The Role of Government in Development of Services Trade

*by Mark Hellyer*

*CTA Economic & Export Analysts Ltd (www.ctaeconomic.com)*

**Introduction**

The contribution of services to GDP in many developing and Least Developed Countries (LDCs) amount to in excess of 40% and a large proportion of the workforce is employed in the services sector. Therefore, services and trade in services offer a new opportunity for development of the economy, especially since services tend to be very dynamic and lead to the creation of new and better value jobs.

Services trade has been boosted in recent years by a number of factors including developments and convergence of Information and Communication Technology (ICT); relative ease of travel, socioeconomic factors, including demographic shifts and lifestyle preferences amongst others. Developing countries such as India, the Philippines and Mauritius have demonstrated that professional services in particular offer a viable avenue for wealth creation, export growth and economic development. 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). Generally, LDCs have consistently negotiated exemptions in the GATS but have in some cases embarked on far reaching liberalisation, with positive outcomes in some cases

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 only 7.5 per cent per annum. As a result, the market share of developing countries’ exports in world imports of services has grown from 22.1 per cent in 1995 to 31.3 per cent in 2010. In the last 5 years, the average rate of growth of developing countries exports 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. The only region that has not experienced greater than average growth has been the Caribbean region.

**Table 1: Growth in Services Exports**

|  |  |  |
| --- | --- | --- |
|  | Share in World Services Trade | Average Annual growth in services exports |
|  | **1995** | **2006** | **2010** | **1995-2010** | **2006-2010** |
| Developing Countries | 22.1% | 26.7% | 31.3% | 10.2% | 12.8% |
| Developing Countries (excluding China) | 20.6% | 23.3% | 26.6% | 9.5% | 11.8% |
| Least developed Countries | 0.5% | 0.5% | 0.6% | 9.1% | 13.6% |
| African developing countries | 2.3% | 2.4% | 2.5% | 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% | 9.1% | 13.3% |
| Asian developing countries | 16.2% | 20.6% | 25.1% | 10.9% | 14.0% |
| World |  |  |  | 7.5% | 8.3% |

Source: Calculated from UNCTADstat Values of exports and imports of services 1980-2010

Moreover, it can be seen that growth rates have accelerated in recent years, especially in Asian and South American developing countries, as well as Least Developed Countries, where average annual growth of services exports have been over 13 per cent per annum.

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

Of the developing countries representing more than 0.05% per cent of global services trade,[[1]](#footnote-1) the fastest growing exporter with average annual growth in exports over the last 5 years (2007-2011) was Mauritius growing annually by 22.5 per cent, followed by Philippines (20.3 per cent), Pakistan (18.8 per cent), India (17.1 per cent and Bangladesh (16.8 per cent). Other fast growing services exporters are Malaysia and Brazil (14 per cent), Thailand and Ethiopia (10 per cent) and Columbia and Chile (9 per cent). All other developing countries grew at or below 8 per cent, that is the global average growth rate.

A number of developing countries are successfully developing exports of services with a major impact on their growth and prosperity. However, there is on-going debate and research on the criteria and conditions that make countries successful services exporters and what role governments should play in stimulating such growth, both in the short and long term. Can governments influence the process? Should government’s role be passive (simply providing a conducive environment for services trade) or proactive (promoting and stimulating specific services sectors)?

Therefore, this paper will examine through empirical evidence and case studies, 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, infrastructure development etc). Finally, it will discuss what governments should be doing to ensure growth in services export.

**Negotiating Market Access**

Market access is a key determinant in the providing an opportunity to compete internationally, whether in exports of goods or services. However, services exports face a range of more complex barriers to market entry than goods, not least due to the fact that there are different ways to deliver services. Whereas a good is delivered physically through transport, a service can be delivered cross- border (mode 1), more often electronically but also physically by courier/post; consumption abroad (mode 2) when consumers visit the supplier in their country; commercial presence (mode 3) when an exporter establishes an office in the market and; presence of natural persons (mode 4) is the temporary movement of workers to the market to deliver the services. Some of the market access barriers in services include non-recognition of qualifications; restrictions on foreign participation in the market (including public procurement); licensing/quotas restricting number of operators; accreditation procedures (costs and nationality); restrictions on visas and work permits; protection of intellectual property; registration and certification (including transparency in procedures) and many others. 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 WTO General Agreement on Trade in Services (GATS), plurilateral level such as the WTO General Procurement Agreements (a large component of which is market access to public works and services contracts), regional within economic groupings and bi-lateral, usually part of free trade negotiations but could also be mutual recognition agreements for qualifications.

*WTO General Agreement on Trade in Services (GATS)*

GATS provides the overall 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 first 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 to up to 11 defined services sectors[[2]](#footnote-2). Only EU, Japan and US made commitments in all 11 sectors.

The impact of liberalisation of services trade and improved market access is difficult to assess. There are few studies that examine the impact and no empirical evidence at all (partly due to lack of statistics in this area). Examination of the average rate of growth of services exports prior to 1995 and post 1995 show an actual decline in rate of growth globally and in all groups except developing countries.

**Table 1: Average Annual Growth in Services Exports**

|  |  |  |
| --- | --- | --- |
|  | 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 1980-2010

However, it is difficult to draw any conclusions from such raw data as there are many other factors that affect growth in trade in services, not least the extent of liberalisation by sector within the GATS. Moreover, negotiations and commitments provide opportunities for the development of trade in services, which, are not always realised. For example, the global trend in outsourcing, really only took off in mid 2000’s. Average annual growth in world exports in services was 15% (2005-8) compared with 8.0% (1995-2004) and 10.8% (1985-94). UNCTAD observed[[3]](#footnote-3) that services generally need to be consumed real time and the technology for this only developed reliably and economically from 2003 onwards. Therefore, it could be that GATS provided opportunities but 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 WTO (Doha Development Round), further commitments are being negotiated through an offer and request system. WTO members will request market access from other members and then make offers of commitments in response. However, the level of active participation of developing 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 amongst others. Developing countries need to be much more proactive in requesting specific sectoral liberalisation for 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 Least Developed Countries 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, initially entered into force in 1996 and coverage renegotiated in 2011, providing improved access to its members of an additional[[4]](#footnote-4) US$80-100 billion of public contracts. Under the GPA, each member agrees 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 each member and 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 India, China and Jordan. Membership of the GPA could offer developing countries an opportunity to access services and works contracts increasing services exports.

*Regional Free Trade Agreements*

A number of south-south free trade areas/agreements have promised GATS plus commitments, including: South Asian Free Trade Area; Caribbean Single Market and Economy and; ASEAN. The focus of recent analysis on these regional agreements is the extent to which commitments go beyond GATS rather than the actual impact. This is perhaps because few regional agreements have been successful. For example, Corbett (2008) 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 do 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.”

However, ASEAN seem to have made better progress with the development of Mutual Recognition Agreements (MRAs)[[5]](#footnote-5) to facilitate services trade. Seven mutual recognition arrangements have been concluded amongst its member states:

* 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 amongst developing countries to liberalise trade in services, which could then lead to growth and experience for regional service exporters, making them more competitive both within and outside the region.

*Bi-lateral Free Trade Agreements*

Bi-lateral 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 FTA agreement with Chile (2002)[[6]](#footnote-6) allowing an annual quota for visas of 1,800. However, this caused opposition in Congress and since then, no free trade agreement has included mode 4 commitments. Canada has a more liberal approach and in its recent FTAs with Columbia and Peru, allows for mode 4 for professional services without quota and no maximum length of stay and, additionally allows 50 categories of technicians entry without restriction. The EU has few FTAs that include substantial services provisions beyond that which it offers within GATS. The EPA with CARIFORUM is a notable exception which allows for 29 categories of professionals entry without quotas and also extended its definitions to categories that Caribbean governments detailed as important such as independent professionals and graduate trainees. Again there appears to be much scope for developing countries to include GATS plus provisions in bilateral FTAs.

**Creating and Enabling Environment**

The legislative and regulatory environment of a country can affect their global competitiveness and ability to export. Therefore, governments can encourage (or discourage) trade in services through the creation of an enabling environment. A range of different legislative and regulatory areas needs to be considered by governments: overall export (goods and services) conditions; specific treatment for services exports in general; sector specific environment; formalisation of services exports and; incentives regimes for export of services.

*Regulation of Exports in General*

One of the most important factors affecting growth in exports of services is the legal recognition of trade is services as an export. In many countries, the majority of the legislation affecting exports is developed explicitly for trade in goods and excludes (or simply does not include) export of services. Therefore, there is unequal treatment of export of goods and services. For example, Ghanaian services exporters must pay VAT on the exported amount. Since services exporters cannot officially charge this to export customers, this simply raises the price of Ghanaian services exports and reduces competitiveness.

As well as unequal treatment of services and goods, there is also much ambiguity in legislation and very uneven treatment of services exports by national authorities; even if the law does not specify the exclusion of services exports, tax inspectors and other authorities often ignore laws and treat services exports as national sales. This can be even more difficult with mode 2 exports where customers come to the country and consume there. For example, in Jamaica it is recognised that tourism is an export sector and is treated accordingly including enjoying exception from import duties for capital equipment whereas a private hospital with 100% foreign clients for specialised heart treatment, was required to pay 5% import duties on import of a multi-million dollar diagnostic machine. This raises the costs of non-tourism services sectors in Jamaica and creates a domestic and foreign investment bias towards tourism.

*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 the examination and reform of these more general issues. These issues include ensuring availability of human capital (work permit regime for use of foreign professionals); ensuring a competitive delivery system (mode 1); easing consumers access to the market (mode 2); facilitating commercial presence of national companies in other markets (mode 3) and other legislation affecting all modes of delivery.

Competitive services exports rely mostly on availability of quality human capital at a favourable cost. Countries, especially small countries, often require to “import” workers with key skills if they want to be able to export services. Therefore, a conducive environment for work permits is needed to allow firms to get the right number of appropriately qualified personnel. However, there is often resistance nationally for such an approach due to the desire to maximise employment. In fact, imported professionals are generally more expensive in developing countries (for wages and living allowances) so firms would naturally prefer to use nationals, provided they have the skills. Without such skills, the services exported may not be able to be competitive. For example, in Jamaica a private hospital required highly specialised nurses to operate their diagnostic machinery, which was not available nationally, but immigration authorities would not grant work permits as Jamaica has a large pool of nurses (although not qualified to operate the equipment).

Competition policies affect both the competitiveness of the individual services sectors themselves and the ability of other sectors to deliver their services. This is particularly true for mode 1 where delivery of services is principally through international telecommunications (costs, reliability and availability can be determined by the level of competition in the national telecommunications market). For example, in Antigua and Barbuda the government has given exclusive rights to fixed line telecommunications including cable; there is also deficiency in price regulation. As a result, telecommunications costs in Antigua are amongst the highest in the region.

Another important mode of delivery is consumption abroad, which relies on consumers travelling to the country to consume the service locally. Therefore, ease of entry to the country exporting the services is essential. Facilitating ease of obtaining visas from target markets is a prime regulatory and administrative objective for governments as well as costs of visa, airport taxes and exit taxes.

For delivery of services exports through commercial presence (mode 3) much of the legislation that could facilitate and encourage growth of exports lies with the “importing” countries’ governments (which can largely only be addressed by the exporting government through negotiations). However, governments can address some issues that affect commercial presence within corporate legislation, especially regarding taxation. For example, if a services provider opens an office in a country that its government does not have a double taxation agreement with, then taxes on turnover may be due in the importing country, and then again on repatriated profits in the exporting country. This obviously discourages exporting through mode 3.

Other legislation and regulations will affect the growth and potential for export of services including FDI policies which could encourage export orientated investors such as call centre establishment. Such policies may include equity participation, repatriation of funds, and incentives. For example, Grenada’s and Ghana’s export processing zone authorities actively promote FDI into the zones, with all the fiscal advantages whereas other countries have previously restricted or limited FDI in services sectors, such as Maldives and Malaysia.

*Sector Specific Legislation and Regulation*

Legislation and regulation in specific services sectors can affect the export and growth potential of a country in that sector. Obviously the types and range of actual legislation vary greatly between sectors and need to be addressed by governments on a case by case basis, but there are a few common themes: competition; conflict between national and international provision/regulation; recognition of qualifications prior to practise and; data protection and confidentiality.

Restrictions in participation in a services sector nationally can prevent the growth of services exporters in a range of sectors. Limits and quotas on licensing service provider’s raises domestic costs and limits the interest in exporting (as those operators already have a high profit domestic market). This can especially apply with limiting private sector participation in areas dominated nationally by public sector in health, education as well as highly regulated areas such as telecommunications and transport. This can also apply to accreditation requirements – professional service providers may have to be accredited to national bodies which have no relevance to the target export markets and who have completely different standards and criteria. In such cases, many service providers may have to adopt dual accreditation which raises costs. Other sectors may simply prevent participation except to national standards. For example, in Ghana, private tertiary education bodies had to, by law, follow the national curriculum for specific topics aimed at addressing the needs of national population whereas some private schools wanted to wholly attract foreign students following a very different “international” curriculum. When these requirements were reformed, the number of private institutions grew rapidly, attracting many foreign students from the region.

There can also be restrictive legislation in some sectors that nationally have different objectives, especially socio-economic services such as healthcare and education. Laws and regulations are often solely targeted at national policy objectives which adversely affect the potential for exports. For example, blanket bans on the import of blood products (on protection of health grounds) limits the potential for medical diagnostics exports. Closely related to this is 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 not able to be licensed to practise (even though all clients were to be Spanish and wanted Spanish qualifications). To be licensed, experienced Spanish doctors would have 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 BPO and medical sectors and recent high profile cases have highlighted the need for stronger legislation and enforcement – for example the case of Indian BPO company selling UK medical records and another selling credit card details.

*Formal versus Informal Services Trade*

A lot 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 larger staff members. Governments need to develop policies to encourage the formalisation of these providers with low tax/simple tax rates, facilities such as incubators and lower cost/free access to support services. Such provisions could actually encourage the development of services exports, especially relating to ICT sectors and ICT incubators are being used in Bhutan, Armenia, 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 the graduate unemployed.

**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: national awareness; international export promotion and; strengthening services trade associations. The first task for government is to prioritise services exports within national policy and mandate appropriate government agencies to take the lead in the promotion of export in services (with adequately resources). In the case of India, the government created a dedicated agency in 2006 for the promotion of services exports, the Services Export Promotion Council. The aim of the Council is undertake international export promotion; act as interlocutor between government and private sector; provide and administer services export incentive programmes; develop national plans and; liaise and organise 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[[7]](#footnote-7) across the world is 68.5% and whilst lower, the contribution of services in developing and Least Development Countries are significant at 54.3% and 42.1% respectively. Services in African developing countries contribute 45.6% whilst in the Caribbean, services contribute the highest level amongst developing countries of 67.9%, South America 61.1% and Asia 48.6%. Despite this 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 lack of statistics on specific services sectors. Governments need to develop systems to collect and analyse services export data and publish and distribute the results nationally. This will help improve understanding of the sector and highlight the specific areas of growth and what sectors contribute most. This kind of national awareness raising will not only aid policy prioritisation within government, but will also encourage greater participation in services exporting and better understanding from business support facilities (such as finance and banking provisions for services exporters).

*International Export Promotion*

Services exports contribute a high percentage to overall trade with the share of services exports in total exports (including goods and services)[[8]](#footnote-8) in developing countries of 15.0%. The share for least developed countries is less at 12.3% with the highest contribution to exports amongst developing countries in the Caribbean at 49.9%, Asia 15.3%, Africa 15.2% and South America lagging behind with 12.2%. Despite this, 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). However almost 100% of its resources are dedicated to promoting non-commodity products, which represent 17% of total exports whereas services exports are estimated to represent 16%. There is only 1 staff member (out of 30 professionals) allocated for promoting services exports with the remainder concentrated on non-commodity products. Therefore, governments need to commit appropriate resources to development of services exports within an overall strategic plan.

Like any other export sectors, one of the major tasks for the export promotion agency is provision of market information for exporters. This requires data and information on market size and trends, market entry requirements and potential customers by services sectors/sub-sectors. However, services data and research is much more difficult and information much less common (including statistics) than 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. Information on market entry requirements for services exporters will need to be provided including, business visa details, qualification requirements and restrictions on practise. Full use of GATS enquiry points which each WTO member is obliged to establish should be used to obtain this type of information.

In addition, market information is required, in a form usable to services exporters. This can include identifying and analysing relevant public procurement contracts in other countries exporters are eligible and interested in participating in. This would also include donor and develop bank contracts such as World Bank, AfDB, ADB, Inter-American Development Bank, EIB, EBRD etc (these contracts are sometimes easier for companies to participate in than other government contracts in foreign countries).

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 target 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 of the same sector through professional associations and participation in international networks of professionals. For example, Indian software companies gained entry to the global market initially through subcontracting to US and EU software houses and 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, compared with goods, is the use of diaspora. The diaspora have a role in being amongst the first clients for exported services, especially in small countries. For example, in Armenia webpage developers and administrators grew from selling directly to diaspora populations in California (where the Armenian diaspora is greater than the population of Armenia) who found costs much lower in Armenia than California. Then through “word of mouth” the business expanded to other businesses and individuals. Other sectors have also benefited from diaspora such as medical tourism services whereby diaspora have found treatments (especially dental, annual check-ups and routine treatment rather than elective surgeries) less costly than in their countries of residence. For example, in the case of Jamaica, approximately 5-10% of private sector hospital and 25-30% of dental practises’ turnover is from diaspora business.

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 through branding. A brand also has to be developed for each individual services sector. For example, India has successfully developed an international reputation in several services sectors – BPO (call centres), medical treatments and software development.

*Strengthening National Services Associations*

National services associations play an integral part in export promotion of services. Not only are they important for developing industry linkages in target markets, but they also have an important role in national lobbying of regulators and policy makers, establishing standards and qualifications and accrediting these internationally to allow access to specific markets. However, services associations are generally weak in most countries and many are focused on national, rather than international market development issues. Part of the problem is that although services exports are significant in total (around 15% of total exports), this is spread across a number of services sector so individual services sectors may be relatively small. This creates funding and capacity issues for these associations. Moreover, within each services sector, the individual firms exporting services tend to be fairly secretive, not wishing to add (perceived) competition from other national service suppliers. These issues are exacerbated, the smaller the country. One solution to this issue has been the establishment of services coalitions as umbrella support organisations. However, funding and capacity of these umbrella associations still remains an issue. Governments in some countries 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. For example, The Coalition of Services in Jamaica is fully funded by the Government through Jamaica Trade and Invest (JAMPRO).

**Other Government Activities and Policies**

There are a number of other investments that governments can do to promote and encourage exports in services relating to the development of inputs required by services providers. In the short term, governments can develop and fund training for new and existing services in order 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 encourage skills and participation in export of services combined with investment in education, especially tertiary level, to provide a pool of trained professionals able to provide services skills to the industry.

*Training*

Some governments have instigated training courses for specific services industries aimed at export development. For example, in the Caribbean many governments (Antigua, Barbados and Guyana) have subsidised training of US certified medical transcriptionists in order to address unemployment. In each country, up to 1,000 transcriptionists have been trained and employed in local or joint venture BPO companies. However, training needs to be continuous to upgrade skills and remain competitive, moving up the value chain (for instance from transcription to coding and billing) and avoid price pressures or decline of the industry. For example, in Barbados half of the medical transcription industry has collapsed within 5 years after one of the two transcription companies lost contracts to price competitiveness. The other company survives as it was able to lower wage costs.

*Providing ICT Infrastructure*

Competitive delivery of services exports through direct delivery (mode 1) requires fast, reliable and cost effective ICT infrastructure, and for real time delivery such as call centres, it is usually expected that there is access to at least 2 submarine fibre optic cables (in case of outage/damage to one which is a frequent problem). Also 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 PPP and/or with government fiscal incentives. For example, in the Philippines, tech parks receive incentives, as do their clientele who establish there and as a result, there are currently more than 159 tech parks in operation with another 62 under construction.

*Promoting Internet Usage*

The greater the use of the internet amongst the wider the population, the greater the scope for entrepreneurs to use the internet for their business and the greater the potential for export of services. In addition, the more people that use the internet, the greater the available skills set which lends itself to services export. A recent World Bank study[[9]](#footnote-9) 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 which has a low level of exports of services, but high level of internet penetration. India has overcome this constraint with the development of tech parks which has reliable access and therefore, industry tends to be more clustered. Malaysia, on the other hand has had conservative national policies towards export of services, hence relatively low level of exports.

*Level of Education*

High-end services exports rely predominantly on the available pool of labour. Without this pool, exports of services are constrained. For example, in Grenada, there are 2 successful call centre operations but due to shortage of graduates, these call centres cannot expand. Therefore, in the long run, government needs to invest in higher education. A World Bank Study[[10]](#footnote-10) shows a high level of correlation in developing countries between the level of tertiary education enrolment and the level of services exports.

**Conclusions**

In the last five years, developing countries’ growth in services exports has been higher than the global average. However, this relative success is attributed to only 25 countries whilst the remaining developing countries have grown at less than the global average.

**Table 3: Average Growth in Services Exports**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Average 5 Year Growth Rate | 22-30%  | 17-22% | 12-17% | 9-12% |
|  | ChinaLao PDRMauritiusSurinameYemen | IndiaNepalPakistanPhilippinesTongaUganda | BangladeshBrazilLebanonMalaysiaNicaraguaSamoaVanuatu | ColombiaEthiopiaIndonesiaJordanParaguayThailandUruguay |

Source: Calculated from UNCTADstat Values of exports and imports of services 2006-2010

Moreover, services exports in developing countries contribute on average 15.0% to total exports and services contribute 54.3% to GDP. Therefore trade in services offer a great opportunity for economic development and therefore, governments have an important role in encouraging services export growth.

*Improving Market Access through Negotiations*

The level of market access for developing countries in developed countries is limited, even within the GATS. Developing country governments need to actively include and pursue commitments in specific sectors and areas to obtain meaningful access, rather than simply asking for cross sector access for all workers. This means that government negotiators need to better understand the sectors that their country is and can export to specific target markets, the market access barriers they are facing and the remedies required. It is only on this basis that meaningful negotiations can take place. However, experience of working directly with services trade negotiators in Ghana, Malawi, Maldives, Antigua and Barbuda and Ukraine[[11]](#footnote-11) highlight a total lack of understanding of current services exports, priority sectors with comparative advantages and market access constraints to be addressed. This lack of understanding is a result of poor quality of statistics available, absence of any research and lack of coordination and consultation with the private sector. As a result, many developing countries negotiate services related trade agreements in a vacuum. What is required of governments is to establish a high level services negotiations committee with a number of sectoral sub-committees or working groups with both government and private sector members. Such arrangements have been shown to be successful in many countries. However there are a number of challenges that such arrangements face: capacity of government officials and members of the committee to undertake research and analysis; cooperation 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 eg current GATS and it is difficult to maintain interest, commitment and resource over such a long time).

Access to public procurement is important for trade in services opportunities but responsibility and interest (even awareness) of public procurement negotiations is weak. For example, the value of EU public procurement is in excess of US$ 2,500 billion[[12]](#footnote-12) and access to even part of this would represent great opportunities for services exports. Public procurement opportunities, rules and barriers, as well as national capabilities and interest in participation is needed to prepare for both services market access negotiations, as well as specific public procurement negotiations such as the WTO General Procurement Agreement (GPA). However, public procurement negotiations attract opposition nationally as they are often reciprocal in nature and national suppliers want to protect their protected markets despite the the benefits usually being greater than the losses in national markets.

*Legislative and Regulatory Reforms*

Clearly in order to create the right environment to encourage and develop the export of services, governments need to review legislation, regulation and administrative procedures relating to exports in general, services export in particular, as well as specific sectoral legislation in the export sector being targeted for growth. This assumes that government firstly understands and knows which are the priority services export sectors with comparative advantages and the constraints they face. In this, close collaboration with private sector in reviewing and instigating reform is needed.

Equally important is collaboration across government amongst the various Ministries, agencies and regulators active in these sectors, as well as the lead trade Ministry. However, the challenge is often in creating a meaningful collaboration and commercial approach, especially in social areas such as health and education, but also in other areas such as works and constructions (where compliance with national standards are requirements for services exporters, regardless of the market being targeted).

This requires real policy direction and leadership and willingness to engage in reform, whilst still addressing national issues and problems. This must be backed by research and analysis to understand what other export markets demand so that a viable industry can be developed alongside a national market/delivery of services.

*Role of Governments in Services Export Promotion*

Promotion of services exports is one of the key factors in developing successful services exports. Government needs to prioritise services exports within national policy with a fully resourced promotion agency to take the lead to the promotion of export in services. This agency then needs to systematically collect and analyse services export data and publish and distribute the results nationally to raise the profile of services trade.

As well as the provision of market information, export promotion activities should be well resourced to promote services, especially targeting international services networks and professional associations as a means to promote sub-contracting, as well as identifying public procurement opportunities, diaspora strategy and branding individual sectors. However, such activities are costly and the contribution of government to meet the export promotion costs are debatable and require a balance between need to assist under-resourced infant industries and the long term sustainability of such activities.

Governments need to encourage and strengthen services trade associations who can play a pivotal role is establishing industry linkages, lobbying government and establishing internationally accredited standards and qualifications. Again, the key issue is how government should achieve this, through subvention or capacity building?

*Developing Factors of Production for Services*

In the long run, governments need to ensure that the country has the factor endowments required for the development of services exports, that is ICT infrastructure and highly educated personnel. This requires long term strategies and spending commitments, combined with regulation and stimulus packages.

The shorter run policies of funding specific investments in training and infrastructure such as tech parks is less straightforward. In the case of tech parks in India, the policy has been required to overcome specific constraints and shortcomings. However, in Barbados, the investment in training has been less successful as it was one off and not sustainable. 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. However, experience of providing strategic advice to governments throughout the Commonwealth has been that, despite provision of information on the benefits, there appears to be little real commitment to changing policy priorities towards services exports; there are many good services export strategies sitting on shelves not being implemented. This is even the case in countries where services contribute significantly to GDP. There are a number of reasons for this lack of implementation:

1. High level government does not understand the significance to the economy (actual and potential) of services exports. Services are largely invisible and so less politically attractive. More long term promotion by private sector and other agencies involved is required to raise the profile amongst politicians and policy makers such as symposiums to discuss issues, national debates, publications and guidebooks, conferences and seminars, as well as cabinet level submissions.
2. There is no lead services Ministry dedicated to services trade and more significantly, responsibilities are across a wide range of Ministries (Health, Communications, Works, Education, Transport). Although the ministry responsible for trade should technically lead, their interest is usually secondary to trade in goods and industry. In order to overcome this constraint, a national champion needs to be identified at a Ministerial level to push the services export agenda.
3. Governments officials also lack the capacity to implement the strategies and have a relatively low level of skills and understanding in the area of services export. Some Ministries (trade) do not understand many of the sectors (eg education) whereas line Ministries do not understand commercial needs (eg health officials understand provision of health but not attracting paying foreigners). In these cases, training and capacity building are required.
4. Given this lack of understanding and capacity, combined with overall lack of understanding at a high level, there could be an important role for development partners, national and international associations (including regional services coalitions) in promoting the benefits and providing capacity building.

References

Australian Chamber of Commerce and Industry (2008) “Trade in Services - Not Just A Poor Cousin to Manufactures” The Journal of Commerce and Industry

Butkeviciene, Jolita, David Diaz Benavides and Manuela Tortora (2002) “Services Performance in Developing Countries: Elements of the Assessment” WTO Symposium On Assessment of Trade in Services

Corbett, Jenny (2008 ) “Services Trade Liberalisation in the ASEAN Economic Community and Beyond” Economic Research Institute for ASEAN

Fan, Ying (2011) “Services Policy Reform in the People’s Republic of China: Before and After the Global Financial Crisis” ADBI Working Paper Series

Goswami, Arti Grover, Aaditya Mattoo, and Sebastián Sáez (2012) Exporting Services: A Developing Country Perspective World Bank

Hellyer, Mark “Selling to the EU under the DCFTA: The Benefits of the EU Ukraine Deep and Comprehensive Free Trade Agreement” UK Foreign and Commonwealth Office

International Trade Centre (2006) “Successful Services Exporting: Programme Implementation Guide for Trade Support Institutions (TSI’s)” ITC

Macrory, Patrick and Sherry Stephenson (2011) “Making Trade in Services Supportive of Development in Commonwealth Small and Low-Income Countries” Commonwealth Secretariat Economic Papers

Mikic, Mia (2009) “ASEAN and Trade Integration” UNESCAP Staff Working Paper

Mishra, Saurabh, Susanna Lundstrom and Rahul Anand (2011) “Service Export Sophistication and Economic Growth” World Bank Policy Research Working Paper 5606

Mistry, Percy S and Nikhil Treebhoohun (2009) The Export of Tradeable Services in Mauritius Commonwealth Secretariat

Nicolaïdis, Kalypso (1997) Managed Mutual Recognition: The New Approach to the Liberalization of Professional Services, http://users.ox.ac.uk/~ssfc0041/managemr.htm

Page, Sheila and Michael Davenport (1994) World Trade Reform: Do Developing Countries Gain or Lose? ODI Special Report

Riddle, Dorothy (1999) Business Guide to the General Agreement on Trade in Services Commonwealth Secretariat and International Trade Centre

Riddle, Dorothy (2001) Successful Services Exporting: A Handbook for Firms, Associations and Governments International Trade Centre

UNCTAD (2004) “The shift towards Services” UNCTAD World Investment Report

Williams, Philip A W (2008) “Promoting Cariforum Services Exports: High Potential, But Many Challenges” Caribbean Export

World Bank (2009) “What role should governments play in broadband development?” Paper prepared for infoDev/OECD workshop on “Policy Coherence in ICT for Development”, Paris

1. 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. [↑](#footnote-ref-1)
2. Page, Sheila and Michael Davenport (1994) World Trade Reform: Do Developing Countries Gain or Lose? ODI Special Report pp 76-77 [↑](#footnote-ref-2)
3. UNCTAD (2004) “The shift towards Services” UNCTAD World Investment Report [↑](#footnote-ref-3)
4. WTO Secretariat Estimates [↑](#footnote-ref-4)
5. Mikic, Mia (2009) “ASEAN and Trade Integration” UNESCAP Staff Working Paper [↑](#footnote-ref-5)
6. Macrory, Patrick and Sherry Stephenson (2011) “Making Trade in Services Supportive of Development in Commonwealth Small and Low-Income Countries” Commonwealth Secretariat Economic Papers, Annex 5 [↑](#footnote-ref-6)
7. UNCTADStat database (2012) – Figures for 2011 [↑](#footnote-ref-7)
8. UNCTADStat database (2012) – Figures for 2011 [↑](#footnote-ref-8)
9. Goswami, Arti Grover, Aaditya Mattoo, and Sebastián Sáez (2012) Exporting Services: A Developing Country Perspective World Bank [↑](#footnote-ref-9)
10. Ibid [↑](#footnote-ref-10)
11. Donor technical assistance projects implemented by CTA Economic & Export Analysts Ltd for DFID, Commonwealth Secretariat, UK Foreign and Commonwealth Office and European Commission [↑](#footnote-ref-11)
12. Hellyer, Mark “Selling to the EU under the DCFTA: The Benefits of the EU Ukraine Deep and Comprehensive Free Trade Agreement” UK Foreign and Commonwealth Office [↑](#footnote-ref-12)