Ministry of Trade and Industry
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SMALL STATES IN TRANSITION – FROM VULNERABILITY TO COMPETITIVENESS

# APPROACHES FOR EXPORT SERVICES DIVERSIFICATION: REMOVING MARKET ACCESS BARRIERS


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## Introduction

Trade in services is as old as international commerce itself. It has long been understood that all goods exports encapsulate services, and that a country's competitiveness in goods trade can be heavily affected by the efficiency of the services to which its manufacturers and farmers have access. There is the same trade-off between import substitution and export promotion for services as there is for goods. Exporters who are required to use high-priced, low-efficiency domestic telecommunications services are as much at a disadvantage as brewers/distillers required to use low-quality domestically produced labels or horticultural exporters who must use local packaging. At the same time, the protected industries create employment that might not otherwise be there and the 'infants' might one day grow up. It is for governments to decide where to strike the balance.

This paper is not primarily about 'traditional services trade' or 'traditional services trade policy', although both are relevant. Exporters of services also use other services as inputs. The competitiveness of a country's business process outsourcing (BPO) will be influenced critically by the costs of telecommunications; its software development by the cost of airplane seats; its tourism by insurance and banking. So the general maxim that protecting domestic suppliers hinders exports applies within services as well as between goods and services.

This paper, though, is primarily concerned with the types of barrier that a competitive supplier of 'non-traditional' services might encounter in foreign markets, and how these are to be dealt with. Its focus on 'non-traditional services exports' means the burgeoning international trade in all manner of services that were simply not feasible (or not on the current scale) until recent breakthroughs in information and communication technology and the spread of air travel. Given the explicit focus of the Executive Forum, it covers tourism and transport only in passing.

## The importance of services trade …

There has been strong growth in world services trade (up by an annual average 6 percent between 1991 and 2001 – Table 1). The EU is the world's largest importer of commercial services, with 42 percent of the total in 1999 (WTO 2000: Table A3). Whilst the USA is the largest single market (with imports of US$180 billion in 1999), it is closely followed by Germany, UK, France, Italy and Netherlands which, between them, had imports of US$383 billion (*ibid.*: Table A6). EU states accounted for six out of the top ten services importers (with Japan, Canada and China filling the gaps). Commercial services accounted for 22 percent of the EU's total imports in 1999, compared with 15 percent of the USA's (*ibid.*: Table A1).

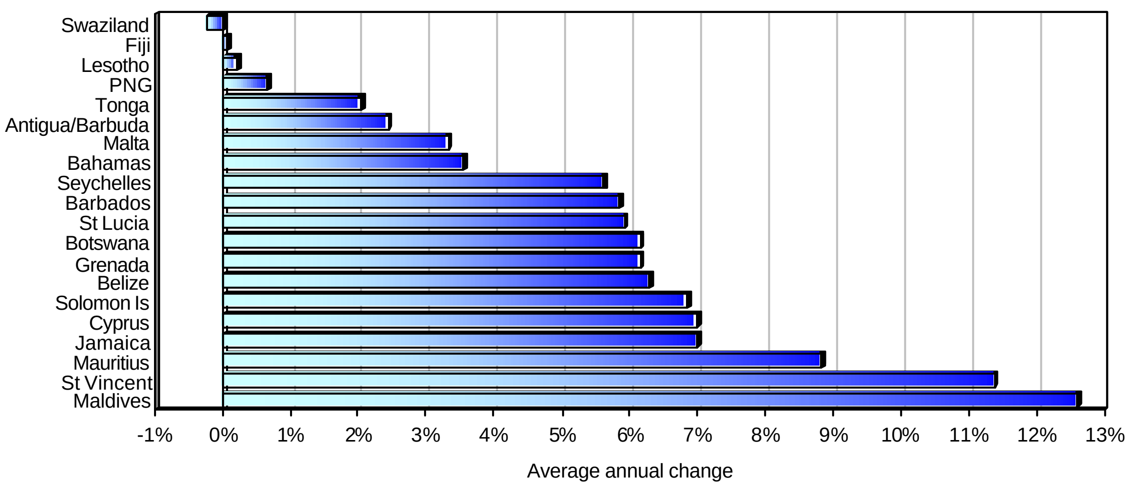
The services exports of the countries represented at this Executive Forum are, naturally enough, quite small in absolute terms, but many have seen rapid growth. Almost half of the countries for which full data are available experienced a more rapid growth in exports over the period 1991–2001 than the global rate (Figure 1). And not all of these are from a base that is low in relation to the size of the economy. Mauritius, for example, increased its exports by an annual average 8.8 percent, so that by 2001 they totalled over US$1 billion (and the services sector as a whole accounted for just under two-thirds of GDP). Jamaica, too, saw greater-than-global growth (7 percent), and by 2002 its services exports were approaching the US$2 billion mark. In fact, six countries had quite substantial service exports (Figure 2).

**Table 1. Exports of commercial services (US$ million)**

| Country | 1991 | 1996 | 2001 | 2002 | Avg. annual growth 1991-2001 |
|---|---|---|---|---|---|
| **World** | **826,100** | **1,275,900** | **1,478,100** | **1,570,100** | **6.0%** |
| **These countries** | **8,215** | **12,298** | **13,092** | **10,970** | **4.8%** |
| **These countries' share of total** | **0.99%** | **0.96%** | **0.89%** | **0.70%** | **-1.2%** |
| Antigua and Barbuda | 311 | 363 | 395 | ... | 2.4% |
| Bahamas | 1,313 | 1,558 | 1,861 | 1,905 | 3.5% |
| Barbados | 594 | 901 | 1,049 | ... | 5.9% |
| Belize | 89 | 125 | 164 | ... | 6.3% |
| Botswana | 186 | 145 | 338 | ... | 6.1% |
| Cyprus | 1,568 | 2,609 | 3,080 | 4,154 | 7.0% |
| Fiji | 382 | 566 | 385 | ... | 0.1% |
| Grenada | 71 | 105 | 129 | 120 | 6.2% |
| Guyana | ... | ... | ... | ... | |
| Jamaica | 950 | 1,574 | 1,871 | 1,863 | 7.0% |
| Lesotho | 34 | 34 | 35 | ... | 0.2% |
| Maldives | 107 | 286 | 351 | 353 | 12.6% |
| Malta | 781 | 1,052 | 1,083 | 1,069 | 3.3% |
| Mauritius | 522 | 955 | 1,218 | 1,130 | 8.8% |
| Namibia | 123 | 325 | ... | ... | |
| Papua New Guinea | 267 | 432 | 285 | ... | 0.7% |
| Saint Lucia | 171 | 266 | 304 | 213 | 5.9% |
| Saint Vincent and the Grenadines | 44 | 96 | 129 | 127 | 11.4% |
| Samoa | 27 | 62 | ... | ... | |
| Seychelles | 156 | 222 | 270 | ... | 5.6% |
| Solomon Islands | 24 | 47 | 47 | 14 | 6.8% |
| Swaziland | 85 | 98 | 83 | ... | -0.2% |
| Tonga | 13 | 30 | 16 | 21 | 2.0% |
| Trinidad and Tobago | 397 | 447 | ... | ... | |

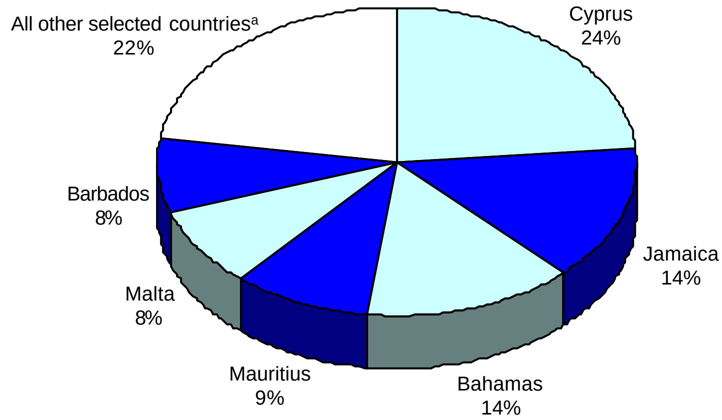
*Source:* WTO 2002 and 2003: Appendix Table A6.

**Figure 1. Growth in value of commercial service exports, 1991–2001**




*Source:* Derived from WTO 2002: Appendix Table A6.

**Figure 2. Individual selected country share of total for selected countries, 2001**




*Note:*
(a) Except Guyana, Namibia, Samoa and Trinidad & Tobago, for which data are not available.
*Source:* Derived from WTO 2002: Appendix Table A6.

## … and the difficulty measuring it

Many of these exports will be in the more traditional areas of transportation and tourism, which is not a focus for this Executive Forum. It would be nice to know which new services are growing fastest – but that is where we hit a problem.

> There is a wide consensus that the current state of data on trade in services is inadequate, especially with regard to the sectoral and modal breakdown of trade. (World Bank 2002: Box 25.2)

Statistics on services trade are notoriously unreliable. We have come to expect highly detailed, accurate and up-to-date figures on the global pattern of merchandise trade because all goods have to cross a border where, for centuries, many have had to pay a tax. Hence, the state has had a strong financial interest in collecting detailed figures on trade flows that, happily, can then be used for analysis.

Hardly any of the foregoing applies to services. Consequently, figures on bilateral services trade flows are scanty and, where they exist, often inaccurate. Moreover, it is often difficult to disentangle from the statistics the precise services that are being traded. This is well illustrated by the WTO's excellent review of services trade statistics (WTO 2002). In its table on trade by category it shows just three groups: transportation, travel and 'other commercial services' – with the last accounting for 42 percent of the total. When 'other commercial services' is broken down further, the category 'other businesses' accounts for 55 percent of the table (ibid.: Tables A4 and A5)!

None the less, there is no doubt that services trade is important, growing fast, and that the EU and the USA are very significant import markets. The figures show not only that there is a large and growing world market for services, but also that some of this is in the non-traditional areas. The share of services other than transportation and travel in total world trade in services increased from 36 percent in 1990 to 42 percent in 1999 and, of this category, the fastest-growing area separately identified by the WTO in the period 1996–8 was computer and information services. The share of insurance in the 'non-transportation and travel' category remained constant over these three years, whilst that of financial services rose marginally (ibid.: Table A5).

But it is not possible to undertake, from statistics alone, the sort of 'export opportunity identification' exercises that are commonplace with goods. Moreover, given the size of the countries represented at the Executive Forum it is to be expected that exports will tend to be in niche markets, possibly falling into a quite wide range of major services categories.

In the absence of the inter-temporal cross-country data we have come to expect for goods, more reliance must be placed on anecdote and illustrative example to flesh out the sorts of exports into which a country might diversify (Box 1). One key lesson from these country experiences seems to be that competitive services exports grow out of a competitive domestic activity. The idea that a country can simply leap from its current set of activities by playing host to an entirely new, externally funded and directed export-oriented services activity seems exaggerated.

**Box 1. Some illustrative examples**

South Africa's exports of health services are growing rapidly. These are a natural extension of two strong pre-existing activities: tourism (which provides the transport and accommodation infrastructure) and healthcare (which provides both the human and the physical infrastructure). South African exports of health services include both the provision within the country to foreigners of sophisticated facilities for all kinds of medical procedures and also the supply to other countries (most recently the UK) of health expert teams who sub-contract areas of work.

Less sophisticated and extensive exports of health services are possible in countries with good tourism facilities but less well developed health sectors. Mauritius, for example, is exporting hair-transplanting services; basically the same service sector, but in a relatively low-tech niche. It is also exporting insurance BPO and industrial software development derived from the sugar industry.

When considering what services a country might export, it is important to remember the point made at the start of this paper that all goods trade encapsulates some services. Mauritius exports sugar – but is also has considerable know-how developed by industry professionals. This covers both agricultural know-how and also technical knowledge (for example software development for sophisticated industrial operations). It is therefore exporting software services using the expertise developed originally in support of the domestic sugar industry. Botswana has a sophisticated beef production and processing operation. Could it export services related to this?

This is the sort of question that countries need to ask. It is suggested that the answers are more likely to be operationally useful than those to the broader question: 'could we emulate India in developing call centres?' Similarly, starting from the question 'what is our comparative advantage?' is likely to be less useful than the variant 'what is our revealed comparative advantage?' Applied economists tend to use the latter more often than the former for good reason. Since it may not be possible to answer the second question in fields that are evolving rapidly, it needs to be re-cast as 'what is our revealed comparative advantage in related areas of goods or services?'

## Gains from services trade

As everyone knows, a country's ability to exploit its comparative advantage is conditioned by what other countries do. Ask Malian cotton producers and Cuban sugar producers! The same applies a fortiori to some services. Actual and potential exporters will need to talk urgently to their governments to negotiate down the barriers that exclude them from foreign markets. But should governments listen?

The 'national interest' in services trade is more slippery conceptually and empirically than it is for goods. Countries trade because it allows them to consume a larger volume and/or more desirable range of goods and services than they would be able to do without trade. Imports can supply items that cannot be produced (or not competitively) at home; exports supply the foreign exchange for the imports. Up to this point the situation for goods and services is the same – but once one moves to greater detail differences emerge.

## Exports

An increase in exports of goods will affect directly how many imports can be obtained: the wages paid to those who produce the goods will increase domestic purchasing power and the foreign exchange received by the local exporting firm will finance imports.

Services exports under Modes 1 and 2 (cross-border and consumption abroad) have similar effects. Work is undertaken in the exporting state and the foreign exchange accrues to local firms (even though, as with goods, a part may also be held abroad by them or accrue to foreign associates).

But the situation with Modes 3 and 4 (establishment abroad and presence of natural persons) is different. The extreme case is provided by the individual migrant worker: s/he works, consumes and saves abroad; unless and until a part of their savings is repatriated (and/or the person returns with new skills), there is no direct economic gain to the 'exporting country'; rather, there is a loss of human resources. The contrast is less stark with Modes 3 and 4 undertaken by employees of home-based companies, but the direct economic gains will still be smaller than for goods.

The primary gains to the exporting country under Modes 3 and 4 are indirect (see Box 2). If an Antiguan, Cypriot or Mauritian firm sets up an office in UK employing mainly British individuals it will contribute little directly to employment in its home state or, except to the extent it repatriates its profits, to foreign exchange receipts. But it may contribute indirectly – for example by increasing 'follow-on' orders for goods and services produced in the home state, by enhancing the skills of the home-country nationals who are employed abroad, or by making the firm (including its domestic operations) more globally competitive.

Modes 3 and 4 are often a means to an end for a country (increased exports of goods and of services under Modes 1 and 2) rather than a national economic objective in their own right. This may affect a government's negotiating strategy and lead to a paradox. Restrictions on Modes 3 and 4 exports may be more obvious and severe than those on Modes 1 and 2. Hence there is 'more to negotiate about'. Yet the national gains from reducing Mode 3 and 4 restrictions may be less obvious.

**Box 2. A South African example**

The South African supermarket chain Pick N' Pay has established stores in many Southern African cities. This may make good commercial sense for the company – but does it benefit South Africa? It is treated in services trade negotiations as a South African export, but to what extent does the South African economy benefit?

If Pick N' Pay source more of their food items from South Africa than would otherwise be the case, then the 'services export' will lead on to extra goods exports. But the critical question is: are the goods exports additional? If South Africa is the most competitive source of supply then any efficient supermarket (whether it be owned by Tesco or Carrefour) would source its goods from South Africa. In such a case there would be no additionality as a result of the 'services export'.

The most likely circumstance in which the services export would lead on to additional goods export is if South Africa is a reasonably competitive, but not the only competitive, source of supply. In this case, the pre-existence of Pick N' Pay's purchasing network in South Africa would make it more likely to choose South African suppliers than would, perhaps, Tesco if it expanded into Zambia from Kenya and had pre-existing suppliers in Kenya.

## Imports

As with goods, the objective of importing services is to provide consumers with either lower prices or an enhanced quality and range. And, again as with goods, the term 'consumers' includes domestic producers for whom the service is an input. The competitiveness of goods exports and of non-competing services may be influenced by the (non) availability of imported service inputs.

A difference between goods and services is that the competitiveness of imports of the latter is less easy to judge objectively. It is easy to determine whether or not a Japanese computer is cheaper/higher quality than an Italian one. The same is true of other goods that are imported or produced domestically. Provided that standards are monitored and markets are reasonably competitive, a government can be confident of the effect that a reduction of restrictions on imports will have.

Not so with services, for which price and quality will vary – partly according to the individuals involved and partly because of the regulatory framework. Without knowing more about a government's regulatory objectives with respect to a services sector, it is not possible to predict whether any change in import regime is likely to enhance the welfare of citizens either directly (by allowing them to consume more or better services) or indirectly (by enhancing the competitiveness of service-consuming producers).

### Restrictions and competitiveness

Just as the removal of a given import restriction will not necessarily improve the welfare of a country's consumers, so the 'liberalisation' of a foreign market may not actually allow a competitive exporter to sell more. Consider which features of a foreign service-provider that might allow it to offer services more competitively than the domestic supplier.

One possible factor in its competitiveness would be its ability to draw upon resources (technical, financial or personnel) from its home base. But national treatment by itself does not necessarily give the firm the right to draw freely upon its resources abroad. Prudential requirements concerning reserves may require a firm to hold deposits in the host country rather than using those in its home base. Immigration and work permit restrictions as well as non-recognition of qualifications may frustrate its attempt to utilise its foreign holdings of technical and human resources. This is the more likely because some services (finance, telecoms etc.) are legitimately regulated by government to control the level or quality supply. In these cases it is the decision of government (or an independent authority) as regulator that is more likely to affect the level of competition than its *trade policy* stance. There are General Agreement on Trade in Services rules against the deliberate misuse of qualification recognition as a protectionist (or discriminatory) device, but as the EU's experience in creating a single services market demonstrates (see below), rules in this area can be evaded. A restrictive set of policies could stifle the competitive advantages of a foreign supplier by much more than, say, a 40 percent tariff.

## Barriers to services trade

### Where do the restrictions bite?

The difference between goods and services becomes apparent as soon as the question is asked: 'what restrictions need to be removed to promote exports?' Services trade is much more polarised than goods trade between products that are unrestricted and those that are very heavily restricted.

Governments can find ways to interfere with the flow of most goods traded internationally, not least when they cross the border. But an increasing range of internationally traded services do not fall within the reach of any government that has abandoned a restrictive exchange control or passport policy.

Any Mode 1 services that can be marketed, supplied and paid for remotely (e.g. computer software downloaded from the internet, airline tickets purchased on the web/phone, or life assurance) are outside the control of governments save in those (limited) cases where part of the business process occurs in an area where they can act. Hence, government can make it more difficult for its citizens to use telephone call-back services by controlling local access numbers, and it can control imports of car insurance by making it a legal requirement for drivers to have cover with a locally incorporated company. But these are increasingly the exceptions, not the rule. The same applies a fortiori to Mode 2.

In a real sense, therefore, the restrictions that exist apply primarily to Modes 3 and 4, and it is these that need to be reduced if policy constraints on exports are to be reduced. But the impact on the economy of any change to these modes is likely to be indirect.

The creation of the European Single Market has inter alia provided a wealth of examples on the way in which national governments can frustrate market integration. The European Commission is concerned that the Single Market for services lags far behind that for goods, and has produced studies on the continuing barriers that prevent cross-border services trade. Since these barriers exist within what is supposed to be a single market, it can be assumed that they apply a fortiori to trade with third parties. Hence, the Commission's findings represent a statement of the minimum level of barriers that participants in this Executive Forum are likely to encounter; in practice the barriers that you face may well be higher.

An operationally important finding from the Commission's study (EU 2002) is that natural persons are central to the provision of services.

> In contrast to products, the quality of a service is gauged not only by the inherent quality of the service itself but also by the provider, particularly the professional qualifications of staff, capacity, capital and the internal structure of the enterprise. (*ibid.*: 30)

It follows that an important way in which services trade is disrupted is through barriers on the movement of natural persons (and on the supply of information). Restrictions on Mode 4 will have consequences for many other services sectors than those that simply involve the large-scale movement of people to work abroad. Indeed, it is hard to find many services (other than simply selling over the internet) that would not be enhanced by some cross-border movement of people.

A further important finding from the Commission's studies is that, as with goods, lack of transparency is in itself an extremely important market access barrier.

> Lack of information and transparency are a particular problem in relation to identifying the appropriate competent authorities in another Member State, obtaining all the necessary forms and understanding the procedures. (ibid.: 43)

A final general lesson is that differences in regulations are in themselves a barrier to trade and that many of these disparities derive not from statute but from the practice of independent bodies.

> A number of the difficulties reported come not from regulations issued by the public authorities, but from the disparity between standards adopted by non-public bodies in a Member State, such as professional associations … Service activities are particularly affected by this kind of disparity, since the regulated professions are traditionally regulated by professional bodies at national level. The use of codes of conduct is tending to spread to other fields such as information society services … For example, codes of conduct adopted by certain professional bodies which prescribe quantitative limits on access to the profession or impose limitations on the types of services which can be offered, may cause difficulties … (ibid.: 50)

## Restrictions and the business process

It is conventional for services trade negotiations to focus on the four 'modes of supply' and on offering, sector by sector, most-favoured-nation treatment or national treatment in each of these. But an exclusive focus on the four modes of supply may be misleading, not least because it may distract attention from the importance of 'horizontal' restrictions (i.e. those that apply to all sectors) in determining market access. They may often be more important than sectoral ones.

Commercial success in many services requires a combination of all four modes. Even if, as with the example of tourism, the primary mode of delivery is consumption abroad (Mode 2), selling the service requires potential customers to be informed which may, in turn, require an office to be established in the consumer's home state (Mode 3) and the presence of exporting staff in that office (Mode 4).

The EU Commission has developed an alternative classification system in its major set of studies that identify the remaining barriers to a single European market for services (EU 2002). This system identifies six stages in the business process at which barriers may disrupt trade. Not least among the merits of this methodology is that it highlights how the adverse impact of a single restriction can be multiplied as it affects several stages of the business cycle.

Because of this it is a more useful approach to identifying specific negotiating objectives than an exclusive focus on the four modes of supply. Any preparatory study for negotiations needs to examine the type of restriction to be found in each of the parties that might interrupt the business process at each of these six stages.

The six stages of the business process for services are as follows.

- ♦ **Establishment** in the target market (which may be subject, for example, to authorisation, or to recognition of professional qualifications, or to the use of certain legal forms, and may also be subject to discretionary powers).
- ♦ The use of **inputs** necessary to provide services (for example, there may be limitations on the extent to which the 'branch' can use the services of the personnel located normally in the 'parent' office in another country).
- ♦ The **promotion** of services may be made difficult (for example, by restrictive or detailed rules on commercial communications and advertising).
- ♦ The **distribution** of services across borders may be hampered (for example, by restrictions on the provision of services from the provider's home base together with authorisation, registration and declaration requirements).
- ♦ The actual **sale** of services across borders may encounter problems (arising from differences in, for example, contract law, price regulations and requirements relating to payment).
- ♦ **After-sales service** may face difficulties (relating, for example, to differences over professional liability and insurance, financial guarantees, or practicalities of services maintenance if they involve the movement of natural persons).

Access to a large number of service activities is subject to a prior authorisation by the responsible authority. Securities or guarantees may need to be deposited in each market. This problem is compounded by the number of authorisations that may be required. For example, in one EU member state a company wishing to open a retail outlet (which could include, for example, an airline shop) needs a building permit, an environmental permit and a socio–economic permit, as well as having to comply with zoning regulations that can be highly complex. Financial services, the regulated professions and telecoms are flagged as being particularly vulnerable to prior authorisation requirements. The whole process may be highly bureaucratic, requiring a long time to complete the documentation, arranging the certification of translations and what the European

Commission diplomatically calls ‘the less than constructive attitude taken by some authorities and the difficulties involved in lodging administrative appeals…’ (EU 2002: 18).

Another problem is created by laws designed to ensure independence and autonomy between different activities by preventing them being exercised jointly. In numerous EU member states, for example, lawyers are not allowed to enter into partnerships with non-lawyers (such as accountants). In one member state, for example, only tax advisers, tax consultants or tax agents may be shareholders or executives of companies providing tax consultancy services (OFT 2001: Section 30).

A related problem concerns the allowable legal forms for the provision of different services. For example, an individual auditor who wishes to become established in a different member state must dissolve their one-person company in the country where they are already established because in the other member state auditors are allowed to operate limited liabilities companies only. Whilst some professions are regulated in all member states, others are not. For example, engineers, consulting engineers, tax advisers and consultants are regulated in some EU member states, but not others. Regulation requires a recognition of technical and professional qualifications. Even where the qualifications are recognised, the scope of allowed activities may differ. For example, chartered building surveyors may be allowed to draw up plans for a building in one member state while only architects are allowed to do so in another.

The communication of numerous service activities, including the regulated professions and financial services, is governed by strict and complex rules that may include the ban or limitation on the use of commercial communications. In the case of financial services, for example, prior approval is required in some member states for some or all forms of advertising of some or all types of financial services. Accountants and engineers, for example, are prohibited in some member states from communicating even factual information.

The laws in some member states are deliberately designed to minimise competition on price between service providers. Auditors, architects and accountants among others, for example, are not allowed to include prices, or a comparison between the services rendered and their prices, in commercial communications.

Restrictions on the language used in promotion goes beyond the reasonable one of requiring important matters to be communicated in the official language of the market. In some countries, for example, even investment services aimed specifically at the nationals of another country must be made in the language of the host. In any case, some professionals, such as auditors, are not allowed to send unsolicited materials (such as newsletters or brochures) in any language!

### The ubiquity of horizontal restrictions

As these examples suggest, horizontal even more than sectoral regulations may be likely to act as the major constraint on the growth of exports. This is partly because of the wide range of services in which some form of local presence is required to facilitate business and, along with this, a need for people to move across borders. Among the key concerns are: right of establishment, immigration, work permits and data protection.

Of these, establishment may be the easiest. In the EU, for example, establishment in UK is relatively lightly restricted. Any company established there can then use the provisions of Article 48 of the EC Treaty to operate in other member states.

Whilst establishment is relatively straightforward, the movement of personnel into the UK to staff any offices, and from there to other EU member states to provide services, is much more problematic. Quite apart from the political sensitivity of these matters there is the practical problem that the EU Commission does not have competence to implement what it negotiates in these areas. The balance between Union- and national-level responsibility for laws on immigration and visas is in a state of flux, but it is not easy to predict how far and fast responsibility (which is currently largely a national affair) will shift to the Union level. There seems no option for exporters, therefore, but to negotiate separately with the Schengen countries and with the three non-Schengen states (UK, Ireland and Denmark).

It is also desirable for exporting countries to negotiate an improved status in respect of data protection. To minimise the risk of future trade being disrupted by protectionism disguised as data protection, it is advantageous, in the European market at least, to be classified by the EU Commission as a country where the laws ensure an adequate level of protection. This will facilitate exports of any service that involves the movement of personal data across borders.

## What next?

Where should exporters and their governments concentrate their energies? They cannot do everything. The range of potential barriers is too huge – and the uncertainty over whether competitive exporting is really feasible in such fast-changing markets is too great. There is an overriding need to focus.

The first task is to be realistic about what can be exported competitively – but to be a bit visionary at the same time! It is much more likely that a country can export a service that it already supplies domestically very efficiently or one that is related to an existing area of goods production than that it can strike out into entirely new areas. The visionary part comes in imagining how international trade could develop and to map backwards from there. A country with a strong accountancy sector might begin with BPO for firms in a target market, then move on to sub-contract more substantial elements of the work before moving on to market itself directly to potential consumers.

Such mapping helps identify the regulatory and governmental (as opposed to the commercial) barriers that might be experienced and, hence, the areas in which governments need to negotiate. In the accountant example, a potential regulatory constraint from step 1 (BPO) onwards would be data protection. This needs to be tackled first. Sub-contracting will be hindered by non-recognition of qualifications, which is the next priority for negotiation. Finally, independent activity pre-supposes the ability to market a company's services more widely than the select group of other accountants with whom there has been contact so far. Reasonable flexibility on the movement – and employment – of natural persons, and on rights of establishment, become critical.

The fundamental lesson is that producers and governments have to work together. This is true for goods, but it applies even more forcefully to services. Governments don't know precisely what they need to negotiate unless business people tell them. Businesses may find themselves stuck in the early, poorly remunerated levels of the services value chain if their governments don't negotiate improved market access in the areas where it counts.

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