



SMALL STATES IN TRANSITION – FROM VULNERABILITY TO COMPETITIVENESS

OPPORTUNITIES IN SERVICE EXPORTS

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Since the General Agreement on Trade in Services (GATS) came into effect nine years ago, there has been a growing realization of the importance that service industries play in developing countries. While many Small States may not have competitive advantages in goods productions, there is a wide range of opportunities to use service exports to fuel economic growth. The primary barrier is typically a lack of awareness and policy support on the part of government, with international organizations often contributing to that lack of awareness. St. Lucia is a case in point. World Bank reports continue to describe St. Lucia as a banana-based economy when tourism earns over 76 percent of foreign exchange and wholesale and retail trade alone employ more workers than all agricultural activities.

All of the Small States participating in this conference have the majority of their gross domestic production from service industries, and many get over half of their foreign exchange earnings from service exports (see Table 1). Of particular importance is the category of “other services” exports as its business and professional services component is the fastest growth area of international trade, fuelled by the global trend towards outsourcing. Because many services are human skill intensive and can be traded at a distance using the Internet, opportunities abound for service firms in Small States.

Table 1: Services as a Percent of GDP and Exports

Small State	Services as % of GDP*	Services as % of Exports*	Travel as % of Exports	“Other Services”# as % of Exports
Antigua & Barbuda	92.9	90.8	63.7	11.2
The Bahamas	91.5	75.5	69.9	2.4
St. Lucia	88.6	84.9	76.1	5.5
Barbados	84.8	79.2	52.5	22.4
St. Kitts & Nevis	84.8	63.8	38.2	17.1
Grenada	83.9	64.0	39.4	19.9
Cyprus	83.8	77.4	46.3	14.8
St. Vincent & Grenadines	83.8	70.8	42.1	21.3
Maldives	83.2	76.3	70.5	0.9
Seychelles	78.3	56.8	26.7	2.4
Jamaica	74.2	56.7	36.7	8.6
Mauritius	71.6	40.7	20.6	11.5
Malta	70.9	35.6	18.6	5.9
Trinidad & Tobago	68.6	22.9	9.5	5.8
Namibia	67.6	17.2	15.1	1.4
Belize	61.7	44.8	31.8	4.9
Botswana	57.5	13.4	7.7	2.8
Swaziland	53.5	9.5	3.1	4.6
Average for Developing Countries	n/a	15.8%	5.7%	5.5%

*Most recent year for which data are published, usually 2001.

#“Other services” include all services except transportation, travel, and government services – e.g., telecommunications, finance, professional services, computer services, etc.

Sources: ECLAC, *Statistical Yearbook for Latin America and the Caribbean*; IMF, *Balance of Payments Statistics Yearbook*; UNSO, *National Accounts Statistics*.

The loss of revenues from traditional commodity and manufacturing exports is forcing many of your economies to rethink economic development strategies. For example, Mauritius has adopted an industrial restructuring strategy to move away from textiles to offshore/back office services. This approach represents a sectoral shift in focus, and therefore significant retraining. At the same

time, Mauritius has been exporting its expertise in the sugar industry to Mozambique and Zimbabwe, along with technical assistance from the Mauritius Sugar Industry Research Institute.

The key to leveraging services exports is to ensure local multiplier effects. For example, if six nurses go to the U.K. for two years to work, your country may gain some remittance income but it loses the services of those skilled professionals. But if those same nurses set up a medical triage call centre in your country with foreign customers, they generate foreign exchange and create jobs not only for themselves but for others – as has happened in the Philippines, for example.

What is the particular challenge for Small States? The small domestic market means that there may be only limited domestic demand for services, especially specialty (or higher value added) services. So specialty service firms will need sales to foreigners in order to survive and thrive. Those foreigners can be foreign firms that have established in your market, or they can be foreigners abroad who purchase services at a distance. This means that your economies are much more dependent on traded services than are larger economies.

So ... how can you stimulate and support increased services exporting activity? What are some examples of success?

The first key is awareness – knowing what services already exist and which of them are already being exported. We have found that there are at least 40 different services already being exported from each of the developing countries we've studied. Do you know what is being exported already from your country? Annex A has a list of questions you can ask yourself to help identify the wide range of current exporters.

Ironically many service firms are not even aware that they are exporting when they sell to foreigners in their own markets. Think for a minute of the office of a foreign company – or UNDP for that matter – in your own economy. Now think of the range of services it purchases from local firms – what about accounting services, legal services, postal services, telecommunication services, financial services, office cleaning services, security services ... and the list goes on. All of these services are being exported because they are being sold to foreigners.

An excellent example of how to raise awareness is Nigeria's "Export Digest," which is a weekly export-oriented television programme created by Koinonia Ventures Ltd. The programme now has 25 percent of its air time dedicated to profiling national service sector success stories. As a result, Koinonia is now an advisor to the Nigerian government and the Commonwealth Council on issues related to the export of services.

There are four general ways that services can be exported, and all of these are being used in Small States. Here are some examples:

a) *Cross-border exports, where the service moves across the border*

An excellent example of innovation involves the owner of a local, one-person translation firm in Togo who decided to seek opportunities everywhere, not just with his traditional clientele. While in a pharmacy, he noticed that the pharmaceuticals were all imported from the EU and the labels were in different languages. After undertaking research to determine how much sales could be increased in all of francophone Africa if he translated the labels into French, he contacted the major pharmaceutical producers in Europe and increased his exports so significantly that he ended up hiring three extra translators.

Cayman Consults in Uganda is another good example, taking advantage of the favourable telecommunications infrastructure and a labour force with excellent English skills. By hiring a consultant to help find opportunities, they have won a contract from a large Canadian accounting firm, which digitizes and electronically transmits receipts to Uganda for processing. This success story was even

broadcast on a major Canadian TV business programme, offering even more profile and credibility to Uganda as a source for back office operations.

b) *Sales to foreigners in your country (consumption abroad)*

Often, because the export is sold locally, these types of service exports go unnoticed. For example, Trinidad & Tobago has a number of training companies offering English as a second language to foreign visitors from Venezuela and elsewhere. Botswana attracts foreign students to its internationally recognized accountancy degree program, and the Ghana School of Marketing (run by the Chartered Institute of Marketing, Ghana) now attracts students from Benin, Liberia, Nigeria, Senegal, Sierra Leone, and Togo. There are the rapidly multiplying Internet cafes, like Zambia's Bwanji.com, that do most of their business with foreign visitors. And Jamaica is in the process of launching an innovative new service, Dr-on-Call, which provides a special calling card in hotel rooms so that tourists who are sick can reach a Jamaican doctor immediately.

Corporate customers – whether visitors or investors – will pay for the convenience of one-stop service. The Service Group in the Bahamas is an excellent example, offering administrative support services, printing services, accounting and consulting services, and incorporation and company management services.

c) *Commercial presence abroad*

While many service firms in Small States do not have the resources to establish offices abroad, there are notable exceptions. One such exception is CLICO, founded in Trinidad in 1936, which is a financial services firm that now has branches around the Caribbean. Another type of commercial presence is franchising, where opportunities involving developing country franchise chains are beginning to multiply. One example is the new Swaziland franchise office of Pam Golding Property (PGP) out of South Africa.

d) *Temporary business travel (movement of natural persons)*

Travelling to deliver services in other markets is still the most common form of services exporting. For example, Ghana's Chartered Institute of Bankers offers courses for bank workers in Sierra Leone and The Gambia. Sanata Shipping, a Ghanaian firm, has expanded its operations into surrounding countries like Burkina Faso, Mali, and Nigeria.

To be successful, a service exporter must have a niche offering – something that differentiates the firm from others in its industry. Architects Pacific, founded in Fiji in 1971, is an example of an exporting firm that has turned its expertise in tropical architecture into commercial opportunities from Vancouver to Sydney and Auckland.

Because services cannot be inspected before purchase, customers depend on referrals and endorsements when selecting their service provider. So another key to successful services trade promotion is creating credibility in regional and global markets for their service firms. Unfortunately, most national websites still do not feature service exporting expertise. One notable exception is Cyprus, where the website for the Ministry of Commerce, Industry and Tourism has a section on the export of services, featuring professional services and the various initiatives of this Service Promotion Division.

Since promoting services is different than promoting goods, trade promotion agencies need to develop specific initiatives to target and include services. As a starting point, services need to become a stated part of the national export promotion strategy – as the Bulgarian Trade Promotion Agency has been successful in doing. In recent months, Romania has been successful in getting over 180 of its service exporters visible online by making online registration (on the ITC website) a prerequisite for getting trade promotion assistance. Trade promotion offices can also actively

support service exporters by sponsoring training, as the Ghana Export Promotion Council has done.

Trade promotion agencies also need to design initiatives that work for different service sectors. For example, Malaysia's MATRADE has been very successful in creating sector specific services trade missions. By taking groups of Malaysian doctors to Cambodia and Brunei, Malaysia is winning medical referrals away from its neighbour, Singapore. This same strategy is also being used by Malaysia in promoting construction expertise in Kazakhstan, Sri Lanka, Cambodia, Lebanon, and at the Islamic Development Bank. Part of Malaysia's success in promoting services stems from the creation of the National Professional Services Export Council (NAPSEC) to provide regular private sector feedback.

Since tourism is an important industry in many of your markets, you can think about how to create offerings for business travellers as business tourism is two-to-three times more lucrative than leisure tourism. If your country hosts conferences or conventions, you can also think about how to profile national service providers and provide networking opportunities for them to meet potential foreign partners or customers as Bulgaria is doing. There are also opportunities to develop specific offering for the business visitor – varying from one-hour to full-day excursions.

Because customers want referrals, an important part of services trade promotion is helping to develop referral networks. For example, expatriates abroad can be excellent market entry contacts. Similarly, foreign students who have studied at your universities are often eager to help national firms enter their markets.

Online national business directories can help give service firms the profile they need in order to market their services abroad. The "Doing Business in the South Pacific" website (www.southpacificbusiness.com) is one example. Professional service firms can also gain credibility through their association with other international firms. For example, the membership of Kiddie and Associates of Papua New Guinea in Moores Rowland International (MRI), an association of independent accounting practices, creates a credibility internationally that the firm might not have on its own.

Service firms also gain international credibility by belonging to international professional associations or being listed in international directories. Table 2 below gives data from the online lawyers' registry, martindale.com, for a sampling of the Small States invited to this Executive Forum. Note that all of these law firms are exporters.

Table 2: Examples of Law Firms Listed in the Martindale Registry

Small State	Number of Law Firms Registered
The Bahamas	33
Cyprus	22
Bermuda	17
British Virgin Islands	16
Jamaica	15
Belize	11
Malta	11
Barbados	8
St. Kitts & Nevis	8
Trinidad & Tobago	7

Not all service industries have such handy international registries, but all major service industries have national and international industry associations. Often the easiest way for a service firm from your country to start exporting is in partnership with, or as a subcontractor to, a service firm in a

foreign market. You can encourage such linkages through joint initiatives between industry associations in your country and their sister associations abroad. Ghana's Institute of Freight Forwarders is a member of the International Federation of Freight Forwarders Associations (FIATA) and has launched a successful initiative to get their members listed in the worldwide directory, FreightNet (www.freightnet.com). Similarly, national engineering associations who are members of international FIDIC provide an umbrella under which their members can network.

Service industry associations themselves can play an important role. Most service industry associations have not focused on export promotion and are often unaware that their members are exporting. Since associations form an important conduit for lobbying government on services trade issues, it is critical that they become active players. In Malaysia, Tanzania and Kenya, regional service associations for professionals have been established and the Nigerian Marketing Association completely shifted its focus to export marketing after attending an ITC workshop on service export opportunities.

But it is not enough to have service firms exporting and trade promotion agencies targeting service exporters. There is also the matter of the ongoing services trade liberalisation negotiations. Many developing country negotiators know little about what will make a difference for their service exporters – indeed, they may be unaware of the wide range of services already being exported. There needs to be a focal point in the private sector that can bring these issues forward. The formation of the Uganda Service Exporters Association (USEA) is an excellent success story in this regard. Supported by the Uganda Export Promotion Board, USEA not only assists other associations to address the service export needs of their members, but it serves as the formal representative of private sector interests on Uganda's services trade negotiating team.

Annex A

What Services Are Being Exported From My Country?

Most countries track and publish tourism statistics, but other types of service exports often go unnoticed. Here are some questions that you can ask yourself to start identifying all of the different services that are already being exported. Remember: A service is exported if it is being paid for by a foreigner, even if that foreigner is in your country.

Professional Services

- Are there architects or engineers who design or renovate new structures abroad, or as part of internationally-financed projects, or for foreign firms or diplomatic missions in your country?
- Are there accountants or lawyers who are registered in international directories (e.g., www.martindale.com) because they provide services in foreign markets, or who provide services to foreign firms or international governmental offices in your country?
- Are there specialists in urban planning or facilities management or environmental services or other technical services who provide services in neighbouring countries or through internationally-financed projects?
- Are there management consultants who undertake, or are subcontractors on, consultancies for the United Nations or the World Bank or similar donor agencies?
- Are there agronomists or veterinarians who provide services to foreigners?

Business Services

- What business support services are sold to foreign firms, diplomatic missions, or offices of international agencies in your country – e.g., office cleaning, building maintenance, printing and copying, security, temporary staff, advertising, market research, equipment leasing, equipment repair and maintenance?
- Are there real estate companies providing services to foreigners?
- Does your country supply peacekeeping forces to the United Nations?
- Are there companies doing research and development for foreigners, or lab testing?
- What about expertise related to natural resources – e.g., gem valuation, sugar industry research, fish stock management?
- Are there printing or publishing services provided to foreigners?
- Do you have convention or conference centres that host events that involve foreigners?

Computer and Internet Services

- Are there companies providing customised software to foreigners?
- Are there local Internet Service Providers with foreign customers?
- Are there companies providing website design or website hosting or website content management for foreign firms?
- What about data processing services, or database management services, for foreigners?

Communication Services

- What is the volume of mail sent abroad, or international telecommunication services?
- Are there national courier services with foreign customers?

Audio-Visual Services

- If films or video tapes are produced in your country by foreign companies, do any local companies provide equipment rental or other support services?
- Do local companies provide broadcasts that are picked up and paid for by foreign networks?

Construction Services

- Do local construction companies provide building or repair services for any foreigners?
- Have local construction companies bid successfully on foreign-financed projects?
- Are local construction firms subcontractors to foreign construction firms?

Distribution Services

- Are there commission agents in your country who are paid by foreign companies?
- Do retailers or wholesalers have foreign customers?
- Do any of your national firms have retail, wholesale, or franchise offices abroad?

Education and Training Services

- Do any foreign children enrol in your primary or secondary schools?
- Do your post-secondary institutions have any foreign students?
- Are there any firms providing professional or language training to foreigners?
- Do any local firms provide training to the staff of foreign firms, diplomatic missions or international agency offices?
- Do any local firms provide curriculum design, assessment or career counselling services to foreign educational institutions?
- Do any of your national schools, colleges or universities have branches abroad?

Financial Services

- Do any of your national financial institutions have branch offices abroad?
- Do any of your banks provide services to foreign tourists or foreign investors, diplomatic missions or international agency offices?
- Do any of your insurance firms provide insurance to foreign investors, diplomatic missions or international agency offices?
- Are there national brokerage or financial management firms that provide services to foreign investors, diplomatic missions or international agency offices?

Health-Related and Social Services

- Do foreigners make use of any of your hospitals or clinics or ambulance services?
- Do foreigners make use of local child care services?

Recreational, Cultural and Sporting Services

- Do foreigners attend, or contract for, any entertainment or cultural events put on by local artisans?
- Do any of your musical or dramatic arts groups tour in foreign countries?
- Do any of your athletic teams compete abroad and earn foreign revenue?

Transport Services

- If you have marine ports, do foreign-flag vessels pay for local pilotage services, docking fees, ship maintenance, or other similar services?
- Do foreign airlines pay for local air traffic control services, landing fees, aircraft fuelling and maintenance, aircraft cleaning, catering, baggage handling, or check-in services?
- Do local warehouses provide storage services to foreign importers?
- Do local freight forwarders and customs brokers provide services to foreigners?