



SMALL STATES IN TRANSITION – FROM VULNERABILITY TO COMPETITIVENESS

CYPRUS

**DEVELOPING COMPETITIVE ADVANTAGE THROUGH SERVICES
EXPORT**

The Cyprus Experience

Over the last few decades we have witnessed, on an international level, a profound transformation and increase of importance of the trade in professional services. The reasons for this phenomenon are twofold: Firstly, there was a decrease and in many cases disappearance of the various structural barriers to the trade of services. Secondly, the technological revolution that has occurred and is still taking place, mainly in information technology and telecommunications, has enabled suppliers to operate internationally. The development of fax, electronic mail, computer aided design and up-to-date information technology has made it possible for suppliers of services such as banks, architects, consultants and insurance companies to provide and supervise work to distant countries quickly, efficiently and at low cost. At the same time, the development of cheap and fast air transfer has meant that skilled professional labour, which is the backbone of the sector, could move easily from country to country and provide the means for the export of services.

Although statistics for measuring trade in services and calculating the overall size of markets are, because of the nature of the sector, not very dependable, it is estimated that globally the exports of services currently account for about 20% of world exports. This compares very favourably with some years ago when exports of services accounted for 15% of world exports. Due to the rapid increase in the international trade of services it is estimated that within the next few years it may overtake trade in goods.

Equally important is the constant increase in the employment within the services sector, which is in direct comparison to the continuing decline in the employment within the industrial sectors. It is estimated that in the countries of the European Union the employment in the services sector has increased substantially since 1980 while during the same period employment in the industrial sector has decreased.

In line with international developments the economy of Cyprus has during the last three decades experienced a rapid rate of growth accompanied by a restructuring from the sectoral point of view. In the 1960's the economy was heavily dependent on the primary sectors and on the export of raw agricultural products and minerals. In the seventies, the manufacturing and the construction sectors took the lead. During the last two decades Cyprus has developed into a fully-fledged service economy. The services sector, including tourism, provides the main stimulus to economic growth. The share of the sector to GDP in 2003 accounted for about 70% compared to 65% in 1993. Insurance and business services were the main contributors followed by wholesale and retail trade and social and personal services.

The average rate of growth of the sector is substantially higher than that of the economy as a whole, which resulted in the creation of many job opportunities and contributed to the continuation of full employment conditions. Especially important is the contribution of the sector in the employment of university graduates. It is estimated that today the professional services sector absorbs the majority of the graduates of tertiary education.

The sector is increasingly becoming export oriented thus successfully counteracting the major restricting factor of a small local market. Characteristic of this is that in 2003 it accounted for 70% of receipts from the export of goods and services compared to 50% in 1980. The sub sectors with the highest development include those of telecommunications, banking, higher education and consultancy services, medical, paramedical, software and information technology and market research.

Some of the many factors that have contributed to the establishment of Cyprus as a commercial, financial and services centre in the region are the central geographic position, a highly developed socio-economic infrastructure, a sophisticated banking system, excellent telecommunications and

a highly educated workforce. Equally important are the comparatively low costs. Although the quality is very much in line with European Standards, the fees are lower making professional services from Cyprus reliable and affordable.

It is evident that this shift in recent years towards services export has enhanced the competitive advantage of Cyprus in all sectors.

The development of a professional services sector that needs a highly educated and skilled workforce has reversed to a great extent the brain drain that occurred in the 70's and 80's. High calibre graduates and scientists that worked abroad can now be attracted by employment opportunities in a rapidly expanding and demanding sector in Cyprus and thus benefit with their knowledge and experience the whole economy.

Industry has benefited as well, since the development of services based on new technology have made goods more competitive and have increased their value added.

The development of tourist related services such as hospitality services; catering, conferences and transport as well as services such as education and health have boosted the demand for goods and services consumed in Cyprus by tourists, and businessmen. The increased demand has created economies of scale and has helped overcome the difficulties posed by a small restrictive domestic base. The industry was able to increase production, attract foreign investment and become more efficient and consequently more competitive.

Successful services exporting also had a beneficial effect on the balance of payments through repatriation of profits. Furthermore, the exposure to the work practices and high standards applied in other countries has encouraged the upgrading and continuous improvement of services offered by Cypriot companies.

The Ministry of Commerce, Industry and Tourism of Cyprus recognised early the potential of the Services Sector and has the responsibility of coordinating and promoting the exports of the sector abroad. In implementing its export promotion programs the Ministry draws on its long experience and mechanism that extends to its twelve Trade Centres in carefully targeted markets, which have also undertaken the responsibility to cover the export of Services.

The activities of the Ministry in this respect are multi-purpose and are aimed principally at the promotion and advertising of the services provided in Cyprus, the identification of specific foreign markets that are suitable for each sub-sector and the adoption of long and short term promotional activities for their penetration.

Very briefly some of the main activities undertaken by the Ministry for the promotion of the export of services are advertisements, creation of a dedicated web page, organisation of missions and participation in specialised fairs and offering schemes providing financial assistance for market research and participation in fairs.

In promoting the professional services sector Cyprus has encountered over the years various difficulties and restrictions that we find are common with those encountered by other countries trying to promote services abroad.

Briefly these were the following:

- Unavailability of accurate statistical data
- Lack of motivation of services exporters for participation in various schemes
- Professional services are a difficult concept to promote because are difficult to define
- Difficult to identify suitable markets
- Need to train trade officers who serve abroad on new promotion techniques
- Not many tools offered for the promotion of services (specialized exhibitions etc)
- Services are fairly new and academic research is in its early stages
- Small domestic base
- Lack of market information on specific services sub sectors.
- Lack of skilled personnel.
- Barriers of entry and restrictive practices encountered in various countries
- Initially Cypriot services providers not known in many new or emerging markets.

In order to tackle these issues the Cyprus Government through the Ministry of commerce, Industry and Tourism has developed and implemented a number of strategies.

These strategies aimed among other things at the technological upgrading of service providers, encouragement for participation in fairs and market research and the development of more efficient ways of promoting services abroad.

In order to achieve wide exposure for the services provided in Cyprus the Ministry in cooperation with the private sector organises seminars and missions abroad which aim to promote Cyprus as a Services and Business Centre. These activities have been very successful as they enable suppliers of services to identify specific users of services in various foreign markets and facilitate ways of contacting them. These seminars are also important in informing users of services abroad of the high standard of this sector in Cyprus.

Furthermore, the Ministry has started participating in specialised exhibitions in various countries as it is believed that this not only gives the participants the opportunity to promote their services but it also enables them to observe the latest developments in their sectors. However, a major difficulty encountered in doing this is that unlike manufactured products there are not many of these specialised exhibitions for services.

An extensive advertising campaign has been undertaken to highlight the advantages of using Cyprus services providers for joint projects in third countries. The campaign involved the insertion of advertisements and articles in well-known international publications and the production of a film that was shown widely abroad. Although the campaign has been very successful it has been difficult to evaluate the results in specific countries regarding specific services sub sectors.

Other schemes include the introduction of incentives to encourage services suppliers to acquire international ISO, which will act as an international passport to foreign markets, the offering of various incentives for the upgrading of the services offered and the constant training of employees in matters regarding new technology.

In conclusion, it is fair to say that services have acted as a vehicle for further development and aided the increase in competitiveness for products and services produced in Cyprus. Furthermore, they have enhanced Cyprus's position as an international centre for the establishment of companies that want to invest and operate in the area.

As services is a fairly new area there are no tried methods of promoting and developing them. The methods used are on a 'hit and miss' basis and are evaluated and improved on the way. Also due to the difficulties in collecting statistics on services it has not been easy to assess the results and effectiveness of various methods and strategies used.

In Cyprus we have found that exchanging views and experiences with other agencies and Government departments that undertake the promotion of services in other countries was of great help. There was a great willingness to exchange information and in many cases a permanent discussion forum was established to aid this process.

Finally, the Ministry of Commerce, Industry & Tourism of Cyprus has also benefited from assistance given by the International Trade Centre (I.T.C) and the Fund for Technical Co-operation of the Commonwealth Secretariat. These projects included the upgrading of information systems, the evaluation of the services offered, the identification of suitable markets and the setting up of a specialised web site.