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Enhancing Services Trade: The Role of Government

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Introduction

The importance of the services sector in developing and least developed economies is increasingly being recognised as an important driver for development and growth. Services impact on development both directly (through employment and provision of social services such as education and health), and indirectly (through effects on the investment climate – transport, finance, energy, among others; and facilitating economic diversification). The non-tangible outputs of a production process, services are key to improving efficiency across all sectors and are thus a major determinant of competitiveness. The services content of goods is set to keep rising as processes such as research and development, marketing and brand management, and maintenance represent an increasing share in the final price of goods.

In the 1960s, development economists suggested a systematic growth path in which countries progressed from the primary (raw materials), to secondary (manufacturing) and then finally tertiary (services) sectors. However, widespread trade liberalisation and rapid developments in information and communication technology (ICT) have seen countries leapfrog to the tertiary (services) sector without necessarily following this growth path. The contribution of services to GDP in many least developed countries (LDCs) exceeds 40 per cent. Developing countries such as India, Mauritius and the Philippines have demonstrated that other services, commercial services in particular, offer a viable avenue for wealth creation, export growth and economic development. Employment in the services sector in LDCs has grown in recent years partly due to the loss of competitiveness in manufacturing and the privatisation of major state monopolies, which has opened up new business opportunities. It is estimated that each direct job in the IT enabled services (ITES) sector, has a multiplier effect of at least two. In Mauritius, about 36,000 people derived employment in this sector in 2009, a figure expected to grow at 15 per cent annually until 2015. In Kenya, the number of people employed in call centres increased from 120 in 2005 to over 10,000 in 2010.[1] Nigeria's nascent film industry is worth an estimated US$250 million a year and supports about 1.2 million people in production and retail.[2]

1 Treebhoohun 2011.
2 Dalhat 2011.

Still, most developing countries face significant challenges in attempting to harness the potential of services for economic growth. International trade in services faces some of the most persistent barriers, many of which are permissible in the context of the General Agreement of Trade in Services (GATS).

Services exports from developing countries have been growing rapidly since 1995, with average growth of 10.2 per cent per annum, compared with growth in world services imports of 7.5 per cent per annum. As a result, the market share of developing countries' exports in world imports of services grew from 22.1 per cent in 1995 to 31.3 per cent in 2010, falling slightly to 29.8 per cent in 2011. In the last five years, the average rate of growth of exports from developing countries has risen to 12.8 per cent per annum, despite the global recession. Although some of this growth can be attributed to China, developing countries (excluding China) have in general experienced growth rates in excess of global averages. With world average services exports growing at approximately 8.3 per cent per annum since 2006, the Caribbean is the only region where growth has fallen below average. Although the general trend is similar to the previous period (1995–2010), the difference is larger between 2006–2010.

As can be seen in Table 1, growth rates have accelerated in recent years, especially in Asian and South American developing countries, as well as LDCs, where average annual growth of services exports has exceeded 13 per cent per annum.

Unsurprisingly, China and India are the strongest developing countries in services trade, ranking 4th and 7th and accounting for 4.8 per cent and 3.5 per cent respectively of global services trade in 2010. Other major developing country exporters are: Brazil, Malaysia and Thailand (each accounting for 1% of world services trade), the Philippines and South Africa (each accounting for 0.5%) and Argentina (accounting for 0.4%). The largest sub-Saharan exporters (excluding South Africa) are Ethiopia, Ghana, Kenya and Mauritius.

Of the developing countries representing more than 0.05 per cent of global services trade,[3] the fastest growing exporter over the five-year period

Table 1. Growth in services exports, 1995–2010

	Share in world services trade (%)			Average annual growth in services exports (%)	
	1995	**2006**	**2011**	**1995–2010**	**2006–2010**
Developing countries	22.1	26.7	29.8	10.2	12.8
Developing countries (excluding China)	20.6	23.3	25.5	9.5	11.8
Least developed countries (LDCs)	0.5	0.5	0.6	9.1	13.6
African developing countries	2.3	2.4	2.2	8.4	9.1
Caribbean developing countries	0.9	0.9	0.7	6.1	3.3
South American developing countries	1.7	1.7	2.0	9.0	13.3
Asian developing countries	16.2	20.6	24.1	10.9	14.0
World				7.5	8.3

Source: Calculated from UNCTADstat Values of exports and imports of services, 1980–2012

2007 to 2011 was Mauritius, rising annually by 22.5 per cent, followed by the Philippines (20.3%), Pakistan (18.8%), India (17.1%) and Bangladesh (16.8%). Other fast growing services exporters are Brazil and Malaysia (14%), Ethiopia and Thailand (10%) and Chile and Columbia (9%). All other developing countries grew at or below the global average rate of 8 per cent.

Is there a case for government to be more proactive, as in stimulating and promoting the services sector?

Since 2004, the Commonwealth Secretariat has been providing short-term technical assistance to more than 30 countries with the aim of improving their competitiveness in tourism and other professional services. Considerable research has been undertaken to identify the necessary conditions that make countries successful services exporters. Questions remain on what role governments should play in stimulating such growth, both in the short and long term. Should government concentrate on providing a favourable investment and business climate? Is there a case for government to be more proactive, as in stimulating and promoting the services sector? What obstacles stand in the way of successful implementation of services development strategies and how best can external technical assistance be utilised?

This Discussion Paper is based on two Commonwealth Secretariat presentations to the Global Services Forum convened by the UN Conference on Trade and Development (UNCTAD) in April 2012. Using empirical evidence and case studies, it examines the impact of government interventions in a number of key areas: negotiating better market access for services; creating an enabling national legislative environment; export promotion of services exports; and other cross cutting issues (such as education and infrastructure development). Finally, it sets forth implementation challenges and what governments and development partners can do to ensure growth in the services export.

Negotiating Market Access

Exports of goods and services will not expand in the absence of favourable conditions for market access. However, services exports face more complex barriers to market entry than goods, mainly due to the different means of delivery. Whereas goods are delivered physically by transport, services can be delivered via four different modes:

- Cross-border (Mode 1), more often electronically but also physically by courier/post;
- Consumption abroad (Mode 2), when consumers access the service in the country of the supplier;
- Commercial presence (Mode 3), when an exporter establishes an office in the market; and
- Presence of natural persons (Mode 4), which is the temporary movement of workers to the market to deliver the services.

The many market access barriers in services include:

- Non-recognition of qualifications;
- Restrictions on foreign participation in the market (including public procurement);

3 Smaller services exporters were excluded, as growth rates would be disproportionally high due to relatively small export base. China is also excluded due to lack of data.

- Licensing/quotas restricting number of operators;
- Accreditation procedures (costs and nationality);
- Restrictions on visas and work permits;
- Protection of intellectual property; and
- Registration and certification, including transparency in procedures.

Governments can ease these market entry conditions for their service exporters through international negotiations. These are undertaken at the multinational level within the context of the World Trade Organization (WTO) General Agreement on Trade in Services (GATS), at the plurilateral level (such as the WTO General Procurement Agreement, in which market access to public works and services contracts is a large component), regionally within economic groupings, and bilaterally as part of free trade negotiations or through mutual recognition agreements (MRAs) for qualifications.

WTO General Agreement on Trade in Services

GATS provides the framework for governments to negotiate market access and national treatment in target export markets. Given that it is a multilateral agreement, any negotiated commitments apply to all WTO members. GATS was the first substantial effort in liberalisation of trade in services and initially came into force on 1 January 1995 (although some financial and telecommunications commitments did not enter into force until some years later). The GATS is a positive list approach meaning that WTO member countries agreed commitments for improved market access for up to 11 defined services sectors.[4] Only the European Union, Japan and the US made commitments in all 11 sectors.

The impact of liberalisation of services trade and improved market access is difficult to assess. There are a few studies that examine the impact but little or no empirical evidence, partly due to lack of statistics in this area. Examination of the average rate of growth of services exports in the five years before and after 1995 shows a decline in the rate of growth globally, across all groups except LDCs.

It is difficult to draw any conclusions from such raw data, as there are many other factors that affect growth in services trade, not least the extent of liberalisation by sector within the GATS. Moreover, negotiations and commitments provide

Table 2. Average annual growth in services exports, 1990–1999

	5-year average % pre-GATS (1990–1994)	5-year average %post-GATS (1995–1999)
World	9.7	5.8
Developing countries	12.8	6.0
Developing countries (excluding China)	12.0	5.7
Least developed countries	5.6	6.4
African developing countries	7.6	6.1
South American developing countries	9.7	5.7
Asian developing countries	15.0	6.2
World		

Source: Calculated from UNCTADstat Values of exports and imports of services 1980–2012 opportunities for the development of trade in services, which are not always realised. For example, the global trend in outsourcing only took off in the mid-2000s. Average annual growth in world exports in services in the period 2005–2008 was 15 per cent, compared to 8 per cent in 1995–2004 and 10.8 per cent in 1985–1994. UNCTAD observed[5] that services generally need to be consumed in real time but reliable and economic technology for this was only developed from 2003 onwards. Therefore, it could be argued that while GATS laid the foundation for outsourcing, the technology and/or willingness of business to take advantage of this did not come until much later.

Within the current round of negotiations at the WTO (Doha Development Round), further commitments are being negotiated through an offer and request system, in which members request market access from other members and then make offers of commitments in response. However, the level of active participation of developing countries and least developed countries in making requests is severely limited and generally non-specific across all services sectors. This is due in part to weaknesses in the pre-negotiation processes in-country, absence of data, limited research capabilities, inadequate consultations with the private sector and other stakeholders, among others. Developing countries need to be more proactive in requesting specific sectoral liberalisation in areas where they have real comparative and competitive advantages, rather than looking for broad concessions such as those in Mode 4. Anecdotal evidence suggests that since LDCs have received the waiver on concessions they have to make, they have disengaged with the process without pushing for market openings from other countries.

Access to public procurement

Public procurement contracts provide many of the opportunities for trade in services for both works and services contracts. Some commitments on access to public services contracts have been made in the GATS and there is potential to develop these by sector. In addition, some members of the WTO have negotiated the General Procurement Agreement, which initially entered into force in 1996 and coverage was renegotiated in 2011. Research suggests that the GPA provides improved access to its members of an additional US$80–100 billion in public contracts[6]. Under the GPA, each member agrees to the equal participation of companies from other GPA member states in public tenders above certain thresholds. The coverage of the GPA is negotiated and varies by member, and it applies only to selected central, sub-central and other government entities. The coverage and thresholds offered by each country also differ by type of contract (works, supplies, services) and entity. Currently there are only 15 members of the GPA but many more are now negotiating accession, including some developing countries such as China, India, and Jordan. Membership of the GPA could offer developing countries an opportunity to access services and works contracts, thereby increasing services exports.

Economic Partnership Agreements (EPAs)

After more than 30 years of unilateral, non-reciprocal trade preferences offered by the European Union to the Africa, Caribbean, Pacific (ACP) group, EPAs represent a shift towards a more WTO-compliant framework in a number of areas including services. As with previous EU/ACP trade arrangements, the EPA

4 Page and Davenport 1994: 76–77.
5 UNCTAD 2004.
6 WTO Secretariat estimates (Anderson et al. 2012).

has a stated development goal. It is also an inter-regional agreement, with the 78 ACP countries negotiating in seven regional groupings.[7]

Much more could be done to deepen regional co-operation within trading blocs

The 2007 deadline was not met and five years later, in 2012, only the Caribbean region has signed and ratified a comprehensive EPA. While the EC has opened more than 90 per cent of EU services sectors, coverage in the forum of the Caribbean Group of ACP states (CARIFORUM) is between 65–75 per cent. Perhaps the most generous concession by the EC is in Mode 4 (temporary movement of natural persons), which granted market access for Caribbean professionals in 29 sectors for employees of Caribbean firms to provide contractual services in the EU for up to six months per calendar year, and liberalised 11 sectors for temporary entry by Independent Professionals (IPs) or self-employed persons, subject to certain conditions. In the entertainment sector, the market access granted by the EU is complemented with a Protocol on Cultural Cooperation with special provisions on audiovisual products and services. In determining which sectors to open up, CARIFORUM states considered those with positive development impacts, access to new technologies and potential for providing outsourced services.[8]

The remaining groupings are at various stages of negotiation. Different configurations have emerged in terms of scope (interim or comprehensive EPA) and scale (individual countries or several within the group).

Analysis of the pre-EPA trends in EU/ACP services trade showed that '…despite strong growth in the value of ACP exports of services (US$8 billion in 1980 to US$20.8 billion in 2000), the world share of the ACP dropped from 2.4 per cent in 1980 to 1.5 per cent in 2000'. Further, in 2000, the largest eight exporters of services in the ACP group accounted for more than half of the total ACP services exports. These were The Bahamas, Barbados, Dominican Republic, Jamaica, Kenya, Mauritius, Nigeria and Zimbabwe.[9] The picture was not much different 10 years on in 2010[10] and it remains to be seen if the trend will change after more EPAs are concluded.

There are a number of prevailing challenges in this regard, including the relatively limited capacity to negotiate services and the preference of ACP countries to prioritise greater services trade within existing regional blocks rather than trade with the EU. In relation to market access, ACP countries are likely to encounter similar obstacles in negotiating the EPA as in GATS, notably exporting through Mode 4.

Regional trade agreements (RTAs)

A number of South–South free trade areas/agreements have made GATS-plus commitments including South Asian Free Trade Area (SAFTA), Caribbean Single Market and Economy (CSME) and the Association of Southeast Asian Nations (ASEAN). The focus of recent analysis on these regional agreements has been the extent to which commitments go beyond GATS, rather than their actual impact. This is perhaps because few regional agreements have been successful. For example, Corbett[11] summarised findings of the literature comparing ASEAN service liberalisation commitments with that of their GATS schedules and concluded, '[ASEAN services integration] is not particularly liberalising compared with GATS commitments … and does not add significant new liberalising elements over GATS. Since it does not go much beyond the GATS it is, therefore, not providing much impetus to liberalising services trade within ASEAN.'

ASEAN seems to have made better progress with the development of Mutual Recognition Agreements[12] to facilitate services trade. ASEAN member states have concluded the following seven MRAs:

- Engineering Services (signed December 2005)
- Nursing Services (signed December 2006)
- Architectural Services (signed November 2007)
- Surveying Qualifications (signed November 2007)
- Accountancy Services (signed February 2009)
- Dental Practitioners (signed February 2009)
- Medical Practitioners (signed February 2009)

Based on this experience, much more could be done to deepen regional co-operation within trading blocs. Actualising commitments to accelerate movement of services within regional groupings could expand trade opportunities for services providers. Eventually, this would provide an important stepping-stone to more lucrative international markets.

Bilateral free trade agreements (FTAs)

Bilateral services negotiations within free trade agreements can be used to obtain greater market access for services exporters with a GATS-plus approach. The approach of the major developed countries in FTAs with developing countries is varied. Initially, the US developed a liberal approach to Mode 4 (temporary movement of labour) for professional services in its 2002 FTA agreement with Chile,[13] allowing an annual quota of 1,800 visas. However, this caused opposition in the US Congress and since then no US FTAs have included Mode 4 commitments. Canada has a more liberal approach and in its recent FTAs with Columbia and Peru, allowed for Mode 4 professional services without quota and with no maximum length of stay, and entry without restriction for 50 categories of technicians. The EU has few FTAs that include substantial services provisions beyond that which it offers within GATS. The Economic Partnership Agreement with CARIFORUM is a notable exception, which allows quota free entry into the EU for 29 categories of professionals. The EU also expanded its definitions to include categories that CARIFORUM governments detailed as important, such as independent professionals and graduate trainees. Again there appears to be some scope for developing countries to include well-targeted GATS-plus provisions in bilateral FTAs.

Creating an Enabling Environment

The legislative and regulatory environment of a country can affect its global competitiveness and ability to export. Therefore, a country's enabling environment can encourage (or discourage) trade in services. Sound domestic regulation in services is needed to address monopolies in network-based services (e.g. telecommunications), and externalities

7 Five in Africa – West Africa, Central Africa, Eastern and Southern African Community (ESA), East African Community (EAC), Southern African Development Community (SADC) – and one each in the Caribbean and Pacific regions.
8 CRNM n.d.
9 te Velde 2004: 5.
10 Research shows that the ACP share of total services trade in 2010 was 2.16 per cent. In the same year, six countries accounted for 50 per cent of total ACP services exports – Cuba, Dominican Republic, Jamaica, Kenya, Mauritius, South Africa (Rosengren 2012).
11 Corbett 2008.
12 Mikic 2009.
13 Macrory and Stephenson 2011: Annex 5.

and asymmetric information in knowledge and intermediation-based services (e.g. financial and professional services), and to ensure universal access in essential services (e.g. health and education).[14]

Governments need to consider a range of different legislative and regulatory aspects, including overall conditions for export (goods and services), specific treatment for services exports, formalisation of services exports, and incentives regimes for export of services.

Overall regulation of exports

One of the most important factors affecting growth in services exports is the legal recognition of trade in services. In many LDCs, important pieces of export legislation are developed explicitly for trade in goods and exclude (or simply do not include) export of services. In a vast majority of cases, the legislation is outdated, having been developed when the country's trade was exclusively in goods. However, with the passage of time, the legislation has not been revised and updated, leading to unequal treatment in export of goods and services. For example, until recently, the Act establishing Malawi's trade promotion organisation, the Malawi Export Promotion Council, restricted its mandate to goods.

As well as the unequal treatment arising out of legislation, the way some national authorities treat services exports is also uneven and inconsistent. Even where the law does not specifically exclude services exports, tax inspectors and other authorities often treat them as national sales. This can be even more difficult with Mode 2 exports where foreign clients come to the country to consume there. For example, in Jamaica it is recognised that tourism is an export sector and is treated accordingly, including exemption from import duties for capital equipment. Nonetheless, a private hospital with 100 per cent foreign clients for specialised heart treatment was required to pay 5 per cent import duty on the importation of a multi-million dollar diagnostic machine. This could have two direct consequences. First, it is likely to increase the cost of the medical procedure, which undermines the international competitiveness of the country in this area. Second, it creates a domestic and foreign investment bias towards mainstream tourism, making it harder for the country to realise its diversification targets.

General legislative framework for services

There is a range of legislative and regulatory provisions that affect all services exports. Governments can encourage growth of services exports through examination and reform of legislation that would, for example, ensure availability of human capital through the work permit regime; guarantee a competitive delivery system (Mode 1); ease consumers access to the market (Mode 2); and facilitate commercial presence of national companies in other markets (Mode 3).

Competitive services exports rely mostly on availability of quality human capital at a favourable cost. Small states and LDCs often need to 'import' workers with specialist skills in order to export certain services. Therefore, easy access to work permits is necessary to allow firms to get the right number of appropriately qualified personnel. There is often resistance nationally for such an approach due to the desire to maximise employment. In fact, firms would normally prefer to use nationals, provided they have the requisite skills, in order to minimise living costs and time to adapt to a new environment. For example, in Jamaica a private hospital required highly specialised nurses to operate its diagnostic machinery. Although Jamaica does have a large pool of nurses, none were qualified to operate the equipment. Nonetheless, immigration authorities would not grant work permits.

Competition policies can affect the individual services sectors as well as others along the service delivery chain. This is particularly true for Mode 1 where delivery of services is principally through international telecommunications, and where availability, reliability and cost can be determined by the level of competition in the national telecommunications market. In some small states, governments give exclusive rights lasting several years to individual providers, a deficiency in regulation that results in poor service delivery, lack of access to key services (for example, the use of Skype in Belize) and high costs, all of which have a negative knock on effect.

Ease of entry is of critical importance for Mode 2 (consumption abroad) exports, where the consumer has to travel to the country in order to access the service. The time it takes to obtain visas, availability of up-to-date information on entry requirements and the cost of visas are all key in attracting business from target markets.

Competitive services exports rely mostly on availability of quality human capital at a favourable cost

For delivery of services exports through commercial presence (Mode 3), the introduction of much of the legislation that could facilitate and encourage growth lies with the governments of the importing countries since to a large extent they must be addressed through negotiations. However, governments can address some issues that affect commercial presence within corporate legislation, especially regarding taxation. For example, without a Double Taxation Agreement (DTA), a service provider who opens an office in a foreign country could be liable to pay taxes on turnover in that country and then again on repatriated profits in their home country. This discourages exporting through Mode 3.

Other legislation and regulations affecting growth in services exports of services include foreign direct investment policies and incentive regimes, equity participation and repatriation of funds. For example, until recently in many LDCs services exporters were not eligible for export processing zone incentives.

Sector specific legislation and regulation

The types and range of legislation vary greatly between sectors and need to be addressed by governments on a case-by-case basis. However, there are a few common themes, namely competition, conflict between national and international provision/regulation, recognition of qualifications prior to practice, and data protection and confidentiality.

Restrictions in participation in a services sector nationally can prevent the growth of services exporters. Limits and quotas on licensing service providers raises domestic costs and restricts interest in exporting, since those operators already have a high profit domestic market. This could arise when limiting private sector participation in areas dominated nationally by the public sector (such as in health and education) as well as in highly regulated areas such as telecommunications and transport. It can also apply to accreditation requirements, whereby professional service providers may have to be accredited to national bodies that have no relevance to the target export markets and completely different standards and criteria. In such cases, many service providers may have to adopt dual accreditation, which raises costs. Other sectors may

14 *Matto and Sauvé* 2003.

simply restrict participation to national requirements. For example, in Ghana, private tertiary education bodies were bound by law to follow the national curriculum for specific topics aimed at addressing the needs of the national population, whereas some private schools wanted to use a very different 'international' curriculum. When these requirements were reformed, the number of private institutions grew rapidly, attracting many foreign students from the region.

It is essential to provide services exporters with vital information like market entry requirements in a form that is usable

There are also instances where laws and regulations are solely targeted at national policy objectives, which can adversely affect the potential for exports. For example, blanket bans on the import of blood products, on the grounds of protecting health, can limit the potential to develop medical diagnostics exports. Closely related to this are qualification requirements for practitioners that are often different to those required by export markets. For example, Jamaica's medical qualifications are based on UK standards and recognise qualifications from a few Commonwealth countries, US and regional countries. Therefore, when a Spanish hospital group tried to open a clinic aimed at Spanish medical tourists, Spanish doctors were unable to obtain licences to practise (even though all clients were to be Spanish with a preference for Spanish professionals). To be licensed, experienced Spanish doctors would have had to undertake a national conversion exam and a one-year internship in Jamaica.

The legislative environment for data protection and confidentiality within some sectors is crucial in attracting export sales in some sectors. This is particularly important for business process outsourcing (BPO) and medical sectors. Recent high profile cases have highlighted the need for stronger legislation and enforcement – for example in the case of Indian BPO companies selling UK medical records and another involving selling credit card details.

Formal versus informal services trade

A significant proportion of services trade is undertaken in the informal sector. Services can be provided over the internet without any trace. However, this type of trade limits the size and growth potential of the operation as service providers are unable to access loans, obtain support and work from offices with more staff. Governments need to encourage the formalisation of these providers with policies such as low or simplified tax rates, facilities such as incubators, and lower cost/free access to support services. Such provisions could encourage the development of services exports, especially in information and communications technologies. ICT incubators are being used in Armenia, Bhutan, Jamaica and Maldives, amongst others, where free internet access, office space, free book-keeping and business advice are provided for a two-year period for new start-ups, particularly those of unemployed graduates.

Promotion of Services Exports

One of the key roles for government in the development of services exports is promotion. Given the low profile and low level of understanding of the services sector, there is a major role for governments in building national awareness, promoting international export and strengthening services trade associations. The first task for government is to prioritise services exports within national policy by mandating appropriate government agencies to take the lead in promoting export in services. In the case of India, in 2006 the government created the Services Export Promotion Council, a dedicated agency for the promotion of services exports. The Council aims to undertake international export promotion acting as interlocutor between government and the private sector. It provides and administers services export incentive programmes, develops national plans, and liaises and organises events with national organisations such as chambers of commerce for the promotion of services exports.

National awareness raising

Generally, there is a lack of exposure to trade in services and a lack of understanding of its importance to the economy. The average contribution of services to GDP[15] across the world is 68.5 per cent and whilst lower, the contribution of services in developing countries and LDCs is significant at 54.3 per cent and 42.1 per cent respectively. Among developing countries, those in Africa contribute the lowest level of services (45.6%) whilst those in the Caribbean contribute the highest level (67.9%). South America contributes 61.1 per cent and Asia 48.6 per cent. Despite their importance to the economy and exports, services rarely appear in national export strategies or receive any national attention. Therefore, governments need to raise the profile of services and services exports.

One of the main reasons for the lack of recognition of services is the poor statistics on specific services sectors. Governments need to develop systems to collect and analyse data on services exports, and publish and distribute the results nationally. This will help improve understanding of the sector, and highlight the specific areas of growth and the sectors contribute most. This kind of national awareness raising will not only aid policy prioritisation within government, but also encourage greater participation in services exporting and better understanding from business support institutions, such as finance and banking.

International export promotion

Services exports contribute a high percentage to overall trade. The share of services exports in total exports (including goods and services)[16] in developing countries is 15 per cent, while the share for LDCs is lower at 12.3 per cent. The region recording the highest contribution to exports amongst developing countries is the Caribbean at 49.9 per cent. Asia stands at 15.3 per cent, Africa at 15.2 per cent and South America at 12.2 per cent. However, the level of effort (resources) in export promotion is proportionally much less, and in many cases, non-existent. For example, the Ghana Export Promotion Authority is mandated to promote non-commodity exports (goods and services). But almost 100 per cent of its resources are dedicated to promoting non-commodity products, which represent 17 per cent of total exports whereas services exports are estimated to represent 16 per cent. There is just 1 staff member out of 30 professionals with responsibility for promoting services exports with the remainder working on non-commodity products.

One of the major tasks for any export promotion agency is the provision of market research for exporters. This requires data and information on market size and trends, market entry requirements and potential customers by services sectors/sub-

15 *UNCTADStat database.* 2012, *figures for* 2011.
16 *ibid.*

sectors. However, services data and research are much more difficult, and information (including statistics) much less widely available than on trade in goods. Because of this, specific capacity building will be required, as well as budgets for the purchase of detailed market research in targeted sectors. Providing information on market entry requirements for services exporters is essential and should include business visa details, qualification requirements and restrictions on practice. Full use of GATS enquiry points, which each WTO member is obliged to establish, should be promoted to obtain this type of information. However, the information provided needs to be in a form that is usable to services exporters.

In providing market information, export promotion agencies could assist service providers by identifying and analysing relevant public procurement contracts in other countries for export opportunities. The analysis would also include donor agencies and development banks,[17] some of which have in-built preferences on the basis of country groupings or size of enterprise.

Many services exports, particularly professional services, grow through sub-contracting arrangements with firms in the target market. This differs from export of goods, which primarily targets users of the products rather than firms in the same industry. Therefore, export promotion activities for services exports need to target and promote contact between firms in the same sector through professional associations and participation in relevant international networks. For example, Indian software companies gained entry to the global market initially through sub-contracting to US and EU software houses. Although this remains the case, they have now used this experience as a platform to sell directly to end-users.

Another important feature of the promotion of services exports is the important contribution that the diaspora can make; nationals who have migrated are often the first clients for exported services, especially those from small countries. For example, in Armenia webpage developers and administrators grew from selling directly to diaspora populations in California (where the Armenian population is greater than the population of Armenia itself), who found costs much lower in Armenia than California. The business later expanded through word of mouth. In medical tourism, members of the diaspora community have found certain treatments (including annual dental check-ups) less costly in their countries of birth than in their countries of residence. For example, in the case of Jamaica it is estimated that diaspora business accounts for 5–10 per cent of the turnover of private hospitals and 25–30 per cent of dental practices.

National branding of specific sectors plays a very important role in services exporting. When companies look to outsource parts of their business or source services abroad, they often look to countries with a reputation built on branding. A brand also has to be developed for each individual services sector. For example, India has successfully developed an international reputation in business process outsourcing (call centres), medical treatments and software development.

Strengthening national services associations

National services associations are important for more than the development of industry linkages in target markets. These associations are also important in lobbying and policy advocacy, establishing standards and qualifications, and advising government agencies on sectors or markets of export interest. However, services associations are generally weak in most countries and many are focused on national, rather than international market development. Part of the problem is that although services exports are significant in total (averaging 15% of total exports in developing countries), they are spread across a diverse range of sectors, some relatively small, which creates funding and capacity issues. Moreover, within each services sector, individual exporting firms tend to be fairly secretive in order to avoid competition. The smaller the country, the more these issues are exacerbated. One solution has been the establishment of services coalitions as umbrella support organisations, although funding and capacity remains problematic. Some governments support these associations through a number of activities including training, technical assistance, indirect funding (funding of activities such as advertising, research and trade fair participation) and even, in some cases, direct subvention. There is need for some government funding for these bodies, at the very least for the public service they provide.

National services associations are important for targeting markets, advocacy, standards and more, but they tend to lack funding and capacity

Other Government Activities and Policies

There are a number of other initiatives that governments can take to promote and encourage services exports. In the short-term, governments can develop and fund training in new and existing services to provide an immediate labour force for services exports, and build infrastructure needed by exporters (such as broadband networks). In the long term, policies to increase internet use and penetration can spur skills development and export interest.

Training

Some governments have supported short-term training courses for specific services industries in areas of export interest. For example, the governments of Antigua, Barbados and Guyana have subsidised training of US-certified medical transcriptionists to prepare unemployed young people to export their services to the US. In each country, up to 1,000 transcriptionists have been trained and employed in local or joint venture BPO companies. While such initiatives can help address short-term unemployment, training itself needs to be continuous to allow for movement up the value chain and prevent price pressures or decline of the industry, if long-term benefits are to be realised.

Providing ICT infrastructure

Competitive delivery of services exports through direct delivery (Mode 1) requires fast, reliable and cost-effective ICT infrastructure. For real time delivery, such as call centres, access to at least two submarine fibre optic cables is usually expected. Within the country, ICT infrastructure is required in locations where services exporters are located. Many governments invest in creating this infrastructure by building backbone networks and/or establishing 'tech' parks. Both these types of investments have been funded directly by government, through public–private partnerships and/or with government fiscal incentives. For example, in the Philippines, tech parks receive incentives, as do their clientele who establish there. As a result, there are more than 159 tech parks in operation with another 62 under construction.

17 For example, the World Bank, African Development Bank (AfDB), Asian Development Bank (ADB), Inter-American Development Bank (IADB), European Investment Bank (EIB), European Bank for Reconstruction and Development (EBRD).

Promoting internet usage

The more the internet is used in the wider population the greater the scope for entrepreneurs to use it for business and the greater the potential for export of services. In addition, with the widespread use of the internet comes the diffusion of a set of skills that lends itself to services trade. A recent World Bank study[18] shows a positive correlation between internet penetration and the level of services exports. It also details some exceptions such as India (which has a low level of penetration but high level of services exports) and Malaysia (with a low level of exports of services, but high level of internet penetration). India has overcome this constraint with the development of tech parks and therefore the industry tends to be more clustered. Malaysia, on the other hand has had conservative national policies towards export of services, hence its relatively low level of exports.

The wider the use of the internet, the greater the potential for export of services

Level of education

High-end services exports rely predominantly on the available pool of labour. Without this pool, exports of services are constrained. A World Bank study[19] shows a high level of correlation in developing countries between the level of tertiary education enrolment and the level of services exports.

Services Strategies and Implementation Challenges

Having recognised the important role that services trade can play many governments embark on designing a framework to guide the systematic development of the sector. A number of development partners – including the Commonwealth Secretariat, International Trade Centre, UNCTAD and the UK government Department for International Development (DIFD) – provide technical assistance in this area. However, it appears that overall the level of implementation remains modest. Why is this? What lessons can be learned?

The first reason is that strategies are not correctly anchored. By their nature, services cut across different ministries, departments and agencies in government and various non-state actors, including business, academia and research institutions. With multiple stakeholders, there are issues of trust and conflicting interests that need to be managed. Such a complex system makes it more difficult to build consensus on a lead organisation to co-ordinate, monitor and report on services development. In many LDCs and small states, this task falls under the ministry responsible for trade. However, this is often done without supplementary resources with the result that it becomes a peripheral activity that is eventually retrenched. In addition, trade departments are largely concerned with policymaking, and this may be prioritised over the promotion and development aspects of a services strategy.

To avoid this pitfall, some countries anchor strategy implementation in a trade promotion organisation (TPO) such as a national export promotion board or investment promotion agency. Two major issues come into play here. First, TPOs in many LDCs are severely under-resourced and therefore simply unable to perform their duties effectively, concentrating instead on activities and programmes that are externally funded. Because of this chronic underfunding, many TPOs do not have the convening power required to mobilise stakeholders let alone support marketing. The second issue is that some of them are still 'goods-oriented' and the resulting organisational inertia makes them unable to make the operational changes that are required to promote services.

Finding a 'champion' is more of a challenge in the private sector, especially where the sector is fragmented and formalised mechanisms of dialogue with government and development partners weak or non-existent. Most countries have private sector 'apex' bodies such as chambers of commerce and industry and private sector alliances or federations.

With multiple stakeholders there are issues of trust and conflicting interests, which makes it more difficult to build consensus on a lead organisation

The problem is that whereas a section of their membership comprises services industries, the apex bodies do not adopt a sectoral approach and therefore a holistic appraisal of services sector issues is absent. In some instances, where services associations are few or weak, their priorities can easily get overlooked. Fortunately this is changing, especially in the Caribbean region with the establishment of the Coalition of Services Industries (CSIs), which focuses exclusively on services.

Successful implementation of strategies to develop services becomes a challenge if they are not properly aligned to a country's development frameworks (like a poverty reduction strategy, a private sector development strategy or a national export strategy). The linkages between services and poverty alleviation need to be made clearer. In some cases not enough effort is put into understanding where the strategy fits in this policy framework at design stage. Often, the strategy is aligned to countries' broad development objectives but it needs to go further and identify a specific 'pillar' or 'goal'. This fit is of critical importance because first, it makes it easier to identify and allocate the necessary funds, and second, it increases the chances for effective monitoring of activities and results.

Another reason for the low level of strategy implementation arises out of a mismatch of what is needed and what partners can offer. Through the efforts of development partners many LDCs and small states now have some indication of priority sectors or toolkits to undertake the basic analysis required. Nonetheless, even where the strategy is developed there is often need for technical assistance to support implementation in areas such as co-ordination, mobilising resources, building alliances, training and capacity building. This is where many countries fall short. However, these 'softer' issues are outside the mandates or project scope of many donor-funded programmes. There is need for practical, hands-on support to a) incorporate services in a country's national or sectoral development strategies, b) revise organisational mandates and structures to define new roles, c) design and deliver ongoing awareness training at various levels, and d) work with service providers to develop, execute and monitor export. Stakeholders in business need to be equipped in order to become effective counterparts to governments. Business support organisations must be supported to facilitate consensus building and carry out some research and analysis to underpin their requests for action by different arms of government. Once strategies are

18 *Goswami et al.* 2012.
19 *ibid.*

launched, lead agencies need to prioritise activities and embark on those where limited resources are required first.

The fourth set of implementation challenges is to do with co-ordination. Getting the key ministries, departments and agencies to work together is often a significant challenge especially in the social sectors (where business and public interests are perceived to be contradictory), but also in other areas such as works and constructions (where compliance with national standards is a requirement for services exporters, regardless of the market being targeted). In order to build relationships, it is essential that partner organisations understand their roles, the costs involved and the benefits that accrue with engagement. This is not always well articulated once a strategy has been designed as there is often no forum to discuss such issues. Experience demonstrates that involving the right people from the start of the initiative – i.e., before the strategy is developed – is more likely to stimulate collaboration at the implementation stage.

Collaboration is also required among development partners. This can be a challenge especially where efforts to develop services are supported by an organisation without local presence. Effective collaboration is required to bridge the gap between partners with mandates limited to the provision of technical assistance, and those whose remit extends downstream. For instance, in developing frameworks to develop services in Malawi and Nigeria the Commonwealth Secretariat was able to bring on board locally-based donors to fund selected priority activities. Positive results have also been realised through incorporating services issues into existing donor-funded programmes, dialogue events and co-ordination structures initially designed for goods. Line ministries responsible for engagement with development partners should involve relevant government agencies and private sector entities so that priorities are determined in good time for consideration for funding.

Conclusions

In the last five years, 25 developing countries have seen growth in services exports that is higher than the global average. Moreover, services exports in developing countries contribute on average 15.0 per cent to total exports and services contribute 54.3 per cent to GDP, indicating that trade in services offers a great opportunity for economic development. Governments therefore have an important role to play in encouraging services export growth by adopting the following approaches:

Improving market access through negotiations in the World Trade Organization, regional trade agreements and bilaterally. Governments should support the establishment of high level services negotiations committees, comprising both government and private sector members. Such industry-led arrangements have been successful in many countries[20], but there are also significant challenges. These are: capacity of government officials and members of the committee to undertake research and analysis; co-operation and interest of private sector service providers to participate (actively and openly); costs and resources required (to fund surveys); and sustainability of the structures over time (many of the negotiations take years, which makes it difficult to maintain interest, commitment and resources).

Creating an enabling environment for services. Governments need to review legislation, regulation and administrative procedures relating to exports in general, and services export in particular, as well as specific sectoral legislation in target sectors. To do so, governments must first know and understand the priority services export sectors with comparative advantages and the constraints they face. In this, close collaboration with the private sector is vital.

Governments should also examine incentive options for service providers to formalise their businesses (for example, by supporting incubators).

Export promotion. Governments need to prioritise services exports within national policy with a fully resourced agency to take the lead in the promotion of export in services. This includes targeting international services networks and professional associations as a means to promote sub-contracting, identifying public procurement opportunities, engaging with the diaspora and branding individual sectors. The funding mechanisms should be designed in such a way as to encourage cost sharing.

Strengthening services 'apex' organisations. Not only are they important for developing industry linkages in target markets, but also in lobbying and policy advocacy, establishing standards and qualifications and advising government agencies on sectors or markets of export interest.

Involving the right people *before* the strategy is developed is more likely to stimulate collaboration in the implementation stage

Developing factors of production for services. Governments need to ensure the country has in place the level of ICT infrastructure and highly educated personnel required for the development of services exports. This requires long-term strategies and spending commitments, combined with regulation and stimulus packages. Short-term policies need to be developed within a longer-term strategy for education and ICT infrastructure in a sustainable way.

Lessons for governments

The role and potential impact of government support to trade in services is clear. Experience of providing strategic advice to governments throughout the Commonwealth has shown that despite provision of information on the benefits, there appears to be little real commitment to changing policy priorities towards services exports. There are a number of reasons for this slow pace of implementation:

- High-level government does not understand the significance to the economy (actual and potential) of services exports, which are largely invisible and so less politically attractive. More long-term promotion is required by the private sector and other agencies involved raising awareness amongst politicians and policy-makers, for example symposiums to discuss issues, national debates, publications and guidebooks, conferences and seminars, as well as cabinet level submissions.
- There is no lead agency dedicated to services trade. Although the ministry responsible for trade should technically lead, they are usually more interested in trade in goods and industry.
- There is insufficient collaboration with ministries responsible for specialist areas. Some ministries (trade) do not understand many of the sectors (e.g. education) whereas line ministries do not understand commercial needs (e.g. health officials understand provision of health but not attracting paying foreigners).

20 *For example, the United Kingdom has a long history of a services industry lobby, including the International Financial Services London (IFSL) for financial services, while the Liberalisation of Trade in Services (LOTIS) Committee and the High-Level LOTIS Group constitute a strong corporate-state alliance with permanent participation (as 'observers') from the Department for Business Innovation and Skills, Treasury, Foreign Office, Bank of England and Financial Services Authority.*

There is therefore an important role for development partners, national and international associations (including regional services coalitions) to support governments in building capacity to design and implement frameworks to improve services trade. While developing a strategic framework can take several months, reaping the benefits takes longer. Services development is complex and multi-sectoral. It requires time and money. Therefore, governments and partners in development must set a longer time horizon in designing interventions. More resources need to be allocated towards implementation. Collaboration at all levels needs to be strengthened, as it is only through joint efforts that the potential of services to contribute to sustainable development in small states and LDCs can be realised.

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