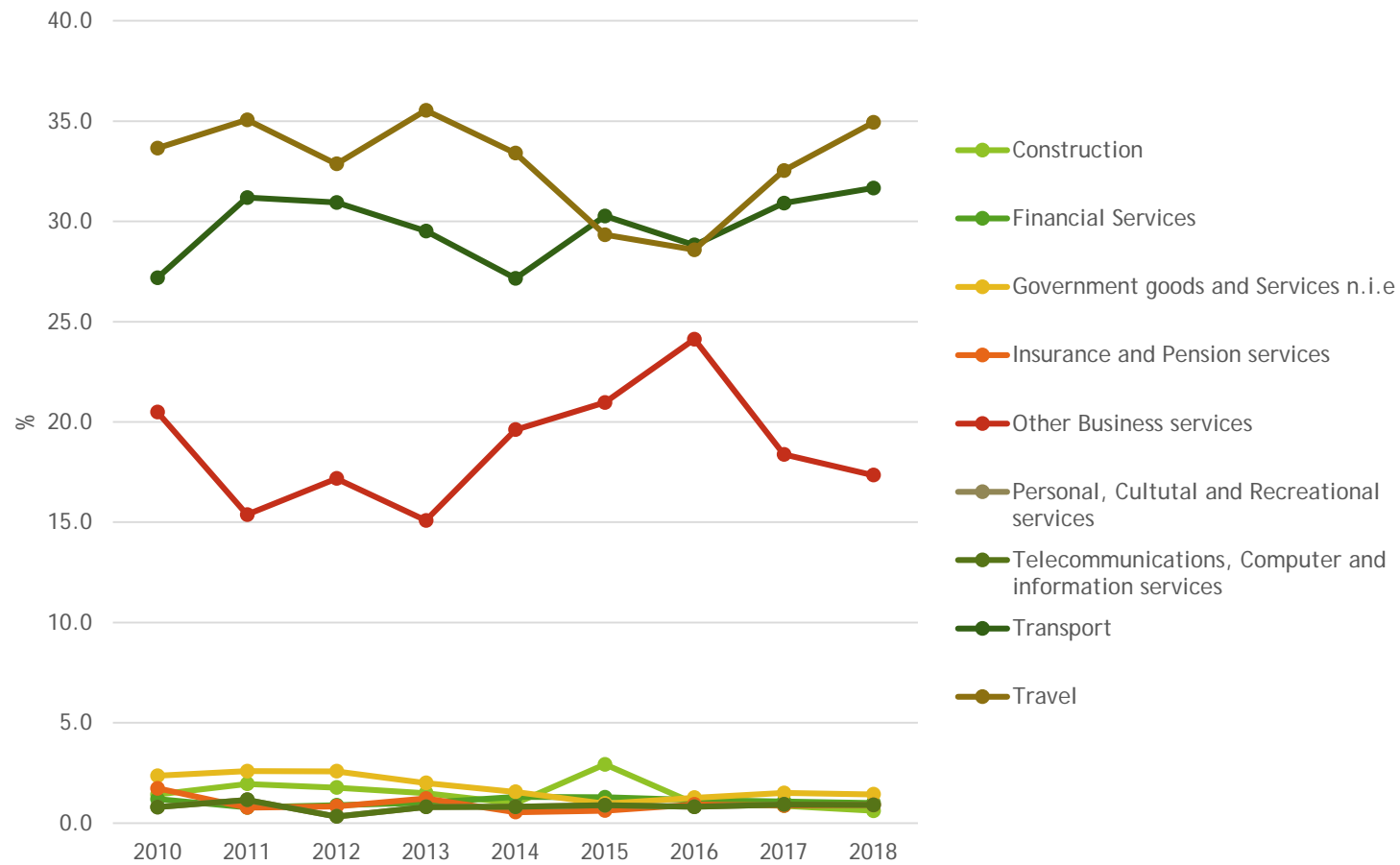


EU Major Services Export to Africa (Afr.Im)



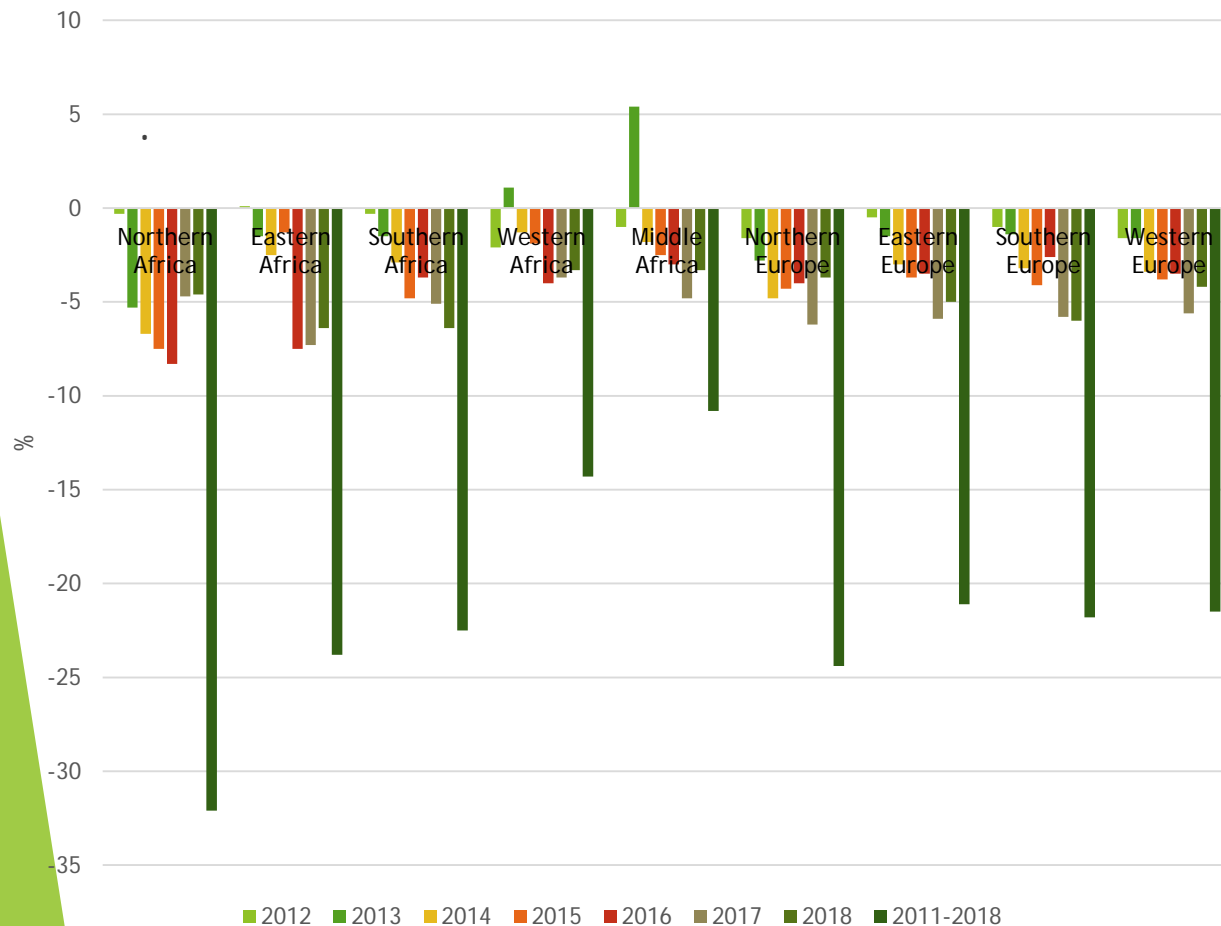
Stylize Facts on EU-Africa Trade in Services and Evidence of De-risking

► EU Major Services Imports from Africa (Afri.Ex)

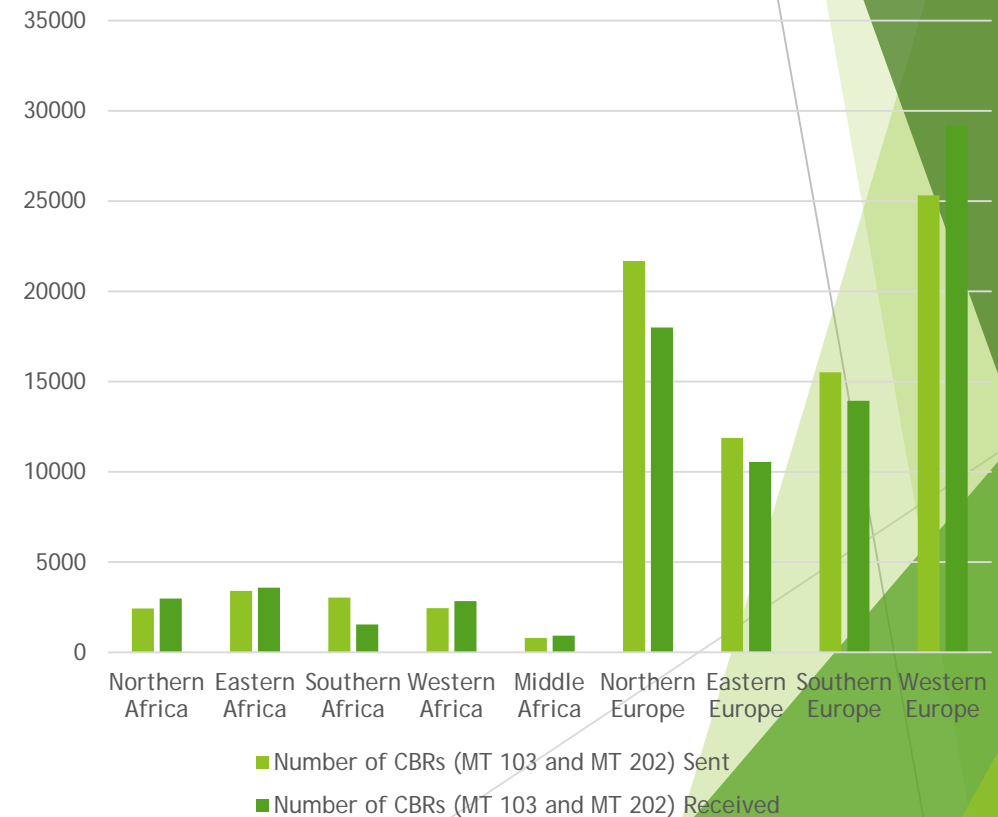


Stylize Facts on EU-Africa Trade in Services and Evidence of De-risking

Changes in the number of active correspondents



Numbers of CBRs, 2018



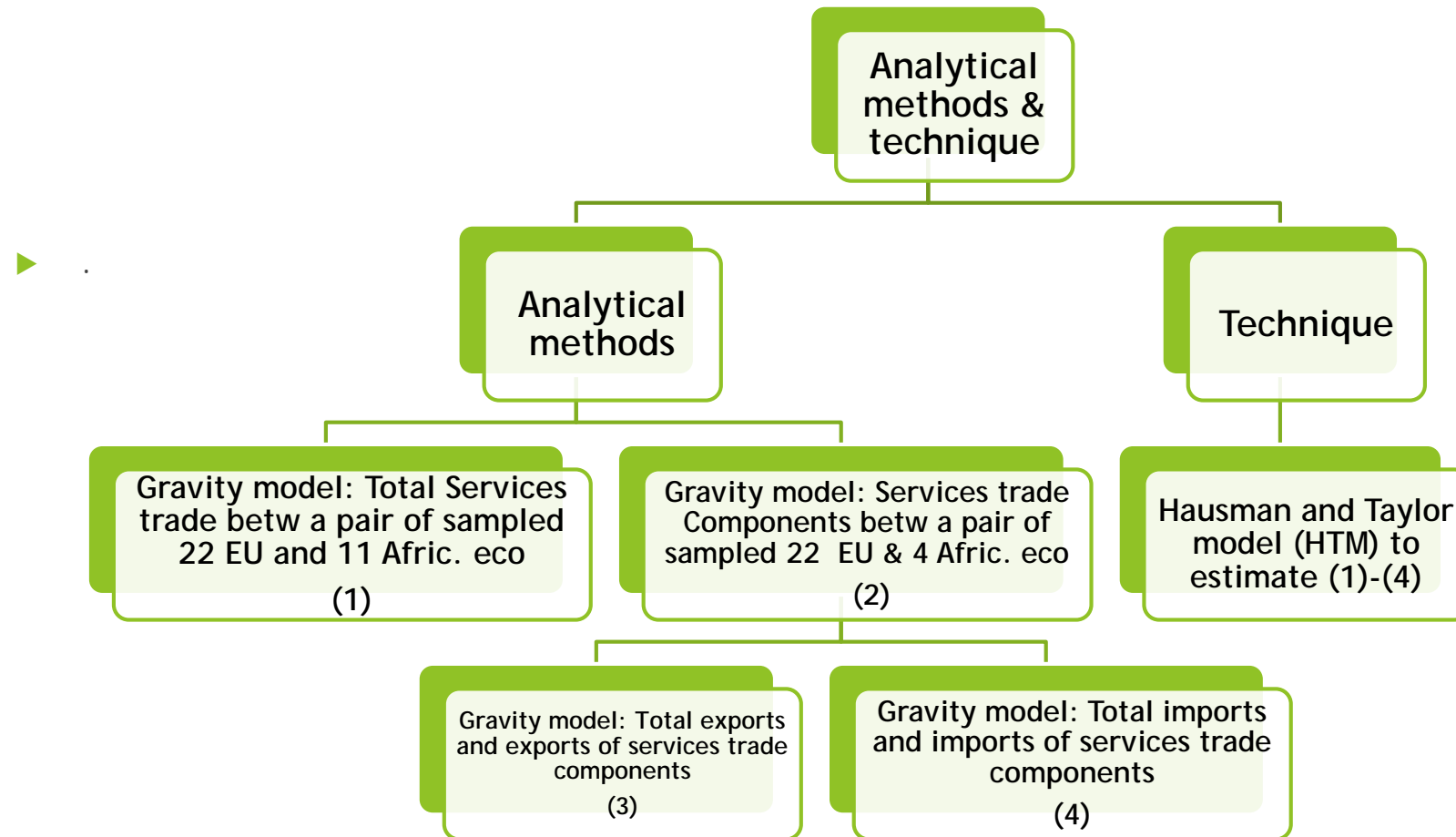
Review of Theories and Evidence

- ▶ There have been debate on whether standard trade theories could explain services trade.
- ▶ While the assumptions of some of the trade models holds for services trade, Jones and Ruane (1990) built a model of trade in services.
- ▶ The model partitioned trade in services into two forms: trade in the service factor and or trade in the service product.
- ▶ Trade in the service factor combines with local factors to produce a non-traded service product (a situation in which management skills relocates to combine with local factors to produce a non-traded 'service product'),
- ▶ Trade in the service product: involve no further production in the foreign country and can be produced anywhere.
- ▶ These two levels of services trade have different welfare and income distribution effects.
- ▶ Besides, gravity model has equally been utilised to model trade in services (Kimura and Lee, 2006; Ceglowski, 2006; Walsh, 2008; Nordås, 2018; Alhassan and Payaslioglu, 2019).

Evidence

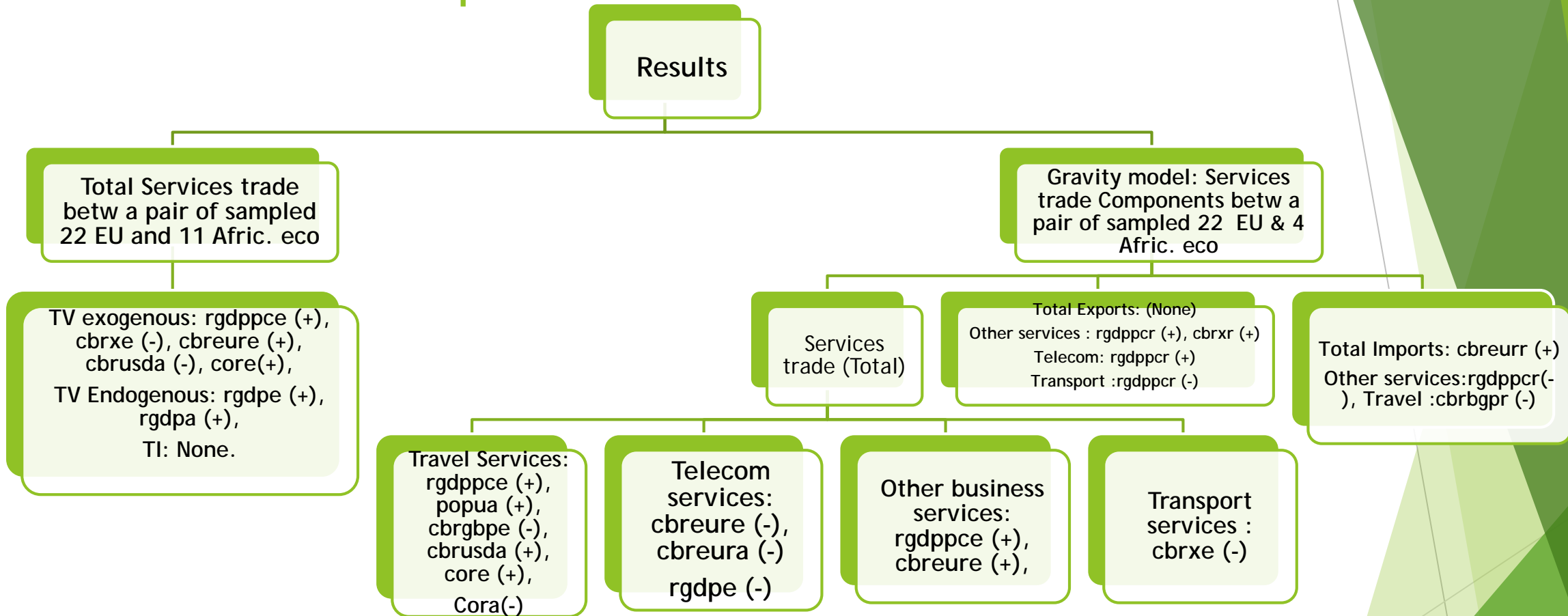
Author s	Objectives	Scope	Methodology /Techniques	Results
Walsh (2008)	To assess the determinants of trade in services and at disaggregated levels	27 OECD countries (1999-2001)	Gravity: Hausman-Taylor estimator	wealth of countries and a common language are the most important determinants of services trade
Kaur (2011)	export potential in service sector of USA with its Asian trade partners	USA & selected Asia countries (2000-2008)	Gravity: panel data	USA has convergence in exports with three Asian countries (Hong Kong, India and Korea) and divergence with three Asian countries (Japan, China and Singapore).
Kimura and Lee (2006)	To assess various factors determining bilateral services trade relative to that on bilateral goods trade	10 OECD countries & other economies (including OECD & non-countries)(1999-2000)	Gravity: panel data	Services trade is better predicted by gravity equations than goods trade, while complementary relationship between goods exports and services imports was confirmed
Karam and Zaki (2013)	To examine the determinants of aggregate flows of service trade in MENA countries	21 countries and 10 sectors (2000-2009)	Gravity model: panel data	Being a WTO member and in bound commitments increases trade in services.

Methodology, Estimation Techniques and Data



- ▶ Why HTM?
- ✓ Takes care of endogeneity (Btw services trade and RGDP)
- ✓ Captures heterogeneity bias
- ✓ Suitable for unbalanced panel data characterising our dataset.

Results and Implications



- ▶ **cbrxe**= CBR received by EU; **cbreure**= CBR sent from EU country in Euro
- ▶ **cbreura**= CBR sent from Africa country in Euro; **cbrusda**= CBR sent from Africa in USD
- ▶ **cbrgbpe**= CBR sent from EU in British Pounds; **cbreurr**= relative CBR sent in Euro
- In sum, CBR and other macroeconomic variables are relevant in explaining services trade between EU and Africa

Results and Implications

▶ Implications of the Results

- ▶ De-risking in US dollars in Africa and Euro in EU will have a significant undesired effect on services trade between Africa and EU
- ▶ “Grease the wheels” hypothesis was confirmed with travel services total trade
- ▶ Linder hypothesis was confirmed, especially with transport services and other services

Recommendations

- ▶ There is a need to:
 - ✓ safeguard the integrity of payments in US dollars and Euro in a manner that will preserve access to CB,
 - ✓ build technical capacity of Africa financial institutions to effectively monitor and tackle illicit capital flows,
 - ✓ have a reform that will ensure creation of more CB in Africa to measure up to what is obtainable in EU.
- ▶ These will help to further facilitate services trade between Africa and EU.



Thank you