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EXPORT OF SERVICES: HYPE OF HIGH POTENTIAL? –
IMPLICATIONS FOR STRATEGY- MAKERS

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Exporting Business and Professional Services: Exporting Solutions

Ghana's Experience

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EXPORTING BUSINESS AND PROFESSIONAL SERVICES: EXPORTING SOLUTIONS

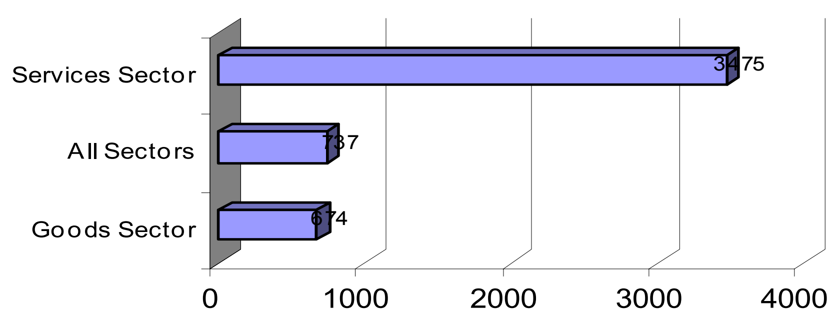
1. BACKGROUND

Services now account for approximately two-thirds of world economic activity. Trade in services contributes over 20 percent of world trade and over US$ 1.3 trillion annually. More than half of the world's workforce is employed in services firms and they currently also create most new jobs. The share of services in the natural products industry of most countries has risen steadily during the last four decades to reach 72 percent of GDP in developed countries, 52 percent in developing countries and 57 percent in CEE countries in 2001 (UNCTAD, 2003f). New information and telecommunications technology are continually increasing the tradability of services. Trade in services is therefore expected to constitute half of all world trade by 2020.

Liberalization of trade in services creates long-term benefits through increased competition, lower prices and better quality of services. The presence of a large number of suppliers in a competitive services market enhances consumer choice. The participation of foreign firms in the provision of services that contribute key inputs to other productive activities help improve the systemic competitiveness of a country's economy.

Despite the high potential in trade in services for economic development, various measures are taken to restrict FDIs in services. More restrictions occur in the services sector than in other sectors (Figure 1). Restrictions are formal, for example using legislation, or informal; specific, where they apply at firm level or industrial sector at large, or general, invoking national interest criteria. Some measures apply at the point of entry, stretching from mere notification requirements to outright prohibition of FDI; others target the operations of firms, while a third category relates to restrictions in ownership and control.

Figure 1: Reservations by Sector



Within the services sector, reservations are highest within the transport, banking and insurance and communications sub-sectors (Figure 2).

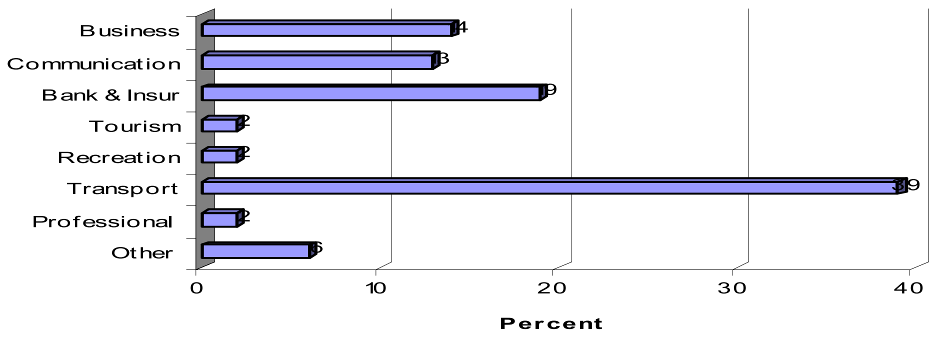
2. THE SERVICES SECTOR OF GHANA

The services sector in Ghana comprises six main branches: (i) transport, storage and communications; (ii) wholesale and retail trade, restaurants and hotels; (iii) finance, insurance, real estate and business services; (iv) Government services; (v) community, social and personal services; and (vi) producers of private, not-for-profit services.

From very high growth rates in the late 1980s and 1990s, the services sector now lags behind the agricultural sector. Between 1995 and 1999, the services sector grew at an average of 5.7

percent, but slowed to 4.9 percent between 2000 and 2004, and has since been static at 4.7 percent in the last three years.

Figure 2: Reservations on investments in services, by industry



Ghana has a large pool of professionals of international standards offering a wide range of services to both Ghanaian and foreign clients in: accountancy, architectural, management, market research, marketing, construction and allied engineering, legal, health, tourism and travel services, internet services, educational services, port handling, freight forwarding, haulage services, among others.

Policy and regulatory environment

In a bid to attract FDI in all sectors, including the services sector, the Government of Ghana has undertaken a number of proactive measures, including a liberalization programme (which has sparked competition in the telecommunications industry), a privatization scheme and the creation of a Free Zones Scheme (Box 1).

Box 1

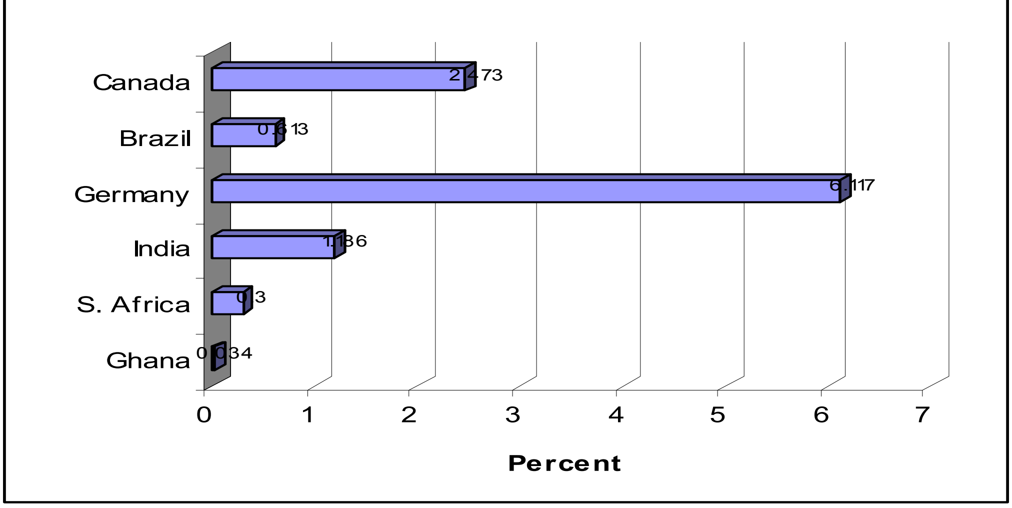
Ghana Free Zones Scheme

The Government of Ghana has established a Free Zones Scheme managed by the Free Zones Board. Companies can be engaged in the production of any type of goods and services for export, including BPO, telemarketing and other call-centre operations, and IT services. The scheme has a large number of generous incentives, including the following:

- Exemption from the payment of income tax on profits for the first ten years and a maximum tax rate of 8 percent thereafter;
- Exemptions of shareholders from the payment of withholding tax on dividends;
- The right of foreign investors to take and hold 100 percent of the shares in any free-zone enterprise;
- Guarantees of unconditional transfers through authorized dealer banks;
- Freedom to contract local labour under terms set by the employer only;
- In cases in which people may be subject to double taxation, the option of paying income tax in the country of origin;
- The right of citizens of Organisation for Economic Co-operation and Development (OECD) member countries and South Africa to apply for visas at ports.

Volume of Services in Trade
Despite the highly professional pool of experts and liberal trade policies, trade in services in Ghana represents only 0.034 percent of world total, compared with 0.3 percent for South Africa and 1.168 percent for India (Figure 3).

Figure 3: Exports in Services (as % of world total)



Source: Derived from World Investment Report, 2004

Value of Trade in Services
Despite the rapid proliferation of international trade in business and professional services, the measurement challenge continues to haunt balance of payment compilers, policy makers and multilateral trade negotiators. In Ghana, as in most developing countries, lack of reliable data compels government to use remittances as a proxy for the value of trade in services. Thus, trade in services in Ghana is estimated at US1.4 billion in 2003.

SMEs and Trade in Services
Most service providers in Ghana fall within the small and medium enterprise category. These SMEs face a wide range of challenges and obstacles in their efforts to enter new markets both at home and abroad. Thus, indigenous SMEs are usually not in a position to respond to even the most promising opportunities because most of their efforts and resources are spent on maintaining their existing client base.

Infrastructure
Adequate infrastructure and appropriate skills are resources, which determine a firm's capability to invest in export-oriented services. The appropriate infrastructure for services such as telecoms, power generation and distribution (Box 2), financial services and distribution/logistic services are essential, not only for creating an environment conducive to IT-enabled services, but for the conduct of business activities in general.

Box 2

Infrastructure in Ghana

1. *Telecoms*: The main telecommunications provider in Ghana is Ghana Telecommunications Company Limited (Ghana Telecom). The liberalization of the sector has seen another telecom operator, Western Telesystems Ghana Limited (WESTEL). Cellular telephony is quickly growing and already there are three companies – Millicom Ghana Limited (Mobitel), Scancom (Areeba) and Kasapa. Services available include:

    - Telephone (national/international)
    - Data services
    - Bandwidth lease (Satellite Submarine Optic Fibre Cable)
    - Television Tx/Rx
    - Mobile Services

    Total number of subscribers is nearing 2 million. The national fibre network will provide the backbone for the transmission of all data, voice, TV and Internet Services.

2. *Power*: Power is supplied by the national monopoly, the Electricity Company of Ghana. Power source is from both hydro and thermal. The stability of the power grid is an issue. Power failures are common, and businesses that require high uptime often need a private generator to ensure uninterrupted supply.

3. SOLUTIONS PROVIDED BY TRADE IN SERVICES

Building local capacity
Many developing countries lack the capacity to address key development challenges. Imports of business and professional services (Box 3) from developed countries help to fill this shortfall.

Box 3:
Inspection Company Services

Inspection Company Services are often utilized in countries where it is necessary to develop local expertise and integrity in the customs administration. The services provided by these companies typically include:

- Pre-shipment and destination inspection of import consignments;
- Reference to comprehensive valuation databases;
- Relatively impartial processing of importers' consignments; and
- Training for customs officials.

In 1999, Ghana replaced pre-shipment inspection system with a destination inspection process. Inspection services are provided by two public/private joint ventures. Gateway Services Limited (GSL), a joint venture 70% owned by Cotecna and 30% owned by Ghanaian investors and the Government, conducts inspections of goods arriving by sea; and GSBV Company Limited, a joint venture of Ghana Standards Board and Bivac, a Dutch registered subsidiary of Bureau Veritas, inspects imports arriving through the Kotoka International Airport, across land boundaries and from the free zones. Ghana utilizes the expertise of international inspection companies for classification, valuation and duty calculation for imports.

The use of the inspection companies has helped to improve the efficiency of the Customs, Excise and Preventive Service (CEPS).

Sources: 1. UNCTAD, 2003. Investment Policy Review of Ghana
2. FIAS, 2003. Ghana: Administrative Barriers to Investment

Augmenting availability of scarce professional staff
In disaster and war-torn countries (Box 4) where there has been a substantial flight of nationals, services import helps in reconstruction efforts especially in the short to medium terms by increasing the numbers of professional staff.

Box 4:

Ghana to assist Liberia
Following years of civil war, the West African country of Liberia is without key expertise needed for her reconstruction. The country has just signed a technical bilateral memorandum of understanding (MOU) with the Government of Ghana to transfer expertise in rural development for her reconstruction. The areas of the technical assistance would include any technical expertise or programme assistance to be offered by the Republic of Ghana for the capacity building for local governance and rural development in Liberia.

Similar initiatives are targeted at Sierra Leone.

Source: Daily Graphic, August 27, 2005. p. 23

Developed countries are increasingly importing services, especially in medical and ICT sectors from developing countries. It is estimated that about 650 Ghanaian physicians work in the USA alone. The number of doctors trained in Ghana but now registered in the United Kingdom has more than doubled between 1999 and 2004.

Employment generation
FDI in services generates employment in host countries. IT/BPO firms are the fastest employment generators in the country today. Affiliated Computer Services established in Ghana in November 2000 with 85 workers, by early 2004 it was employing more than 1,400 people, and this is expected to reach 2000 by end of 2004. Currently, there are 10 US IT/BPO firms in Ghana, the 7 most important which have made significant investments in Ghana include:

- Global Response Ghana MG (contact centre and fulfilment services);
- Rising Data Solutions (involved in medical billing);
- BusyInternet (technology incubator, state-of-the-art ICT services, high tech-serviced offices for rent, 24-hour digital copy centre);
- AQ Solutions (application design, programming and software database development);
- Data Management International (processes environmental fines for New York City);
- Supra Telecom (data-processing services);
- Affiliated Computer Services (ACS).

4. CONSTRAINTS TO EXPORTING SERVICES

This paper identifies two major constraints to services exporting at the national and firm levels.

National level constraints
Regulatory barriers to trade in services are different from those for trade in material products. Since services are usually intangible and often non-storable, barriers are not so much in the form of border taxes as in prohibitions, quantitative restrictions and government regulations. Government regulations relating to labour (Box 5), consumer protection, prudential supervision, or regulatory oversight are often discriminatory and constitute another form of barrier to trade in services.

Box 5

Labour restrictions in Ghana
The Immigration Act, 2000 (Part II) empowers the Director of Ghana Immigration Service to issue residence permits to persons who have been lawfully admitted to Ghana, subject to the presentation of an application and supporting documentation. The Act (Sections 24, 25 and 26) stipulates that a foreign national may not be employed in Ghana without a permit granted by the Immigration Quota Committee.

The laws which stipulate conditions for work permits and immigration quotas based on investment activity include the:

- Investment Code (1985);
- Ghana Investment Promotion Centre (GIPC), Act 478 (1994); and
- Free Zone Law, Act 504 (1995).

It takes on the average more than 30 calendar days on the average and 38 calendar days for most businesses to obtain residence and work permits for expatriate staff. Businesses that use the services of external advisors or consultants claim that, on average, it took consultants 48 calendar days to obtain residence permits and 13 days to obtain work permits.

Work permits are granted in such a way that the investor is unable to co-ordinate the progress of his/her work with the availability of specialized labour force.

Source: Foreign Investment Advisory Service (FIAS). 2003. Ghana: Administrative Barriers to Investment (update)

Firm-level constraints

1. Gaps in or lack of knowledge on the part of many SMEs
SMEs, especially those in developing countries, lack the information, tools and resources required to help them market their services abroad. Two main issues have been identified.

a) Lack of market intelligence and support
These include knowledge of the industry or sector and the characteristics of the market into which businesses want to export their services. Specific information, which could be of value here, are: leads and contacts, nature of the market, market receptor capacity, competitor pricing, etc. In Ghana, the Export Promotion Council has been set up to assist SMEs in this regard.

b) Financing
In most developing countries there are no financial assistance programs for firms wishing to market their services abroad. The establishment of the Export Development and Investment Fund (EDIF) in Ghana has come as a welcome relief to many Ghanaian firms.

2. Human resource constraints
Over the past decade, trends in many developing countries have shown that available resources, especially in the medical, accountancy, legal, construction and engineering sub-sectors, are operating at full capacity, and this has among other things, affected their export capability. Many SMEs, therefore, have little human resources available to take advantage of opportunities outside their borders. In Ghana, resources will continue to be stretched in the foreseeable future given the low volumes of graduates turned out from tertiary educational institutions each year (10,000 in Ghana compared with 300,000 in India).

3. Poor marketing strategies
Most SMEs in developing countries are unable to proactively market their services not only nationally but also regionally where international trade activities take place. The situation is also compounded by the fact that they are unable to competitively bid for contracts advertised by such bodies as the World Bank because of the high capital requirements.

4. Recognition

SMEs in developing countries face ‘discrimination’ in the global market and continually have to strive to gain recognition for the qualifications of their professionals. Training programmes organized by the Ghana Standards Board, Ghana Export Promotion Council, and others are aimed at improving the quality standards required by international markets. Institutions such as the Kofi Annan ICT Centre and the Ghana Institute of Management and Public Administration (GIMPA) are facilitating training in computer skills and modern management techniques for executives and management of SMEs.

5. CONCLUSIONS

During the past two decades, services have become the main economic activity of many economies. World trade in services will continue to rise, and it is projected to reach half of all world trade by 2020. Developing countries as a whole account for a small but growing share of this trade (10 to 36 percent).

Developing countries are exporting low-cost professional services (architecture, consulting engineering, legal research and market research, forensic auditing) to other developing countries with lower capacity. Professionals (doctors, nurses, pharmacists, ICT specialists) from developing countries also ply their trade in advanced countries experiencing shortfalls in their health services sector.

Developments such as globalization, liberalization and new information technologies are providing new opportunities in trade in services. These opportunities, however, will only materialize if the constraints facing developing countries in building domestic services capacity and improving the competitiveness of their services exports are addressed.